COVER SHEET

34218

AYALA CORPORATION AND SUBSIDIARIES

(Company's Full Name)

33/F TOWER ONE, AYALA TRIANGLE AYALA AVENUE, MAKATI CITY

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

Victoria D. Frejas
Contact Person

908-3429
Company Telephone Number

12 31
Month *Day*
Fiscal Year

17-A

04 20
Month *Day*
Annual Meeting

Secondary License Type, if Applicable

CFD
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

7451
Total No. Of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SEC No. 34218
File No. _____

AYALA CORPORATION

(Company's Full Name)

Tower One, Ayala Triangle
Ayala Avenue, Makati City

(Company's Address)

908-56-43

(Telephone Number)

December 31, 2011

(Fiscal Year Ending)
(Month & Day)

SEC Form 17- A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended: **December 31, 2011**

2. SEC Identification No.: **34218**

3. BIR Tax Identification No. **000-153-610-000**

4. Exact name of the registrant as specified in its charter: **AYALA CORPORATION**

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

6. Industry Classification Code: _______ (SEC Use Only)

7. Address of principal office: **34th Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City** Postal Code: **1226**

8. Registrant's telephone number: (**632) 908-3429**

9. Former name, former address, former fiscal year: **Not applicable**

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

Title of each class	Number of shares issued &outstanding
Preferred A	12,000,000
Voting Preferred	200,000,000
Common*	577,257,114

* Net of 20,183,740 treasury shares

Amount of debt outstanding as of December 31, 2011: **P106.7billion**

11. Are any or all of these securities listed in the Philippine Stock Exchange? Yes [**x**] No [ ]

A total of 592,642,089 Common shares, and 12,000,000 Preferred "A" shares are listed with the Philippine Stock Exchange as of December 31, 2011.

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports): Yes [**x**] No[ ]

(b) has been subject to such filing requirements for the past 90 days: Yes [**x**] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: About P87.4 billion (based on bid stock prices of Ayala Corporation common shares as of April 12, 2012)

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not applicable**

Yes [ ] No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

2011 Audited Consolidated Financial Statements of Ayala Corporation and Subsidiaries (incorporated as reference for item 1,6,7, and 8 of SEC Form 17-A)

2011 Audited Consolidated Financial Statements of Bank of the Philippine Islands (incorporated as reference for item 1 and 6 of SEC Form 17-A)

2011 Audited Consolidated Financial Statements of Globe Telecom, Inc. and Subsidiaries (incorporated as reference for item 1 and 6 of SEC Form 17-A)

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Description of Business

Ayala Corporation (the Company) is incorporated in the Republic of the Philippines on January 23, 1968. The Company's registered office address and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company is a publicly listed company which is 52.61% owned by Mermac, Inc., 10.93% owned by Mitsubishi Corporation and the rest by the public.

The Company is the holding company of one of the largest and most diversified business groups in the Philippines. It has a significant presence in the Philippine market, particularly in real estate development (Ayala Land, Inc.), financial services (Bank of the Philippine Islands), telecommunications (Globe Telecom, Inc.), water distribution, sewerage and sanitation services (Manila Water Company, Inc.), electronics manufacturing services (Integrated Micro-electronics, Inc.), automotive dealerships (Ayala Automotive Holdings Corporation). It also holds investments in business process outsourcing (LiveIt) and other technology-related investments (Azalea Technology Investments, Inc.), and overseas real estate investments (AG Holdings Ltd). It has also recently made investments in power generation assets and in transport infrastructure. The company was founded in 1834, incorporated in 1968, and was listed on the Philippine Stock Exchange (then Makati Stock Exchange) in 1976.

The list of subsidiaries is contained in the attached Company's Consolidated Financial Statements for December 31, 2011.

For management purposes, the Group is organized into the following business units:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and bancassurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agribusiness loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.

- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.

- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.

- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.

- Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.

- Automotive - manufacture and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others – power and infrastructure, air-charter services, agri-business and others.

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. Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

In 2010, the Company re-organized AC Capital to focus on asset management and business development initiatives. The group was also subsequently renamed and re-assigned to report to the Chief Financial Officer. Segments formerly under AC Capital's purview, including, Water Utilities, Electronics, Information Technology and BPO Services, International, and Automotive are now presented, monitored, and analyzed independently. This has no impact on the 2009 presentation of operating segment information.

Based on SEC's parameters, the significant subsidiaries of Ayala Corporation as of December 31, 2011 are Manila Water Co, Inc. (MWCI – established in 1997), Ayala Land, Inc. (ALI - organized in 1988), and Integrated Micro Electronics, Inc. (IMI - organized in 1980). Except as stated in the succeeding paragraphs and in the discussion for each of the Company's significant subsidiaries, there has been no other business development such as bankruptcy, receivership or similar proceeding not in the ordinary course of business that affected the registrant for the past three years.

As to the material reclassification, merger, consolidation or purchase or sale of a significant amount of assets:
There are no matters or actions to be taken up in the meeting with respect to merger, consolidation sale or liquidation of the Company. There are also no matters or actions to be taken up with respect to acquisition by the Company where the stockholders' approval is required under the Corporation Code.

2011

On February 21, 2011, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 2,371,699 shares of AIVPL and paid US$1 per share (equivalent to par value) for a total of US$2.4 million.

Consequently, AIVPL and LIL entered into a subscription agreement wherein AIVPL subscribed to 237,169 shares of LIL and paid US$10 per share (equivalent to par value) for a total of US$2.4 million.

On the same date, AIVPL and the Company also entered into a deposit for future subscription wherein the Company deposited US$0.6 million to AIVPL.

On various dates from September to December 2011, the Company entered into subscription agreements with AIVPL wherein the Company subscribed to a total of 43.7 million shares of AIVPL by converting deposits for future stock subscription in AIVPL amounting to US$43.7 million.

On various dates in 2011, the Company provided additional capital in the form of deposit for future stock subscription to ACEHI amounting to ₱2.6 billion. The proceeds were used to finance the various renewable energy projects of ACEHI.

On November 11, 2011, the Company converted advances to BHL amounting to ₱2.0 billion by subscribing to 4.6 million redeemable preferred shares of BHL.

In December 2011, the Company converted advances to PFIL amounting to US$5.0 million by subscribing to 5.0 million common shares of PFIL.

On various dates in 2011, the Company infused additional capital to AAC amounting to ₱8.1 million.

2010

On February 18, 2010, AIVPL and LiveIt Investments Ltd. (LIL), a wholly owned subsidiary of AIVPL, entered into a deed of return of deposits for future subscription wherein LIL returned the amount of US$21.6 million to AIVPL.

On February 19, 2010, AIVPL and the Company entered into a deed of return of deposits for future subscription wherein AIVPL returned the amount of US$17.4 million to the Company.

On March 2, 2010, Azalea Technology and AIVPL entered into a deed of return of deposits for future subscription wherein AIVPL returned the amount of ₱8.2 million to Azalea Technology.

On June 25, 2010, AIVPL repurchased all the shares held by Azalea Technology representing 2.22% ownership interest in AIVPL amounting to US$4.1 million. This resulted in AIVPL becoming a wholly-owned subsidiary of the Company.

On September 27, 2010, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 35.8 million shares of AIVPL and paid US$1 per share (equivalent to the par value) for a total of US$35.8 million. Consequently, AIVPL and LIL entered into a subscription agreement wherein AIVPL subscribed to 3.6 million shares of LIL and paid US$10 per share (equivalent to the par value) for a total of US$35.8 million. On the same date, LIL and NewBridge International Investments, Ltd. (NewBridge), a wholly owned subsidiary of LIL, entered into a subscription agreement wherein LIL subscribed to 3.6 million shares of NewBridge and paid US$10 per share (equivalent to the par value) for a total of US$35.8 million.

On December 22, 2010, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 1.0 million shares of AIVPL and paid US$1 per share (equivalent to par value) for a total of US$1.0 million which AIVPL used to invest in Preferred C units of Victoria 1522 Investments, LP (see Note 11).

In August 2010, BPI offered for subscription a total of 307.7 million of its common shares to eligible shareholders on a pre-emptive right basis of ₱32.5 per share. The Group participated in the stock rights offering of BPI by subscribing to 104.9 million common shares for a total consideration of ₱4,571.1 million.

As of December 31, 2010 and 2009, ADHI owns 757.8 million and 692.2 million common shares, respectively, of BPI. ADHI's direct ownership in BPI is equal to 21.3% as of December 31, 2010and 2009.

On February 16, 2010, Actis LLP, an emerging markets private equity specialist, invested US$50.0 million to acquire a 37.68% stake in Integreon, a subsidiary of LIL. The transaction resulted in the Group losing control over Integreon. Integreon became a jointly controlled entity by LIL and Actis although LIL owns 56.36% of Integreon. LIL recorded gain on deemed disposal amounting to US$44.7 million (2.1 billion) which primarily arose from recognizing the retained investment in Integreon at fair value at the date when control was lost. The gain on deemed disposal is recorded as part of "Other income" in the consolidated statement of income

On June 25, 2010, IMI and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the "New Investors") entered into an Investors' Agreement (the Agreement) with PSi Technology Holdings, Inc. (PSiH) and Merrill Lynch Global Emerging Markets Partners, LLC (MLGEMP) (collectively referred to as the "Old Investors"), to take on 55.8% and 11.2% equity share in PSi, respectively.

As of December 31, 2010, the purchase price allocation relating to the Group's acquisition of PSi Technologies, Inc. (PSi) and Ten Knots have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. For PSi, the difference between the total consideration and the net assets amounting to ₱413.0 million was initially allocated to goodwill as of December 31, 2010. The acquisition of Ten Knots resulted in the recognition of a bargain purchase gain amounting to ₱0.5 million as of December 31, 2010.

ALI entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a new company which will serve as a holding vehicle for Ten Knots Phils, Inc. (TKPI) and Ten Knots Development Corp (TKDC) (wholly-owned subsidiaries of the ACC Group before ALI's entry). TKPI/TKDC are mainly involved in the development of parcels of land and islands into resorts in Miniloc, Lagen, Pangulasian and Apulit islands in the municipality of El Nido and Taytay in Northern Palawan.

The agreement will eventually result in ALI obtaining 60% interest in the new company and ACC Group acquiring 40%. ALI will infuse ₱2.0 billion cash to obtain the 60% stake.

As of December 31, 2010, ALI has subscribed to 60% of the shares of TKPI and TKDC, thereby providing ALI with the ability to exercise control over TKPI and TKDC effective April 23, 2010. Accordingly, TKPI and TKDC financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

On January, 18, 2010, the Company completed the acquisition of UU's interest in the common shares of WCW resulting in the Company obtaining 100% control in WCW. In prior years, WCW was treated as a jointly controlled entity of the Company.

On March 4, 2010, the Company completed the acquisition of UU's interest in the common shares of MWC and Philwater and participating preferred shares in MWC resulting in the Company increasing its ownership interest in MWC to 43.1% and obtaining control to more than one-half of the voting power in MWC and Philwater becoming a subsidiary. In prior years, MWC and Philwater were treated as jointly controlled entities of the Company

AY Saratoga, Inc. (AY Saratoga), a subsidiary of AINA, executed a settlement agreement and mutual general release and assignment of member interest in January 2010 whereby the 75% remaining interest owned by the other partner was transferred to AY Saratoga for US$2.4 million. As a result of the acquisition, Wardley became a subsidiary of WDF-AY, LLC.

On December 6, 2010, OPPI, one of the limited liability company investees of AINA, redeemed some of the limited partners' interests and paid a nominal amount of US$5 and recognized a loss on redemption amounting to US$8.7 million (₱394.0 million) included as part of remeasurement loss under "Other charges" account in the consolidatd statement of income. The redemption of the limited partners' interests resulted in new equity interests for the remaining partners with AINA having a 57.1% equity share in OPPI.

2009

In January and October 2009, ALI Group acquired additional 2,295,207 shares of Bonifacio Land Corporation (BLC) from the Development Bank of the Philippines and Metro Pacific Corporation (MPC) amounting to ₱362.6 million.This resulted in an increase in the ALI Group's effective interest in BLC from 41.10% as of December 31, 2008 to 45.05% as of December 31, 2009.

On August 27, 2009, ALI and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop a 29.1-hectare North Triangle Property in Quezon City as a priming project of the government and the private sector. The joint venture represents the conclusion of a public bidding process conducted by the NHA which began last October 3, 2008.

In various dates in 2009, the Company acquired 40.8 million common shares of Manila Water Company, Inc. (MWCI) for a total consideration of ₱572.4 million. This increased the Company's ownership interest in MWCI from 29.9% to 31.5%.

On August 14, 2009, a Share Exchange Agreement (the Agreement) was entered into by Stream Global Services Corp., EGS (a subsidiary of Newbridge), EGS Dutchco B.V. (EGS Dutchco), and NewBridge International Investment (a subsidiary of the Company through LiveIT Investments) to combine in a stock-for-stock exchange. Under the Agreement:

- NewBridge shall contribute all its rights with respect to the US$35.8 million advances from EGS. These advances were originally borrowed by EGS from AYC Holdings(a subsidiary of the Company through ACIFL). AYC Holdings assigned the advances to NewBridge.
- NewBridge shall transfer to Stream all the shares of EGS that it owns including shares that would result from the conversion of the US$35.8 million advances; and,

- Stream shall issue and deliver to NewBridge an aggregate of 20,192,068 common shares with $0.001 par value per share provided that at the election of Stream, Stream may pay an aggregate of $5,994 in cash for an aggregate of 1,131 shares (at $5.30 per share) of Stream Common Stock otherwise issuable to NewBridge.

On October 1, 2009 (the Closing Date), NewBridge received a total of 20,190,937 shares of Stream's capital stock representing 25.5% interest in Stream and cash amounting to $5,994 in lieu of 1,131 shares. As a result of the transaction, NewBridge:

- derecognized its Investment in and Loan Receivable from EGS amounting to $61.5 million and $35.8 million, respectively;
- recognized an Investment in Stream amounting to $107.0 million; and,
- recognized a gain from the transaction amounting to $8.8 million.

After the Closing Date, Newbridge acquired additional 320,146 common shares Stream at a total cost of US$1.9 million. As of December 31, 2009, Newbridge's effective ownership in Stream is 25.76%

On April 30, 2009, Integreon Managed Solutions Inc. (Integreon), a subsidiary of the Company through AIVPL, acquired On-Site Sourcing, Inc. (Onsite) for a total consideration of US$6.8 million. On October 30, 2009, Integreon acquired the assets of Grail Research Inc. (Grail), along with the share capital of its subsidiaries, from the Monitor Group for a total consideration of US$11.8 million.

In May 2009, IMI lost inventories amounting to US$0.6 million (₱27.7 million), due to a fire incident in its plant in Cebu, Philippines. The loss is included under "General and administrative expenses" in the consolidated statement of income

The contribution of each segment of the business (in million pesos) to the consolidated revenues of the Company as well as the business segments present assets and liabilities as of December 31, 2011 and 2010 and revenue and profit information for each of the three years in the period ended December 31, 2011 are presented in the following tables.

2011

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommu nications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	**₱30**	**₱39,731**	**₱–**	**₱–**	**₱18,944**	**₱24,845**	**₱1,123**	**₱186**	**₱9,174**	**₱–**	**₱94,033**
Intersegment	**94**	**1,893**	**–**	**–**	**124**	**–**	**5**	**–**	**140**	**(2,256)**	**–**
Share of profit of associates and jointly controlled entities	**59**	**899**	**4,288**	**3,045**	**–**	**–**	**(596)**	**98**	**(66)**	**–**	**7,727**
Interest income	**1,165**	**1,460**	**–**	**–**	**575**	**14**	**49**	**12**	**10**	**(3)**	**3,282**
Other income	**501**	**276**	**–**	**–**	**75**	**1,094**	**89**	**467**	**254**	**(266)**	**2,490**
Total income	**1,849**	**44,259**	**4,288**	**3,045**	**19,718**	**25,953**	**670**	**763**	**9,512**	**(2,525)**	**107,532**
Operating expenses	**1,643**	**31,487**	**–**	**–**	**13,397**	**25,445**	**1,340**	**419**	**9,479**	**(2,258)**	**80,952**
Operating profit	**206**	**12,772**	**4,288**	**3,045**	**6,321**	**508**	**(670)**	**344**	**33**	**(267)**	**26,580**
Interest expense and other financing charges	**2,848**	**1,880**	**–**	**–**	**1,274**	**109**	**11**	**30**	**26**	**(3)**	**6,175**
Other charges	**(89)**	**143**	**–**	**–**	**352**	**149**	**1**	**177**	**4**	**–**	**737**
Provision for income tax	**221**	**2,619**	**–**	**–**	**790**	**201**	**33**	**30**	**45**	**(70)**	**3,869**
Net income	**(2,774)**	**₱8,130**	**₱4,288**	**₱3,045**	**₱3,905**	**₱49**	**(₱715)**	**₱107**	**(₱42)**	**(₱194)**	**₱15,799**
Other information											
Segment assets	**104,150**	**142,212**	**–**	**–**	**79,996**	**19,390**	**3,287**	**4,905**	**3,932**	**(82,985)**	**274,887**
Investments in associates and jointly controlled entities	**54,670**	**12,626**	**–**	**–**	**1,788**	**–**	**4,973**	**2,352**	**3,250**	**–**	**79,659**
Deferred tax assets	**–**	**1,949**	**–**	**–**	**760**	**24**	**–**	**–**	**46**	**302**	**3,081**
Total assets	**₱158,820**	**₱156,787**	**–**	**–**	**₱82,544**	**₱19,414**	**₱8,260**	**₱7,257**	**₱7,228**	**(₱82,683)**	**₱357,627**
Segment liabilities	**55,656**	**81,755**	**–**	**–**	**39,151**	**10,923**	**330**	**968**	**1,757**	**(10,282)**	**180,270**
Deferred tax liabilities	**–**	**744**	**–**	**–**	**5,109**	**204**	**9**	**43**	**10**		**6,119**
Total liabilities	**₱55,656**	**₱82,499**	**–**	**–**	**₱44,260**	**₱11,127**	**₱339**	**₱1,011**	**₱1,767**	**(₱10,282)**	**₱186,389**
Segment additions to property, plant and equipment and investment properties	**₱89**	**₱8,907**	**₱–**	**₱–**	**₱581**	**₱2,346**	**₱69**	**₱2**	**₱49**	**₱–**	**₱12,043**
Depreciation and amortization	**₱90**	**₱2,304**	**₱–**	**₱–**	**₱1,890**	**₱1,116**	**₱81**	**₱2**	**₱1,117**	**₱–**	**₱6,600**
Non-cash expenses other than depreciation and amortization	**₱21**	**₱143**	**₱–**	**₱–**	**₱331**	**₱149**	**₱1**	**₱177**	**₱5**	**₱–**	**₱827**

2010

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱522	₱35,352	₱–	₱–	₱14,748	₱18,611	₱1,129	₱22	₱11,696	₱–	₱82,080
Intersegment	–	454	–	–	–	–	13	–	60	(527)	–
Share of profit of associates and jointly controlled entities	(85)	906	3,807	2,989	222	–	(1,603)	(161)	49	–	6,124
Interest income	1,152	1,044	–	–	244	16	53	41	2	(31)	2,521
Other income	4,748	27	–	–	416	199	2,111	35	250	(440)	7,346
Total income	6,337	37,783	3,807	2,989	15,630	18,826	1,703	(63)	12,057	(998)	98,071
Operating expenses	1,700	28,193	–	–	10,751	18,417	1,502	958	11,832	(995)	72,358
Operating profit	4,637	9,590	3,807	2,989	4,879	409	201	(1,021)	225	(3)	25,713
Interest expense and other financing charges	2,353	1,539	–	–	720	41	50	61	13	(21)	4,756
Other charges	349	221	–	–	(15)	5	–	1,513	10	(11)	2,072
Provision for income tax	209	1,562	–	–	948	155	(37)	2	61	–	2,900
Net income	₱1,726	₱6,268	₱3,807	₱2,989	₱3,226	₱208	₱188	(₱2,597)	₱141	₱29	₱15,986
Other information											
Segment assets	₱108,855	₱112,036	₱–	₱–	₱70,665	₱15,284	₱2,419	₱4,630	₱3,074	(₱ 76,347)	₱240,616
Investments in associates and jointly controlled entities	51,340	10,846	–	–	6	–	6,182	2,323	1,308	–	72,005
Deferred tax assets	–	2,917	–	–	32	5	–	–	27	(232)	2,749
Total assets	₱160,195	₱125,799	₱–	₱–	₱70,703	₱15,289	₱8,601	₱6,953	₱4,409	(₱76,579)	₱315,370
Segment liabilities	₱54,377	₱56,234	₱–	₱–	₱30,106	₱7,305	₱353	₱2,939	₱1,654	(₱10,243)	₱142,725
Deferred tax liabilities	–	598	–	–	5,279	–	4	7	5	–	5,893
Total liabilities	₱54,377	₱56,832	₱–	₱–	₱35,385	₱7,305	₱357	₱2,946	₱1,659	(₱10,243)	₱148,618
Segment additions to property, plant and equipment and investment properties	₱94	₱4,926	₱–	₱–	₱3,564	₱1,456	₱93	₱3	₱119	₱–	₱10,255
Depreciation and amortization	₱100	₱1,814	₱–	₱–	₱1,957	₱994	₱204	₱46	₱113	₱–	₱5,228
Non-cash expenses other than depreciation and amortization	₱498	₱279	₱–	₱–	₱–	₱22	₱369	₱1,219	₱ 6	₱–	₱2,393

2009

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱376	₱28,593	₱–	₱–	₱–	₱18,937	₱4,041	₱9	₱ 11,281	₱–	₱63,237
Intersegment	–	318	–	–	–	–	(22)	–	(43)	(253)	–
Share of profit of associates and jointly controlled entities	4	968	2,707	3,862	1,029	–	(809)	(394)	(6)	–	7,361
Interest income	1,618	959	–	–	–	35	5	111	3	(96)	2,635
Other income	1,611	254	–	–	–	323	701	118	259	(205)	3,061
Total income	3,609	31,092	2,707	3,862	1,029	19,295	3,916	(156)	11,494	(554)	76,294
Operating expenses	1,795	21,857	–	–		18,536	4,575	284	11,452	34	58,533
Operating profit	1,814	9,235	2,707	3,862	1,029	759	(659)	(440)	42	(588)	17,761
Interest expense and other financing charges	2,381	1,345	–	–	–	82	69	22	19	(96)	3,822
Other charges	13	1,407	–	–	–	4	–	2	9	–	1,435
Provision for income tax	236	1,165	–	–	–	240	1	(18)	50	25	1,699
Net income	(₱816)	₱5,318	₱2,707	₱3,862	₱1,029	₱433	(₱729)	(446)	(36)	(517)	₱10,805
Other information										–	
Segment assets	₱102,302	₱98,370	₱–	₱–	₱–	₱14,019	₱6,248	₱4,276	₱2,862	(₱68,881)	₱159,196
Investments in associates and jointly controlled entities	52,517	10,798	–	–	–	–	5,341	2,531	370	–	71,557
Deferred tax assets	–	1,523	–	–	–	10	40	–	45	(222)	1,396
Total assets	₱154,819	₱110,691	₱–	₱–	₱–	₱14,029	₱11,629	₱6,807	₱3,277	(₱69,103)	₱232,149
Segment liabilities	₱45,248	₱48,396	₱–	₱–	₱–	₱6,241	₱3,098	₱893	₱1,627	(₱8,979)	₱96,524
Deferred tax liabilities	–	151	–	–	–	5	41	5	5	–	207
Total liabilities	₱45,248	₱48,547	₱–	₱–	₱–	₱6,246	₱3,139	₱898	₱1,632	(₱8,979)	₱96,731
Segment additions to property, plant and equipment and investment properties	₱77	₱4,895	₱–	₱–	₱–	₱387	₱407	₱23	₱414	₱–	₱6,203
Depreciation and amortization	₱–	₱1,794	₱–	₱–	₱–	₱997	₱339	₱4	₱212	₱–	₱3,346
Non-cash expenses other than depreciation and amortization	₱116	₱1,287	₱–	₱–	₱–	₱67	₱75	₱–	₱3	₱–	₱1,548

Please refer also to Note 28 (“Segment Information”) of the Notes to Consolidated Financial Statements of the 2011 Audited Financial Statements which is incorporated herein in the accompanying Index to Exhibits.

Distribution methods of the company’s products and services – Not applicable as the Company is a holding company.

Competition
The Company is subject to significant competition in each of the industry segments where it operates. Please refer to pages 10 – 77 for a discussion on Ayala Land, Inc. (ALI), and Integrated Micro Electronic, Inc. (IMI), Manila Water Company, Inc.(MWCI), significant subsidiaries, and Globe Telecom (Globe), and Bank of the Philippine Islands (BPI), significant associates.

Transactions with related parties
The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances, loans, reimbursement of expenses, various guarantees, construction contract, and management, marketing, and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at normal market prices.

Related party transactions are also discussed in the accompanying financial statements of the Company.

Developmental and Other Activities
Being a holding company, the Company has no material patent, trademark, or intellectual property right to its products. The Company’s operating companies, however, may have these material intellectual property rights, but the dates and terms of their expiration or renewal is not perceived to have a material adverse effect on the Company. The Company complies with all existing government regulations and environmental laws, the costs of which are not material. As a holding company, it has no material development activities.

Employees
Ayala Corp. has a total workforce of 114 employees as of December 31, 2011, classified as follows:

Management	68
Staff	46

The Company expects to more or less maintain its number of employees in the next 12 months.
AC Employee's Union successfully renewed its Collective Bargaining Agreement (CBA) for a period of 4 years up to end-2016. The Collective Bargaining Agreement generally provides for annual salary increment and health and insurance benefit. AC management had not encountered difficulties with its labor force, and no strikes had been staged in the past.

In addition to the basic salary and 13th month pay, other supplemental benefits provided by AC to its employees include: mid-year bonus, performance bonus, monthly rice subsidy, medical expense allocation, dental benefits, various loan facilities and stock ownership plan among others.

Risks
The Group’s risk management policies are summarized below:

Interest Rate Risk
The Group’s exposure to market risk for changes in interest rates relates primarily to the Company’s and its subsidiaries’ long-term debt obligations. The Group’s policy is to manage its interest cost using a mix of fixed and variable rate debt.

Foreign Exchange Risk
The Group’s foreign exchange risk results from movements of the Philippine Peso (₱) against foreign currency. The Group may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its US$ obligations.

Liquidity Risk
The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to

pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.

Credit Risk
The Group's holding of cash and short-term investments exposes the Group to credit risk of the counterparty. Credit risk management involves dealing only with institutions for which credit limits have been established. The treasury policy sets credit limits for each counter party. Given the Group's diverse base of counterparties, it is not exposed to large contractions of credit risk.

Price risk
AFS financial assets are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. Depending on the several factors such as interest rate movements, the country's economic performance, political stability, domestic inflation rates, these prices change, reflecting how market participants view the developments. The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market.

From an organizational standpoint, the respective lead directors/company presidents/chief risk officers have ultimate accountability and responsibility for ensuring that risk management initiatives at the subsidiary level are aligned with those of Ayala Corporation. They are responsible for the preparation/submission of risk reports which reflect that key risks are well-understood, assessed/measured and managed. Internal audit units provide risk management support by performing regular process audits.

The Audit Committee of the Board meets regularly and exercises an oversight role in managing the risks involved in the operations of the company.

For further details on the company's financial condition and operations, please refer to the 2011 Audited Financial Statements which is incorporated herein in the accompanying index to exhibits.

AC INTERNATIONAL FINANCE LTD. (ACIFL)

This company (registered in the Cayman Islands) organized in 1995, was established, inter alia, to raise financing for the registrant and its Group. It has not engaged, since incorporation, in any material activities other than those related to financing and has no regular employees. As such, information required by Part 1, Paragraph A of Annex C, SRC Rule 12 may not be applicable. ACIFL currently wholly owns AYC Holdings ltd. which in turn owns 67.3% of IMI.

AYALA LAND, INC. (ALI or Ayala Land)

Background and Business

Organized in 1988 when Ayala Corporation decided to spin off its real estate division into an independent subsidiary to enhance management focus on its real estate business. ALI went public in July 1991 when its Class "B" Common shares were listed both in the Manila and Makati Stock Exchanges (the predecessors of the Philippine Stock Exchange - PSE). On September 12, 1997, the Securities and Exchange Commission (SEC) approved the declassification of the Company's common class "A" and common class "B" shares into common shares.

Products / Business Lines
Ayala Land is the largest and most diversified real estate company in the Philippines. It has organized its operations into several businesses and services.

Property Development

Residential Business - sale of high-end residential lots and units (including leisure community developments), middle-income residential lots and units, affordable lots, units and house and lot packages, economic housing units and house and lot packages, and socialized housing packages; lease of residential units; marketing of residential developments

Strategic Landbank Management and Visayas-Mindanao - acquisition, development and sale of large, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center; development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions

Commercial Leasing

Shopping Centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operations of malls which are co-owned with partners

Corporate Business - development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings

Hotels and Resorts

Hotels - development, operation and management of branded and owner-operated hotels; lease of land to hotel tenants

Resorts - development, operation and management of eco-resorts which are co-owned with partners

Services

Construction – land development and construction of ALI and third-party projects

Property management – facilities management of ALI and third-party projects; operation of water and sewage treatment facilities in some ALI projects

In addition to above business lines, Ayala Land also derives other income from its investment activities and sale of non-core assets.

Products / Business Lines (with 10% or more contribution to 2011 consolidated revenues):

Residential Development (high-end lots and units, leisure, upper mid-income housing, affordable and economic housing)	54%
Construction	12%
Shopping Centers	11%

Distribution Methods of Products

The Company's residential products are distributed to a wide range of clients through various sales groups.

Ayala Land (parent company) has its own in-house sales team. In addition, it has a wholly-owned subsidiary, Ayala Land Sales, Inc. ("ALSI"), which employs commission-based sales people. Ayala Land uses a sales force of about 7,800 brokers and sales agents guided by a strict Code of Ethics.

The overseas Filipino (OF) market is being pursued through award-winning websites, permanent sales offices or broker networks, and regular roadshows with strong follow-through marketing support in key cities abroad. Ayala Land International Sales, Inc. ("ALISI"), created in March 2005, led the marketing, sales and channel development activities and marketing initiatives of the three residential brands abroad. ALISI also signed up marketing partners in Bahrain, Saudi Arabia, London and Spain. Avida established representative offices in Rome and Milan in Italy and in Abu Dhabi. In addition, One Ayala program, which bundles the products and services of Ayala Land, the BPI and Globe Telecom, gives access to potential Ayala Land clients overseas, i.e. through BPI's 17 overseas offices and 81 tie-ups. In addition, the Ayala Land-BPI Dream Deals program aims to generate additional sales from local market.

Separate sales groups have also been formed for certain subsidiaries which cater to different market segments under Amaia (economic housing), Avida (affordable housing) and Alveo (middle-income housing). To complement these sales groups, Ayala Land and its subsidiaries also tap external brokers.

Effective second half of 2008, residential sales support transactions of ALP, Alveo, and Avida is being undertaken by the shared services company Amicassa Process Solutions, Inc. ("APSI") put up by the

Company. Last year, Aprisa Business Solutions, Inc. (APRISA) completed its full roll-out to handle transactional accounting processes across the Ayala Land group.

Development of the business of the registrant and its key operating subsidiaries/affiliates during the past three years

Ayala Land, Inc. - parent company (incorporated in 1988), pursued major high-end residential land development and condominium projects, office buildings, leisure community project and shopping center operations. Its ongoing horizontal residential projects include, among others, Abrio, Santierra, Elaro, Ayala Westgrove Heights, Alegria Hills and Ayala Northpoint. Residential condominium projects undertaken in the past three years include Park Terraces, The Residences at Greenbelt and One Serendra. Shopping center operations at Ayala Center continued while the redevelopment of Glorietta is underway. Operation of traditional headquarter-type and BPO buildings continued as well as the development of its leisure community project, Anvaya Cove.

Property Development

Alveo Land Corp. (incorporated in 2002), 100% owned by Ayala Land, offers various residential products to the middle-income market. Alveo's projects over the past three years include Verdana Homes Mamplasan, MarQuee, Ametta Place, Treveia and Venare in NUVALI, Celadon Residences, Celadon Park, The Columns at Legazpi Village, Senta, Lerato, and Aston, Red Oak and Meranti in Bonifacio Global City.

Avida Land Corp. (incorporated in 1990), a wholly-owned subsidiary, continued to develop affordable housing projects which offer house-and lot packages and residential lots. Avida also ventured into the development and sale of farm/hacienda/commercial lots. Projects in the past three years include Avida Towers Sucat, Avida Towers New Manila, Avida Towers San Lazaro, Avida Towers Makati West, Avida Towers San Lorenzo, Avida Towers Global City, Avida Towers Cebu, Avida Towers Alabang, Avida Towers Centera, Avida Estates NUVALI, Avida Settings NUVALI, Avida Village NUVALI, Avida Settings Cavite and Avida Residences San Fernando.

*Amaia Land Corp. (*formerly First Communities Realty, Inc., incorporated in 2000), wholly-owned subsidiary of Ayala Land, pursued a planned expansion of residential development operations catering to the country's economic housing segment. Project launches in the past three years include AmaiaScapes in Laguna, Cabanatuan and Northpoint, Amaia Skies in Cubao and Amaia Steps in Novaliches.

BellaVita Land Corp. (formerly South Maya Ventures Corp., incorporated in 1995), wholly-owned subsidiary of Ayala Land, aims to establish the country's first social enterprise community development targeting minimum wage earners and members of the informal business sector. Its first project in General Trias, Cavite was launched in December 2011.

Serendra, Inc. (incorporated in 1994), 28%-owned by ALI and 39%-owned by Alveo Land Corp., is engaged in residential development. In 2004, it launched Serendra, a residential complex at the Bonifacio Global City in Taguig.

Solinea (formerly Bigfoot Palms, Inc.), a landholding entity, was acquired on March 5, 2011 through Alveo Land Corporation through acquisition of 65% shares of stock. The remaining 35% was acquired by Cebu Holdings, Inc., an associate of Ayala Land.

Roxas Land Corp. (incorporated in 1996), 50% owned, sold-out One Roxas Triangle in 2007. The project was started in 1996 and was completed in September 2001.

Ayala Greenfield Development Corporation ("AGDC", incorporated in 1997), 50-50% owned by Ayala Land and Greenfield Development Corporation, started development of Ayala Greenfield Estates in Calamba, Laguna in 1999. Over the past twelve years, AGDC continued to develop and sell lots in this high-end residential subdivision.

Nuevo Centro, Inc. (incorporated in 2011), a wholly-owned subsidiary of Ayala Land, was established primarily to acquire and hold real estate properties for the purpose of developing them into large-scale, mixed-used and masterplanned communities.

BG West Properties, Inc., BG South Properties, Inc. and *BG North Properties, Inc.,* 50% owned, were incorporated in 2011 to engage in the development of high-end, middle-end and affordable residential and retail projects, respectively, in Bonifacio Global City.

Ayala Land Sales, Inc. (incorporated in 2002), wholly-owned, continued to sell ALI's residential projects. ALSI employs commission-based brokers.

Ayala Land International Sales, Inc. (incorporated in 2005), wholly-owned, was formed to tap the overseas Filipino market, selling ALI's various residential projects.

Aurora Properties, Inc. (incorporated in 1992) and Vesta Property Holdings, Inc. (incorporated in 1993) are 70% owned by Ayala Land, while *Ceci Realty, Inc. (incorporated in 1974)* is 60% owned. These companies, joint ventures with the Yulo Family, continued to develop and sell residential and commercial lots in NUVALI in Canlubang, Laguna.

Emerging City Holdings, Inc. and *Berkshires Holdings, Inc.* (incorporated in 2003), both 50% owned, served as ALI's corporate vehicles in the acquisition of a controlling stake in Bonifacio Land Corp. / Fort Bonifacio Development Corp. ("FBDC") through Columbus Holdings, Inc. in 2003. FBDC continued to sell commercial lots at the Bonifacio Global City while it leased out retail spaces.

Regent Time International Limited (incorporated in 2003), 100% owned by ALI, also owns a stake at Bonifacio Land Corp. / Fort Bonifacio Development Corp.

Cebu Holdings, Inc. (incorporated in 1988), 47% owned by ALI, continued to manage and operate the Ayala Center Cebu and sell lots within the Cebu Business Park. The company also launched Amara, a high-end seaside residential subdivision, and continued to sell club shares at City Sports Club Cebu. Through *Cebu Property Ventures Development Corporation*, CHI also continued to sell lots at the Asiatown IT Park.

<u>*Commercial Leasing*</u>

NorthBeacon Commercial Corporation, formerly Alabang Theatres Management Corporation (incorporated in 1970), is ALI's wholly-owned vehicle for its MarQuee Mall in Pampanga which commenced development in March 2007 and began operations in September 2009.

Station Square East Commercial Corporation (incorporated in 1989), 69% owned subsidiary of ALI, broke ground in 2002 for Market! Market!, a 150,000-sqm mall along C-5 Road in Taguig. It opened Phase 1A of the mall in 2004 and Phase 1B in 2005.

Accendo Commercial Corp. (incorporated in 2008), 57% owned by ALI, is a joint venture company with the Anflo Group for the development of a mixed-use project in Davao City including Abreeza Mall.

Alabang Commercial Corp. (incorporated in 1978), 50% owned by ALI, continued to manage and operate the Alabang Town Center.

ALI-CII Development Corporation (incorporated in 1997), a 50-50% joint venture with Concepcion Industries, continued to operate Metro Point, a mid-market mall at the corner of EDSA and Taft Avenue, which was completed in the fourth quarter of 2001.

North Triangle Depot Commercial Corp. (incorporated in 2001), 49% owned by ALI, commenced development of TriNoma (formerly referred to as North Triangle Commercial Center), a 188,000-sqm mall constructed at the main depot of MRT-3 in Quezon City. TriNoma broke ground in June 2005 and began operations in May 2007.

Lagoon Development Corporation (incorporated in 1996), 30% owned by Ayala Land, is a joint venture company with Extraordinary Development Corporation. It continued to operate Pavilion Mall which is located in Biñan, Laguna.

Subic Bay Town Centre, Inc., 100% owned by Ayala Land, was incorporated on March 9, 2010 for the planning, development management of a mall to be located in Subic Bay Freeport Zone.
Primavera Town Centre, Inc. (incorporated in 2009), is a 100% owned subsidiary that was formed to handle the planning, development and management of small-format retail facilities known as "neighborhood centers" within the Company's existing and planned growth centers across the country.

Ayala Theaters Management, Inc. (incorporated in 1984), 100% owned, continued to manage and operate theaters at the Ayala Center in Makati.

Five Star Cinema, Inc. (incorporated in 2000), also wholly-owned, continued to manage and operate theaters at the Alabang Town Center

Food Court Company, Inc. (incorporated in 1997), a 100% owned subsidiary of ALI, continued to handle foodcourt operations such as Food Choices at the Glorietta 4.

Leisure and Allied Industries Phils., Inc. (incorporated in 1997), a 50-50% joint venture of ALI with Australian company, LAI Asia Pte. Ltd., continued to operate family entertainment centers called TimeZone in various Ayala malls, as well as other malls.

Cagayan De Oro Gateway Corp. (incorporated in 2010) was established to pursue a mixed-use development with a 47,000 sqm regional mall as its centerpiece. A 150-room boutique hotel shall be located on top of the mall, while a single tower residential condominium with 21 floors and 522 rooms shall be located right beside the mall. The project is strategically located in the economic hub of Cagayan de Oro City.

Arvo Commercial Corporation ((incorporated in 2011),*),* a wholly owned subsidiary of the Ayala Land, was established primarily to develop and operate shopping malls within the ALI identified growth areas across the country.

Laguna Technopark, Inc. (incorporated in 1990), 75% owned, continued to sell industrial lots to local and foreign company locators. It also leases ready-built factory units within the Laguna Technopark.

ALI Property Partners Holdings Corp. (incorporated in 2006), is the Company's 80%-owned vehicle in partnership with MLT Investments (Goldman Sachs) which handle various BPO projects and investments.

Asian I-Office Properties, Inc. (incorporated in 2008), is the Company's 60%-owned vehicle that manages and operates two BPO buildings located in Asiatown IT Park in Cebu, namely eBloc and Peak Building A.

Gisborne Property Holdings, Inc., Sunnyfield E-Office Corporation, Asterion Technopod, Incorporated, Crestview E-Office Corporation, Summerhill E-Office Corporation and *Hillsford Property Corp.* (all incorporated in 2009), are wholly-owned entities established to handle, develop and manage all future BPO buildings located in various growth centers within the Philippines.

Hotels and Resorts

Ayala Hotels, Inc. (incorporated in 1991), 50% owned, currently manages hotel land lease operations.

*AyalaLand Hotels and Resorts Corporation (incorporated in 2010),*100%-owned, serve as a holding company for the Company's hotels and resorts operations.

Greenhaven Property Venture, Inc. (incorporated in 2009)*,* 100%-owned, was established to plan, develop and manage the hotel being constructed in Glorietta 1 as part of the Ayala Center redevelopment project.

Ten Knots Philippines, Inc. and Ten Knots Development Corp. (The Ten Knots Group), 60% owned by ALI in partnership with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group), is engaged in the development of parcels of land and islands into resorts in Palawan.

Greenhaven Property Venture, Inc., 100% owned by ALI, is the developer and future manager of the hotel being constructed in Glorietta 1 as part of the Ayala Center redevelopment project.

Services

Makati Development Corporation (incorporated in 1974), 100% owned by ALI, continued to engage in engineering, design and construction of horizontal and low-rise vertical developments. It continued to service site development requirements of Ayala-related projects while it provided services to third-parties in both private and public sectors.

MDC Build Plus was formed to cater primarily to projects focusing on the lower end of the base of the pyramid, particularly the residential brands Amaia and BellaVita.

Ayala Property Management Corp. (incorporated in 1957), wholly-owned by ALI, continued to manage properties of ALI and its subsidiaries. It also provides services to third-party clients.

Bankruptcy, Receivership or Similar Proceedings
None for any of the subsidiaries and affiliates above.

Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary) over the past three years
Since 2003, Ayala Land has implemented an asset rationalization program involving, among others, the sale of installment receivables and divestment of some non-core assets.

The Company divested of its ownership stake in ARCH Capital Management Co., Ltd. In March 2011 while there were no large sale transactions in 2010 and 2009.

Various diversification/ new product lines introduced by the company during the last three years

Economic housing

The Company formally launched its fourth residential brand, Amaia, in 2010, catering to the economic housing segment. It launched its pilot project in May 2010 called AmaiaScapes in Calamba, Laguna.

Businessman's Hotels and Resorts

ALI diversified its hotels and resorts portfolio in 2010 by launching a collection of businessman's hotels to cater to underserved markets in key areas of the country and by venturing into resorts in established eco-tourism areas. It broke ground in Bonifacio Global City and Davao City on its new businessman's hotel line. It also acquired a 60% stake in El Nido Resorts in Palawan, which operates a total of 100 rooms between Lagen and Miniloc Island Resorts. El Nido Resorts also acquired, renovated, and re-opened the 50-room Apulit Island Resort (previously known as Club Noah) before the end of 2010.

Competition

Ayala Land is the only full-line real estate developer in the Philippines with a major presence in almost all sectors of the industry. Ayala Land believes that, at present, there is no other single property company that has a significant presence in all sectors of the property market. Ayala Land has different competitors in each of its principal business lines.

With respect to its mall business, Ayala Land's main competitor is SM Prime whose focus on mall operations gives SM Prime some edge over the Company in this line of business. Nevertheless, Ayala Land is able to effectively compete for tenants primarily based on its ability to attract customers -- which generally depends on the quality and location of its shopping centers, mix of tenants, reputation as a developer, rental rates and other charges.

For office rental properties, Ayala Land sees competition in smaller developers such as Kuok Properties (developer of Enterprise Building), Robinsons Land (developer of Robinsons Summit Center) and non-traditional developers such as the AIG Group (developer of Philam Towers) and RCBC (developer of RCBC towers). For BPO office buildings, Ayala Land competes with the likes of Megaworld and Robinsons Land. Ayala Land is able to effectively compete for tenants primarily based upon the quality and location of its buildings, reputation as a building owner, quality of support services provided by its property manager, rental and other charges.

With respect to residential lot and condominium sales, particularly the middle-income/affordable housing segments, Ayala Land competes with developers such as Filinvest Land, Vista Land, Megaworld, SM Development Corp. and DMCI Homes. Ayala Land is able to effectively compete for purchasers primarily on the basis of reputation, price.

Suppliers
The Company has a broad base of suppliers, both local and foreign. The Company is not dependent on one or a limited number of suppliers.

Customers
Ayala Land has a broad market base including local and foreign individual and institutional clients. The Company does not have a customer that will account for twenty percent (20%) or more of its revenues.

Transactions with related parties
Please refer to Item 12 of this report ("Certain Relationships and Related Transactions).

Licenses

Phenix Building System

A joint venture agreement between Maison Individuelles, S.A. ("MISA") of France and Avida was organized in June 1998 and subsequently registered with the SEC as Laguna Phenix Structures Corporation ("LPSC") in July 1999.

LPSC, a 50%-50% joint venture, is primarily engaged in the business of manufacturing, installation, erection and construction, marketing and promotion, and wholesaling of buildings, houses and other structures and accessories using the "Phenix" technology (for which a patent has been registered and issued in the Philippines under RP Patent No. 29862). Both MISA and Avida assigned their respective license rights to LPSC since the latter's incorporation.

Government approvals/regulations
The Company secures various government approvals such as the ECC, development permits, license to sell, etc. as part of the normal course of its business.

Employees
Ayala Land - parent company has a total workforce of 495 regular employees (1,397 including manpower of wholly-owned subsidiaries) as of December 31, 2011.

The breakdown of the ALI - parent company employees according to type is as follows:

Executive	23
Managers	183
Supervisors	89
Rank and File	200
Total	495

ALI Parent has recently concluded negotiations with the union and inked a new three (3) year collective bargaining agreement, covering January 2012 to December 2014 that provides for salary increases based on performance. The company continues to nurture an open and cooperative relation with the union.

The Company has embarked on a robust leadership development and talent management program for leaders at the frontline, middle management and senior leaders. It has also implemented retention initiatives that has resulted in the lowest attrition levels and has strongly pushed for a strong performance management where all employees up to staff individual contributors have clear key result objectives and basis for performance assessments and feedback.

Risks
Ayala Land is subject to significant competition in each of its principal businesses. Ayala Land competes with other developers and developments to attract land and condominium buyers, shopping center and office tenants, and customers of the retail outlets, restaurants, and hotels and resorts across the country.

However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

High-End, Middle-Income, Affordable Residential and Economic Housing Developments
With respect to high-end and middle-income land and condominium sales, Ayala Land competes for buyers primarily on the basis of reputation, reliability, price and the quality and location of the community in which the relevant site is located. For the affordable, economic and socialized housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units and availability of in-house financing. Ayala Land is also actively tapping the overseas Filipino market.

Shopping Center, Office Space and Land Rental
For its shopping centers, Ayala Land competes for tenants primarily based on the ability of the relevant shopping center to attract customers - which generally depends on the quality and location of, and mix of tenants in, the relevant retail center and the reputation of the owner of the retail center - and rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is growing. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

With respect to its office rental properties, Ayala Land competes for tenants primarily based on the quality and location of the relevant building, reputation of the building's owner, quality of support services provided by the property manager, and rental and other charges. The Company is addressing the continuing demand from BPOs by providing fully integrated and well maintained developments (high rise or campus facility) in key locations in the country.

Hotel and Resort Operations
The local hotel and resort sector is largely driven by foreign and local travel for leisure or business purposes. Any slowdown in tourism and business activity due to global financial and local political turmoil and security concerns could potentially limit growth of the Company's hotels and resorts.

Construction
Ayala Land's construction business is benefiting from the improved performance of the construction industry, particularly from an uptick in development activities mostly from the residential and retail sectors. Any slowdown in the construction business could potentially cap growth of the Company's construction arm.

Other risks that the company may be exposed to are the following:

- Changes in Philippine and international interest rates
- Changes in the value of the Peso
- Changes in construction material and labor costs, power rates and other costs
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions

To mitigate the above mentioned risks, Ayala Land shall continue to adopt appropriate risk management tools as well as conservative financial and operational controls and policies to manage the various business risks it faces.

Working Capital
Ayala Land finances its working capital requirements through a combination of internally-generated cash, pre-selling, joint ventures and joint development agreements, borrowings and proceeds from the sale of non-core assets and installment receivables.

Domestic and Export Sales
Amounts of revenue, profitability, and identifiable assets attributable to domestic and foreign operations for 2011, 2010 and 2009 follow: (in P 000)

	2011	2010	2009
Consolidated revenues			
Domestic	44,205,533	37,813,499	30,455,244
Foreign	-	-	-
Net income *(Attributable to equity holders of ALI)*			
Domestic	7,140,308	5,458,134	4,039,256
Foreign	-	-	-
Total assets			
Domestic	154,619,179	121,675,262	107,741,848
Foreign	-	-	

Compliance with leading practice on Corporate Governance
The evaluation system which was established to measure or determine the level of compliance of the Board and top level management with its Revised Manual of Corporate Governance consists of a Customer Satisfaction Survey which is filled up by the various functional groups indicating the compliance rating of certain institutional units and their activities. The evaluation process also includes a Board Performance Assessment which is accomplished by the Board indicating the compliance ratings. The above are submitted to the Compliance Officer who issues the required certificate of compliance with the Company's Revised Manual of Corporate Governance to the Securities and Exchange Commission.

To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

There were no deviations from the Company's Revised Manual of Corporate Governance. ALI has adopted in the Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Manual.

ALI is taking further steps to enhance adherence to principles and practices of good corporate governance.

INTEGRATED MICROELECTRONICS, INC. (IMI)

Background and Business

Integrated Micro-Electronics, Inc. (IMI), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. ("IMI Singapore"), IMI USA, Inc. ("IMI USA"), IMI Japan, Inc. ("IMI Japan") and PSi Technologies Inc. (PSi) (collectively referred to as the "Group"). IMI Singapore, IMI USA and IMI Japan are wholly owned subsidiaries while PSi is 55.78% owned.

On January 21, 2010, the IMI was listed by way of introduction in the PSE.

IMI is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts, among others. IMI is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services. These PEZA registrations entitle the IMI to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements. IMI's entitlements to ITH under the current PEZA registrations had expirations beginning January 2010.

IMI Singapore was incorporated and is domiciled in Singapore. It is engaged in the procurement of raw materials, supplies and provision of customer services. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and is domiciled also in Singapore. STEL on its own has subsidiaries located in Hong Kong, People's Republic of China (PRC), Singapore and the Philippines. STEL and its subsidiaries are principally engaged in the provision of Electronic Manufacturing Services (EMS) and Power Electronics solutions to original equipment manufacturing customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors.

IMI Singapore established its Philippine Regional Operating Headquarters (also known as IMI International ROHQ or IMI ROHQ) in 2009. It serves as a supervisory, communications and coordinating center for the affiliates and subsidiaries of IMI Singapore.

In 2011, IMI infused additional capital to IMI Singapore in exchange for newly issued shares of the latter. This was used by IMI Singapore to set up Monarch Elite Ltd. and Cooperatief IMI Europe U.A. as holding companies and facilitate the acquisition of EPIQ Electronic Assembly EOOD (EPIQ EA), EPIQ CZ s.r.o (EPIQ CZ), and EPIQ MX, S.A.P.I de C.V. (EPIQ MX) (collectively the EPIQ subsidiaries) from EPIQ NV. The EPIQ subsidiaries design and produce printed circuits and spray casting of plastics, and supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, industrial market and other applications with plastic parts and electronic components. The EPIQ subsidiaries also provide engineering, research and development, and logistics management services.

IMI USA was incorporated and is domiciled in California, USA. It is at the forefront of technology with regard to precision assembly capabilities including surface mount technology (SMT), chip on flex (COF), chip on board (COB) and flip chip on flex. It specializes in prototyping low to medium PCBA and sub-assembly. It is also engaged in engineering, design for manufacturing (DFM) technology, advanced manufacturing process development, new product innovations (NPI), direct chip attach and small precision assemblies.

IMI Japan was registered and is domiciled in Japan. IMI Japan's primary purpose is to transact business with Japanese customers in the following areas: (a) turnkey EMS; (b) engineering and design services; and (c) original design manufacturing (ODM) solutions. IMI Japan also functions as program management center for new business in coordination with the Parent Company (wireless), STEL and Subsidiaries (power management) and IMI USA (film chip). IMI Japan will secure programs/projects from Japanese customers and then endorse these to the Parent Company or IMI Singapore. There is no manufacturing operation in IMI Japan.

PSi is a power semiconductor assembly and test services (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices. PSi wholly owns PSi Technologies Laguna, Inc. (PSi Laguna), which also provides SATS. In addition, PSi owns 40% of PSiTech Realty, Inc., the holding company of Pacsem Realty, which is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired. Pacsem Realty is 40% and 60% directly

owned by PSi and PSiTech Realty Inc., respectively.

As to the material reclassification, merger, consolidation or purchase or sale of a significant amount of assets

In 2010, IMI acquired 56 percent of PSi Technologies Inc., an independent power semiconductor assembly and test services (SATS) provider.

Please see related discussion on the Company's Material Reclassification portion on page 3.

Operations

Design and Engineering Services

Partnering with IMI allows a complete and successful product development. This is made possible by IMI's capability to design and develop complete products and subsystems, analyze product design and materials for costs reduction through value and profit engineering, and develop solutions for cost-effective production and fast time-to-market while safeguarding intellectual property. IMI's product development and engineering service offerings include Custom Design Manufacturing (CDM) Solutions, Advanced Manufacturing Technology (AMT) Services, Engineering and Test Development, and Reliability/Failure Analysis and Calibration Quality Test solutions.

Manufacturing Solutions

IMI's comprehensive manufacturing experience allows a prospective client to leverage its strength in RoHS-compliant and cleanroom manufacturing process, complex manufacturing using consigned equipment and materials, complete turnkey manufacturing with multiple materials sourcing sites, ERP-based planning, purchasing, and manufacturing process, and strategic partnerships with leading materials distributors and manufacturers. IMI has the essential infrastructure equipment, manpower and quality systems to assure quick start of operations and turnaround time. These include: materials management, PCBA and FCPA Assembly, Automated Through-Hole Assembly, Complete Box build Solutions, Sub Assembly services, Component Assembly and Manufacture of Enclosure Systems.

Business Models

IMI recognizes the uniqueness of each customer's requirements. To satisfy specific requests, IMI offers flexible business models that allow it to build the perfect assembly for its client's manufacturing requirements.

The "Standard" and "Semi-custom" business models pertain to IMI's Printed Circuit Board Assembly (PCBA) processes. IMI invests in Surface Mount Technology (SMT) lines which support multiple customer requirements. Back-end and box build processes are also set-up depending on customer requirements.

The "Custom" Business Model gives the client a free hand in designing the systems by offering a dedicated facility manned by an independent and exclusive organization that will build the system from ground up. With quality structures and operational procedures compatible with the client's systems, IMI's line serves as the client's extension plant, assuring that all the parts and processes are customized to the client's particular needs.

Capabilities and Solutions

IMI's capabilities allow it to take on the specific outsourcing needs of its customers, providing them with flexible solutions that encompass design, manufacturing, and order fulfilment. It develops platforms to customize solutions in response to its customers' unique requirements. Its platforms in areas like short-range wireless systems, embedded systems, and sensors and imaging technology represent capabilities to manufacture products.New manufacturing capabilities are developed by IMI's Advanced Manufacturing Engineering (AME) group. Its expertise includes immersion silver process, pre-flow underfill process, thermally enhanced flip chip technology, traceless flip chip technology, and flip chip on flex assembly, among others.IMI has a complete range of manufacturing solutions – from printed circuit board assembly to complete box build. Through its flexible, efficient, and cost–effective end-to-end EMS solutions, IMI gives OEMs the luxury of focusing on their core competencies of technology R&D and brand marketing.

Subsidiary in Power Semiconductor Assembly and Test

IMI through its subsidiary PSi Technologies Inc provides outsourced power semiconductor assembly and test services for legacy packages, power QFNs, and power modules.

Global Materials and Supply Chain Management

IMI's mission is to offer strategic and competitive Supply Chain Management for complete order fulfillment of its Customers. IMI's turnkey capabilities involve major commodities for direct/indirect materials: passive/active/mechanical/electro-mechanical components, existing vendor base for over 36,000 line items, and Global sourcing in Asia, US and Europe of over 200 major and strategic suppliers from over 2,000 suppliers listed in our database. IMI is not or is not expected to be dependent upon one supplier for raw materials or other items.

IMI's warehousing capabilities include housing all direct and indirect materials, outsourcing to a third party logistics provider, satellite warehouses in other IMI plants and under the mySAP™ ERP System.

IMI also has Vendor Partnership Programs to leverage for the most competitive cost and engaged the supply base on vendor qualification, certification and development. With regard to inbound and outbound logistics, IMI are partners with the best in the industry. The major lines inbound are Singapore, Japan, Hong Kong, Taiwan, Malaysia, Thailand, Germany and the US. Major lines outbound are US, Germany, Malaysia, Hong Kong, Israel, Switzerland, Vietnam, UK, Japan, Singapore and France.

Product Capabilities

IMI has experience in working with some of the world's leading companies in the following products:

Automotive Electronics

- Automotive Camera
- PCBA for Electronic Stability Program (ESP)
- Tire Pressure Sensor PCBA
- Car Windshield Temperature and Humidity Sensor
- Electronic Power Steering (EPS) Rotor Position Sensor (RPS)
- PCBA for Headlight
- Switch Controller for Main Light
- Communication Power PCBA
- Body Control Module (BCM)
- Antenna Receiver / DAB Tuner

Industrial Electronics

- Automatic Meter Reader (AMR)
- Security Device
- Electronic Door Access System
- Smart Card
- Point of Sales System
- Printer Control Board
- Power Amplifier
- DC-DC Power Converter
- Engine Controllers
- Welding Machine Inverter
- Motor Drivers for Conveyor
- Fan Motor Control Board
- Computer Numerical Control (CNC) Control Board
- Main power supplies for LED street lighting
- Modules for renewable energy generation, transmission and conversion

Medical Electronics

- Imaging Equipment Flat Panel FPCA
- PCBA for Auto Body Contouring Imaging Equipment
- Dental Imaging System
- Defibrillator Component
- Concealed Hearing Aid
- Biomedical and Laboratory Equipment
- Centrifuge Control Board
- Fitness Equipment Control Board

Telecommunications

- Back Panel for Telecommunication Board
- Fiber to the "X" (FFTx) systems
- Booster Amplifier

- GPON (Gigabit Passive Optical Network) Systems
- Wireless Security System
- Base Station Power Supply
- Digital Station Control Board
- Power Transistors for amplifiers in cellular base stations
- Power Conversion ICs in adapters and chargers for cell Phones and cordless phones
- DC Port and USB Port protection for cell phones and satellite radio peripherals

Computing and Storage Devices

- CD/Combo Drive
- DVD Drive
- Blu-Ray Disc Drive
- Hard Disk Drive
- Solid State Drives
- Printer Sensor
- Printer Control Board
- Multi-Function Copier Machine
- DVD Recorder Power Supply
- Power Supplies for Servers, PCs, Notebooks, and Netbooks
- Over-voltage protection for HDD and DC port protection for keyboard mouse

Consumer Electronics

- Ultrasonic Toothbrush
- Hybrid IC
- Gas Ignitor and Re-Ignitor
- Air-Conditioning (HVAC) Controller
- Power Management and Home Appliance for Lighting Control
- Refrigerator and Cooker Hood Control Board
- Projector Lamp Drivers
- Household Metering Device
- Bluetooth Headset
- Electric Drive Control for home appliances
- Main Power Supply for Flat-panel TV
- Power Supply for game consoles and entertainment electronics
- High Voltage Power Conversion ICs in adapters and chargers for personal electronics
- Garage Door Control
- Programmable Timer
- Pressure Cooker Modules
- Steamer Controller Modules
- Washing Machine controllers
  Coffee Machine

Power Semiconductor

- Low-Medium Power Packages:
  - TO 220 Fpak 2/3L; TO 220 2/3/5/7L, SOT 82
  - PowerFlex 2/3/5/7L, TO252 / TO251, TO 263 3L;
  - 3 x 3 mm QFN, 3.3 x 3.3mm QFN ; 5x6mm QFN
- Medium-High Power Packages:
  - SOT 93 3L, TO 247 3L, TO 264 3/5L, SOT 227
  - Standard Packages - SP3, SP4, SP6
  - DRF, ARF
- Small Signal Packages - SOT 223 3L, TO 220 2/3/5/7L

Renewable Energy

- PV Panel Assembly
- PV Co-Design & Development

- PV Panel High Volume Manufacturing
- PV Panel Platform
- PV Inverter Platform
- Inverter Electronics

With regard to emerging product capabilities, IMI is pursuing OEMs in the Photovoltaic (PV) or Solar Energy and Sensor and Imaging fields.

Human Resources
IMI has a total workforce of 15,375 employees as of December 31, 2011, shown in the following table:

Job Groups	Total	Philippines	China/ Singapore	USA	Japan	Europe
Managers	**384**	163	161	6	3	51
Supervisors	**1,413**	539	636	5	-	233
Rank-and-File	**1,826**	972	596	4	1	253
Technicians	**807**	334	414	-	-	59
Operators	**10,945**	5,367	4,336	3	-	1,239
TOTAL	**15,375**	7,375	6,143	18	4	1,835

The relationship between IMI and employees has always been of solidarity and collaboration from the beginning of its operations up to the present. The rank and file employees and the supervisory employees of the Company are not unionized. Hence, there is no existing Collective Bargaining Agreement (CBA) between the Company and its employees.

At present, IMI does not intend or anticipate hiring any number of employees within the ensuing twelve (12) months because the current workforce can still cope up with the volume of expected customer orders within that period.

IMI has existing supplemental benefits for its employees such as transportation and meal subsidy, Group Hospitalization insurance coverage and non-contributory retirement plan.

IMI has or will have no supplemental benefits or incentive arrangements with its employees other than those mentioned above.

Strategic Partnerships
An active strategic partnership is that with Renewable Energy Test Center, a California-based engineering services, test and certification provider for photovoltaic (PV) and renewable energy products. This partnership was forged in 2009. With IMI Energy Solutions, the partnership aims to offer PV services including PV panel development, panel prototyping, certification, and mass production. IMI Energy Solutions focuses on solar panel development and prototyping, while RETC handles product testing and certification. RETC is right next door to IMI Energy Solutions to ensure fast turnaround time from prototyping to product certification.

Competition

Industry in which IMI is selling or expects to sell its products or services, and where applicable, any recognized trends within the industry

IMI is an electronics manufacturing services (EMS) provider to original equipment manufacturers (OEMs) in the computing, communications, consumer, automotive, industrial, and medical electronics segments as well as emerging industries like renewable energy. In 2011, the global economy managed an Asian-led growth at 3.8 percent despite struggling from the ravages of natural calamities in Japan and Thailand. A continuing European crisis may lead to a recession in 2012 and may exacerbate difficulties in the US economy as well as the rest of the world.
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The growth of electronics end-markets are mostly in the area of consumer electronics -- primarily tablets and smartphones. Non-traditional markets continue to have average growth banking on increasing applications in new technologies that hinge on automation, portability, size and space reduction, higher power and clean technology. The EMS industry grew by only 3.9 percent in 2011, quite far from the double-digit growth rates it used to enjoy in previous years. The industry is expected to increase in 2012 but may experience more challenges as market uncertainties continue to cloud visibility into the near

future.IMI competes worldwide, with focus on Asia (including Japan and China), North America, and Europe.

Part of the industry and the geographic area in which the business competes or will compete
IMI competes worldwide, with focus on Asia (including Japan and China), North America, and Europe.

Principal methods of competition (price, service, warranty or product performance)

There are two methods of competition: a) price competitiveness, b) robustness of total solution (service, price, quality, special capabilities or technology).

Principal competitors that IMI has or expects to have in its area of competition

IMI competes with EMS companies and original design manufacturers (ODMs) all over the world. Some of its fierce EMS provider competitors include Hon Hai, Flextronics, Kimball, and Hana.

Relative size and financial and market strengths of the registrant's competitors

Hon Hai is a Taiwanese company with annual revenues of US$92 billion, best known as the vertically integrated outsourcing partner of Apple for tablets and smartphones. Hon Hai is a competitor of IMI in the computing and telecommunication infrastructure markets. Flextronics is a Singapore-headquartered company with annual revenues of US$30 billion; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive space. Hana is a Thai company with annual revenues of US$500 million; it has a semiconductor manufacturing arm. Hana competes with IMI in industrial market.

Reason why IMI believes that it can effectively compete with the other companies in its area of competition

IMI is focused on delivering customized solutions of highest quality at reasonable prices. It collaborates with the customers in finding the right solutions to their problems. IMI even challenges its own systems and processes if needed. It has a distinct advantage in serving customers who value quality over price and require complex non-standard solutions. Living up to the flexible expertise brand, IMI is adaptable to the needs and conditions of its customers. This expertise has propelled IMI onto the current list of the top 50 EMS providers in the world and earned for IMI several accolades from its customers.

Risk Factors
IMI's business, financial condition and results of operation could be materially and adversely affected by risks relating to IMI and the Philippines.

IMI's operating results may significantly fluctuate from period to period

There is a risk that IMI's operating results may fluctuate significantly. Some of the principal factors affecting its operating results include:

(1) changes in demand for its products and services;
(2) customers' sales outlook, purchasing patterns, and inventory adjustments;
(3) the mix of the types of services provided to its customers such as: volume of products, complexity of services, and product maturity;
(4) the extent to which it can provide vertically integrated services for a product;
(5) its effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions;
(6) its ability to make optimal use of its available manufacturing capacity;
(7) changes in the cost and availability of labor, raw materials and components, which affect its margins and its ability to meet delivery schedules;
(8) its ability to manage the timing of its component purchases so that components are available when needed for production while avoiding the risks of accumulating inventory in excess of immediate production needs;
(9) timing of new technology development and the qualification of its technology by its customers; and
(10) local conditions and events that may affect its production volumes, such as labor conditions, political instability, and local holidays.

Due to the factors enumerated above and other risks discussed in this Section, many of which are beyond IMI's control, its operating results may vary from time to time.

Furthermore, IMI may not be able to effectively sustain its growth due to restraining factors concerning corporate competencies, competition, global economies, and market and customer requirements. To meet the needs of its customers, IMI has expanded its operations in recent years and, in conjunction with the execution of its strategic plans, IMI expects to continue expanding in terms of geographical reach, customers served, products, and services. To manage its growth, IMI must continue to enhance its managerial, technical, operational, and other resources.

IMI's ongoing operations and future growth may also require funding either through internal or external sources. There can also be no assurance that any future expansion plans will not adversely affect IMI's existing operations since execution of said plans often involves challenges. For instance, IMI may be required to manage relationships with new or a greater number of suppliers, customers, equipment vendors, and other third parties. IMI may further be confronted with such issues as shortages of production equipment and raw materials or components, capacity constraints, construction delays, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities, and training an increasing number of personnel to manage and operate those facilities. Compounding these issues are other restraining factors such as competitors' more aggressive efforts in expanding business and volatility in global economies and market and customer requirements. All these challenges could make it difficult for IMI to implement any expansion plans successfully and in a timely manner.

In response to a very dynamic operating environment and intense industry competition, IMI focuses on high-growth/high-margin specialized product niches, diversifies its markets and products, engages in higher value add services, improves its cost structure, and pursues strategies to grow existing accounts.

Moreover, IMI has established a structure that promotes a transparent corporate governance system. It has an Audit Committee that reviews quarterly and audited annual results of operations. It also has a Finance Committee that reviews and approves significant financial policies and performs oversight function over the risk management process of the organization. IMI's financial statements are certified by a reputable accounting firm.

IMI is highly dependent on an industry that is characterized by rapid technological changes

The demand for IMI's solutions is derived from the demand of end customers for electronic products. IMI's solutions have end-use applications in the computing, communications, consumer automotive, industrial and medical electronics industries.

These industries have historically been characterized by rapid technological change, evolving industry standards, and changing customer needs. There can be no assurance that IMI will be successful in responding to these industry demands. New services or technologies may render IMI's existing services or technologies less competitive. If IMI does not promptly make measures to respond to technological developments and industry standard changes, the eventual integration of new technology or industry standards or the eventual upgrading of its facilities and production capabilities may require substantial time, effort, and capital investment.

IMI is keeping abreast of current trends and technology in the electronics industry and is continuously conducting studies to enhance its capabilities and value proposition to its customers. It defines and executes technology road maps that are aligned with market and customer requirements.

IMI may not be able to mitigate the effects of price declines over the life cycles of its products or as a result of changes in its mix of new and mature products, mix of turnkey and consignment business arrangements, and lower competitors' prices

The price of IMI's products tends to decline over the product life cycle, reflecting obsolescence, decreased costs of input components, decreased demand, and increased competition as more manufacturers are able to produce similar products in large numbers as such products become standardized. Furthermore, the gross margin for manufacturing services is highest when a product is first developed. As products mature, market pressures push average selling prices down and cause gross margin erosion. IMI may be forced to reduce the price of its service for more mature products in order to remain competitive against other manufacturing services providers. IMI's gross margin may further decline if competitors lower their prices as a result of decreased costs or to absorb excess capacity, liquidate excess inventories, or restructure or attempt to gain market share.

IMI is also moving to a higher proportion of its products on turnkey production (with IMI providing labor, materials and overhead support), as compared to those under the consignment model. The margins on these turnkey businesses are generally lower than those done on consignment basis.

To mitigate the effects of price declines in IMI's existing products and to sustain margins, IMI continues to improve its production efficiency by reducing its input component costs, reducing inventory costs, and lowering operating costs. IMI must continually drive its costs down. More importantly, IMI is intensifying its effort in capturing customers with products in high-margin product niches most of which involve emerging technologies or complex manufacturing processes.

IMI generally does not obtain firm volume purchase commitments from its customers

IMI generally does not obtain firm volume purchase commitments from its customers. Customers may place lower-than-expected orders, cancel existing or future orders or change production quantities. Although IMI's customers may be contractually obligated to purchase products, IMI may be unable to or, for other business reasons, choose not to enforce its contractual rights. Cancellations, reductions, or instructions to delay production by a significant customer could also harm IMI's operating results.

In addition, IMI makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, component procurement commitments, personnel needs, and other resource requirements. These key decisions are ultimately based on estimates of customer requirements. The rapid changes in demand for its products reduce its ability to estimate accurately future customer requirements. Thus in facing these rapid changes in demand, production scheduling difficulty and the limited ability to maximize manufacturing capacity utilization are encountered.

To the extent possible, IMI negotiates for guaranteed volume and/or volume break pricing, and materials buy-back to taper the impact of sudden cancellations, reductions, delays in customer requirements.

IMI's success depends on attracting, engaging and retaining key talents, including skilled research and development engineers

IMI believes that its people are its most valuable asset and an engaged workforce is an essential element to the continued success of its organization. IMI is committed to build a workforce with purpose, excitement, and mutual alignment in order to retain its highly-skilled workers, support and technical staff and management team. It is an organization that keeps abreast of latest trends and developments to fulfill customer needs to remain in business.

IMI recognizes that its competitiveness is dependent on its key talent pipeline, including leadership, talent and skill pool, and succession plan. Thus, it has implemented proactive measures to retain employees through sound retention programs, encouraging work-life balance among its employees, and providing structured career development paths to promote career growth within the organization and loyalty to IMI. The Company also believes that in order to sustain IMI's growth, it will have to continuously attract, develop, engage and retain skilled workforce highly capable to achieve business goals.

IMI may encounter difficulties with acquisitions it may make in the future

IMI's globalization strategy has transformed IMI from a Philippines-centric company into a global network with manufacturing and engineering facilities in the Philippines, China, Singapore, Bulgaria, Czech Republic, Mexico and the United States; and sales offices in Asia, Europe and North America.

IMI's further growth may depend in part on future acquisitions, which may expose IMI to potential difficulties that include:

(1) Diversion of management's attention from the normal operations of IMI's business;

(2) Potential loss of key employees and customers of the acquired companies;

(3) Difficulties in managing and integrating operations in geographically dispersed locations;

(4) Lack of experience operating in the geographic market of the acquired business;

(5) Reduction in cash balance and increases in expenses and working capital requirements, which may reduce return on invested capital;

(6) Potential increases in debt, which may increase operating costs as a result of higher interest payments;

(7) Difficulties in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

Mergers and acquisitions (M&As) may have an immediate financial impact to IMI due to:

(1) Dilution of the percentage of ownership of current stockholders;

(2) Periodic impairment of goodwill and other intangible assets; and,

(3) Liabilities, litigations, and/or unanticipated contingent liabilities assumed from the acquired companies.

If IMI is not able to successfully manage these potential difficulties, any such acquisitions may not result in any material revenues or other anticipated benefits.

To limit its exposure to these potential difficulties, IMI performs a thorough assessment of the upside and downside of any M&As. IMI creates a team from Business Development, Business Units, Finance, Legal, Engineering, and Advisers who examines the vision, long-term strategy, compatibility with IMI's culture, customer relationship, technology, and financial stability of IMI to be acquired. All M&As have to be reviewed by the Executive Committee, Finance Committee, and approved by the Board.

IMI's production capacity may not correspond precisely to its production demand

IMI's customers may require it to have a certain percentage of excess capacity that would allow it to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond IMI's production capacity, and IMI may not have sufficient capacity at any given time to meet sharp increases in these requirements. To soften the impact of this, IMI closely coordinates with customers which provides them regular capacity reports and action plan/s for common reference and future capacity utilizations.

IMI may be subject to reputation and financial risks due to product quality and liability issues, respectively; and may be involved in intellectual property disputes

The contracts IMI entered into with its customers, especially customers from the automotive and medical industry, typically include warranties that its products will be free from defects and will perform in accordance with agreed specifications. To the extent that products delivered by IMI to its customers do not, or are not deemed to, satisfy such warranties, IMI could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect, as well as for consequential damages.

There can be no assurance that IMI will be able to recover any losses incurred as a result of product liability in the future from any third party, or that defects in the products sold by IMI, regardless of whether or not it is responsible for such defects, would not adversely affect its customer relations, standing and reputation in the marketplace, result in monetary losses, and have a material adverse effect on its business, financial condition, and results of operations.

Furthermore, IMI's business depends in part on its ability to provide customers with technologically sophisticated products. IMI's failure to protect its intellectual property or the intellectual property of its customers could hurt customer relationships and affect its ability to obtain future business. There is also a risk that IMI may infringe on the intellectual property rights of others. IMI could incur costs in either defending or settling any intellectual property disputes alleging infringement. In addition, customers typically require that IMI indemnify them against claims of intellectual property infringement. If any claims are brought against IMI's customers for such infringement, whether these have merit or not, IMI could be required to expend significant resources in defending such claims. In the event IMI is subjected to any infringement claims, IMI may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. IMI may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt manufacturing processes, damage IMI's reputation, and affect its profitability.

IMI provides appropriate controls to ensure that quality is maintained and continuously improved; and would not result to losses for the customers and IMI. In addition, IMI and some of its customers maintain projects that are covered by product recall insurance.

Among others, IMI is certified on ISO 9001:2000 quality management systems and TS 16949:2002, a quality management system for automotive products. It also received several recognitions from its customers for its commitment to quality.

Possible failure to comply with environmental regulations could harm IMI's business

IMI is subject to various national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing processes. If more stringent compliance or cleanup standards under environmental laws or regulations are imposed, or the results of future testing and analyses at IMI's manufacturing plants indicate that it is responsible for the release of hazardous substances, IMI may be exposed to liability. Further, additional environmental matters may arise in the future at sites where no problem is currently known or at sites that IMI may acquire in the future.

IMI closely coordinates with various government agencies and customers to comply with existing regulations and continuously looks for ways to improve its environmental and safety standards.

IMI operates in a highly competitive industry

Some of IMI's competitors in the industry may have greater design, engineering, manufacturing, financial, or other resources than IMI. Customers evaluate EMS and ODMs based on, among other things, global manufacturing capabilities, speed, quality, engineering services, flexibility, and costs. In outsourcing, OEMs seek, among other things, to reduce cost. In addition, major OEMs typically outsource the same type of products to at least two or three outsourcing partners in order to diversify their supply risks. The competitive nature of the industry has resulted in substantial price competition. IMI faces increasing challenges from competitors who are able to put in place a competitive cost structure by consolidating with or acquiring other competitors, relocating to lower cost areas, strengthening supply chain partnerships, or enhancing solutions through vertical integration, among others. IMI may lose its customers to its competitors if it fails to keep its total costs at competitive levels for comparable products.

IMI regularly assesses the appropriate pricing model (strategic/value based, demand based, etc.) to be applied on its quotation to existing or prospective customers. IMI is also strengthening its risk management capabilities to be able to turn some of the risks (e.g., credit risks) into opportunities to gain or maintain new or existing customers, respectively.

IMI's industry is dependent on the continuous growth of outsourcing by the original equipment manufacturers

IMI belongs to an industry that is dependent on the strong and continuous growth of outsourcing in the computing, communications, consumer automotive, industrial, and medical electronics industries. IMI's industry exists because customers choose to outsource certain functions in the production process of certain machines and equipments in these industries. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing.

IMI believes that its manufacturing operations in Singapore, Philippines, and several parts of China and its enhanced supply chain systems and capabilities will continue to provide strategic advantages for customers to outsource certain functions of their manufacturing processes to IMI.

Demand for services in the EMS industry depends on the performance and business of the industry's customers as well as the demand from end consumers of electronic products

The profitability of companies in the same industry as IMI depends on the performance and business of the industry's customers, driven by the demand for electronic products by end consumers. If the end-user demand is low for the industry's customers' products, companies in IMI's industry may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could seriously harm the customers of IMI's industry could, as a result, adversely affect IMI as well. These risks include:

(1) Their inability to manage their operations efficiently and effectively;
(2) Reduced consumer spending in key customers' markets;
(3) Seasonal demand for their products; and,
(4) Failure of their products to gain widespread commercial acceptance.

The impact of this risk has been very evident with the global financial crisis resulting in global reduction of demand for electronics products by end customers.IMI mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas most optimal, and by initiating cost containment programs. There have been recent indications that the crisis has bottomed out and IMI was able to re-hire some of its employees. However, IMI remains cautious and is continuously monitoring improvements resulting from its cost containment programs.

IMI's industry may experience shortages in, or rises in the prices of components, which may adversely affect business

There is a risk that IMI will be unable to acquire necessary components for its business as a result of strong demand in the industry for those components or if suppliers experience any problems with production or delivery.

To the extent possible, IMI works closely with customers to ensure that there is at least one back up supplier or manufacturer for customer-supplied components or components supplied by customer-nominated suppliers. In addition, IMI has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to IMI.

IMI may be exposed to risk of inventory obsolescence and working capital tied up in inventories

Like other EMS and ODMs, IMI may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Inventory obsolescence may require IMI to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. IMI realizes these risks and as a result, IMI exercises due diligence in materials planning and provides provision in its inventory systems and planning. IMI is working with key suppliers to establish supplier-managed inventory arrangements that will make the supplier responsible for carrying inventory.

IMI's international operations expose it to various business, economic, political, regulatory, and legal risks

IMI has operations in Singapore, Hong Kong, China, and United States of America. These international operations expose IMI to numerous risks and challenges, including:

(1) managing operations that require coordination of communications, directions for the manufacture and delivery of products, coordination regarding procurement and delivery of components and raw materials, and other activities and decisions of different management teams;

(2) coordinating the activities of senior management who are spread out internationally;

(3) reversal of currently favorable policies encouraging foreign investment or foreign trade by host countries could lead to the imposition of government controls, changes in tariffs or trade restrictions on component or assembled products;

(4) the burden of complying with a variety of foreign laws, including delays or difficulties in obtaining import and export licenses, and regulations and unexpected changes in legal and regulatory environments, including changes to import and export regulations and duties;

(5) lower levels of protection for intellectual property rights in some countries;

(6) potentially adverse tax consequences, including tax consequences which may arise in connection with inter-company pricing for transactions between separate legal entities within a group operating in different tax jurisdictions, and overall increases in duties and taxation;

(7) potential foreign exchange and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions;

(8) lack of developed local infrastructure, transportation and water supply, and difficult and costly local staffing and sourcing of raw materials or components in some countries;

(9) actions which may be taken by foreign governments pursuant to any trade restrictions; and

(10) possible labor unrest and political economic instability.

A substantial portion of IMI's manufacturing operations is located in China, which has regulated financial and foreign exchange environment. IMI continuously evaluates the options available to the organization to ensure maximum usage of excess liquidity. Among others, excess liquidity may be repatriated out of China through dividend payments, payment of management service or royalty fees, use of leading and lagging payment, and transfer pricing.

IMI applies conservative financial and operational controls in the management of its business risks. Organizationally, it is the lead director/company president/chief risk officer who has ultimate accountability and responsibility to ensure risk management initiatives at subsidiaries operating in various countries all over the world are aligned with IMI and are responsible for submission of risk reports to ensure key risks

are well understood, assessed/measured and reported. Providing support is the internal audit unit who regularly process audits and process improvements.

The Audit Committee of the Board meets regularly and performs its oversight role in managing the risks involved in the operations of IMI. The Board appointed a Chief Risk Officer who oversees the entire risk management function and is responsible for overall continuity. Moreover, Sycip Gorres velayo & Co. (SGV) has been engaged as a risk management consultant which is overseen by the Finance Committee of the Board. In terms of internal control risks, control mechanisms, systems and policies had been put in place in order to address any control lapses. The Audit Committee sees to it that these internal control risks are properly addressed through strict compliance with these system controls, policies and procedures. Moreover, IMI has a culture and systems for transparency, corporate governance, disclosure and checks-and-balances between various decision-making personnel that minimize the risks described above.

IMI has adopted various Risk Management Policies like hedging policy that will protect company's position on different currencies against movements of the US dollars. Limits on business transactions have been set with different sites following IMI guidelines on limit of authorities granted to IMI officers and executives. IMI has also introduced and adopted Enterprise Wide Risk Management program that will identify all risks related to the business and also identify risk mitigating factors to manage the risk.

While IMI tries to keep its local expertise, it also established global functions to ensure that there is adequate coordination of activities Moreover, on a need be basis, IMI seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in IMI's business operations. It also maintains good relationship with local government, customs, and tax authorities through business transparency and compliance and/or payment of all government related dues on time.

IMI's subsidiary in China has created a full-time tax management function to ensure compliance with tax rules and regulations. It also aggressively pursued hiring of experienced logistics managers and staff from global electronics companies operating in China.

IMI signs unilateral and bilateral agreements with customers, vendors, and partners to restrict or limit the use of the recipient of confidential information.

With respect to legal proceedings involving IMI, AG Counsellors Corporation (AGCC) group analyzes its transactions and activities to ensure compliance with law, regulation, and contractual obligations. In the event that material litigation against it does arise, IMI assesses the merits of the case and its impact on company operations. IMI refers the case to AGCC and if needed, the Company retains external counsel to help in the analysis or handle the actual litigation of the case.

IMI has a Business Continuity Plan composed of, among other components, the ICT Systems Continuity Plan and the Disaster Recovery Plan.

IMI's HR ensures that IMI is able to inspire all its employees from different sites through a common vision, that employees find greater meaning in the work they do, and more importantly, employees are convinced that rewards and recognition are linked to contribution and performance.

IMI has been able to overcome major crises brought about by economic and political factors affecting the country where it operates. The strong corporate governance structure of IMI and its prudent management team are the foundations for its continued success. IMI also constantly monitors its macroeconomic risk exposure, identifies unwanted risk concentration, and modifies its business policies and activities to navigate such risks. Severe macroeconomic contractions may conceivably lead IMI to tweak or modify its investment decisions to meet the downturn. As a holding company, IMI will affirm the principles of fiscal prudence and efficiency in operations to its subsidiaries operating in various countries.

IMI faces risks related to foreign currency exchange rates

Because IMI does business in various countries, IMI is exposed to foreign currency fluctuations, which IMI may not be able to control by matching currencies for its assets and liabilities, and forward foreign currency exchange rate arrangements. IMI also faces the risk that foreign exchange policies in countries where it operates may change in ways that could adversely affect its business. IMI regularly performs cash flow analysis from each site to determine amount of foreign currency exposure to be hedged. IMI's Finance Committee of the Board regularly reviews IMI's foreign currency strategies for guidance and proper execution.

IMI may suffer business interruptions resulting from "Acts of God" and global events

“Acts of God” and global events like health pandemics and external factors like terrorism, acts of war, political and social turmoil may disrupt production activities, transportation, and distribution. These uncertainties could limit the capabilities of IMI to accurately plan future business activities.

IMI continues to look for opportunities to expand its operations to other location or countries that will provide competitive advantages through its location, products, labor skills, and costs. While these expansions may bring in new risks, it also reduces the risk that IMI may be adversely affected by political and regulatory risks specific to each location or country.

In addition, IMI has well established business contingency plans to reduce the impact of these events to our operations. IMI is also adequately covered with insurance against possible losses resulting from these disasters.

Risks relating to the Philippines or other country where IMI operates

The financial performance of IMI and its subsidiaries, as well as their business prospects, may be influenced by the general political and peace and order situation in the Philippines or the country in which it operates and the state of the country’s economy, all of which are beyond IMI’s control. Any actual or perceived political and economic instability may adversely affect, directly or indirectly, IMI’s business and ultimately, its financial performance. Any potential investor in, and buyer of, the Subject Shares should pay particular attention to the fact that IMI and its subsidiaries are governed in the Philippines or in the country in which they respectively operate by a legal and regulatory system which, in some respects, may differ from that obtaining in other countries.

Foreign exchange risk
The IMI Group’s foreign exchange risk results primarily from movements of the U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, IMI Group’s consolidated statements of comprehensive income can be affected significantly by movements in the U.S. Dollar versus the Philippine Peso. In 2011 and 2010, IMI Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI Group’s functional currency. Approximately 37% and 20% of IMI Group’s sales for the years ended December 31, 2011 and 2010, respectively, and 51% and 31% of costs for the years ended December 31, 2011 and 2010, respectively, are denominated in other than IMI Group’s functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.

Corporate Governance
IMI is committed to the highest level of good governance throughout the organization, as well as to fostering a corporate culture of integrity and empowering leadership.

This governance is anchored on the belief in a strong link between quality governance and the creation of shareholder value and long-term growth.

IMI is revising its Manual of Corporate Governance in compliance with SEC Memorandum Circular No.6, Series of 2009 – Revised Code of Corporate Governance.

Board Structure and Process. IMI’s eleven-person Board of Directors primarily represents the shareholders to whom it is accountable for creating and delivering value through the effective governance of the business. Stockholders elect the directors annually.
The Board represents a mix of competencies, with each director capable of adding value and exercising independent judgment. Meetings are held at least quarterly, or as often as necessary for the Board to fulfill its role.
The Board has established committees to assist in exercising its authority, including monitoring the performance of the business. Five committees support the Board in the performance of specific functions and to aid in good governance: Executive Committee, Compensation Committee, Audit Committee, Finance Committee, and Nomination Committee.

The Executive Committee acts on such specific matters within the competence of the Board as may occasionally be delegated to the Executive Committee by the Board, except with respect to any action for which shareholders' approval is also required.

The Compensation Committee establishes a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors.

The Audit Committee oversees IMI's internal control and financial reporting on behalf of the Board of Directors.

The Finance Committee supervises the implementation of an enterprise-wide risk management program and oversees major financial policies.

The Nomination Committee ensures that all nominees for directors for election at the annual stockholders meeting have all the qualifications and none of the disqualifications of directors.

Directors' Compensation. Non-executive directors, defined as members of the Board of Directors who are neither officers nor consultants of the Company, receive per diem of Php 100,000 for each Board meeting attended, and Php 20,000 per Committee meeting attended. The said remuneration of non-executive directors was ratified at the 2008 annual stockholders meeting.

Management. Management is primarily accountable to the Board of Directors for the operations of IMI. It concretizes IMI's targets and formulates the strategies to achieve these.
To further enhance its corporate governance infrastructure, IMI launched a group-wide enterprise risk management program to ensure that risk management activities are consistently applied, integrated, aligned and well coordinated across the organization. A Chief Risk Officer (CRO) is the ultimate champion of enterprise risk management at IMI and oversees the entire risk management function.

Accountability and Audit. The Audit Committee provides oversight to external and internal auditors. Its role and responsibilities are clearly defined in the Audit Committee Charter approved by the Board of Directors. An Independent Director chairs the Committee.

A separate Internal Audit Charter approved by the Audit Committee governs the internal audit function. The principal accountants and external auditors of the Company is the accounting firm of Sycip, Gorres, Velayo & Company.

Financial Reporting. IMI's financial statements are prepared and presented in accordance with Philippine Accounting Standards and Philippine Financial Reporting Standards, which comply with International Accounting Standards. Speedy-Tech Electronics Ltd. and its subsidiaries' financial statements are audited by Ernst & Young Singapore.

Information on the Company's financial instruments is accompanied by a presentation of the Company's risk management objectives and policies to allow for a better assessment of financial performance and cash flows. Significant accounting judgments and estimates are also disclosed.

Code of Conduct. IMI and its employees commit to live the following values: Integrity, Customer Focus, Concern for Others, and Excellence.

IMI has adopted a Code of Conduct in line with the Electronics Industry's Code of Conduct. All employees of IMI are expected to comply with this policy, which outlines the standards to ensure that working conditions in the Company are safe, that workers are treated with respect and dignity and that the manufacturing processes are environmentally responsible.

IMI operates in full compliance with the laws, rules and regulations of the countries in which it operates and recognizes international standards in order to advance social and environmental responsibility.

MANILA WATER COMPANY, INC.

Background and Business

Manila Water Company, Inc. (the "Company"), is a Philippine company established and incorporated on January 6, 1997 with the primary purpose of providing water, sewerage, sanitation distribution services,

pipework and management services. The Company's principal shareholders include the Ayala Corporation ("Ayala"), United Utilities Pacific Holdings BV ("United Utilities"), Mitsubishi Corporation ("Mitsubishi") and the International Finance Corporation ("IFC").

On February 21, 1997, the Company entered into a Concession Agreement (the "CA") with the Metropolitan Waterworks and Sewerage System ("MWSS"). Under the Agreement, the Company has the exclusive right to provide services to the East Zone of Metro Manila (the East Zone) as an agent and contractor of the MWSS. The Company was also granted the right to manage, operate, repair, decommission and refurbish all fixed and movable assets required to produce and treat raw water, distribute and market water, and collect, transport, treat, dispose and eventually re-utilize wastewater, including reusable industrial effluent discharged by the sewerage system for the East Zone. The Company in coordination with the MWSS Regulatory Office conducts a Rate Rebasing exercise every five years for the Company to recover its investments, including operating, capital maintenance and investment expenditures, business taxes, and Concession Fee payment over the 25-year concession period, and to earn a rate of return equivalent to the appropriate discount rate on these expenditures for the remaining term of the concession.

The Company currently serves a total estimated population of over six million people in the East Zone, comprising a broad range of residential, commercial and industrial customers. The East Zone encompasses parts of Manila, San Juan, Taguig, Pateros, Antipolo, Taytay, Jala-Jala, Baras, Angono, San Mateo, Rodriguez, Marikina, Pasig, Mandaluyong, Makati and most of Quezon City. For the year ended December 31, 2011, the Company's East Zone business operations registered ₱11,704 million in revenues and ₱4, 217 million in net income. Of the Company's revenues during this period, 81% or ₱9,452 billion was generated from water delivery services in the East Zone. The Company's total assets as of December 31, 2011 stood at ₱59,130 million and shareholders' equity at ₱22,601 million.

On April 16, 2009, the Company's application for the 15-year extension of the CA was acknowledged and approved by the MWSS Board of Trustees through Resolution No. 2009-072. The resolution was confirmed by the Department of Finance following the special authority granted by the Office of the President. With the CA extension, the term of the concession was extended May 7, 2022 to May 6, 2037. Under the agreement for CA extension, the Company is entitled to recover the operating and capital expenditures, business taxes, concession fee payments and other eligible costs, and to earn a reasonable rate of return on these expenditures for the remaining term of the concession or until 2037.

Despite a challenging business environment, the Company sustained its volume of water sales in the East Zone. The volume of water delivered to customers in 2011 totaled 411.6 million cubic meters ("MCM") from 409.8 MCM in 2010. The increase was brought about by additional service connections that reached 44,039 for 2011, coming largely from the expansion areas in Rizal province. The Company served a total of 1,204,291 households through 857,981 water service connections as of December 31, 2011, as compared to last year's level of 1,157,807 households and 813,942 water service connections.

At the start of the concession, only 26% of customers enjoyed water supply 24 hours a day, compared to 99% who enjoyed 24-hour availability as of December 31, 2011. The Company's water quality has surpassed the Philippine National Standards for Drinking Water, which is based on the World Health Organization's water quality guidelines, since 1998. The Company's Non-Revenue Water ("NRW") level was significantly reduced from 63.0% at the date of commencement of operations to 11.2% as of December 31, 2011.

The Company spent over P51 billion in a span of 14 years (from 1997 to 2011) on capital expenditures and on projects funded by MWSS loans (paid through concession fees by the Company). In 2011 alone, the Company's capital expenditures reached P9.2 billion. These capital expenditures were used for the improvement of water service, reduction of water losses, maintenance of water quality, implementation of sustainable development programs and expansion of the network in Rizal and Taguig. From 2011 to 2015, the Company expects to spend P66.4 billion on capital expenditures and concession fee payments. The Company plans to continue to develop new water sources, expand its water distribution network, rehabilitate its facilities to improve operational efficiency reliability, expand sanitation and sewerage services and intensify implementation sustainable development and environmental programs.

Manila Water has also expanded its services outside of the East Zone. In July 2008, the Company won a contract for leakage reduction in Ho Chi Minh City, Vietnam. In December 2009, the Company through Boracay Island Water Company ("BIWC"), entered into a Concession Agreement with Tourism Infrastructure and Enterprise Zone Authority ("TIEZA") covering the provision of water and wastewater services in BIWC. In September 2009, the company acquired 70% of Laguna AAAWater Corporation ("LAWC") which has an existing Concession Agreement with the Province of Laguna covering the provision of water services in certain areas of Laguna. In December 2011, the Company purchased 100%

of Clark Water Corporation ("CWC") and 49% ownership of Thu Duc Water B.O.O Corporation ("TDW") by Thu Duc Water Holdings, Pte, Ltd, a Singapore company wherein Manila Water holds interest through its wholly owned subsidiary, Manila Water Asia Pacific Pte. Ltd. (MWAP). TDW is one of the largest private bulk water suppliers in Ho Chi Minh City, Vietnam.

The Company's principal shareholders include the Ayala Corporation ("Ayala"), United Utilities Pacific Holdings BV ("United Utilities") and Mitsubishi Corporation ("Mitsubishi").

The Concession

The following are some of the key terms of the Concession Agreement:

- *Term and Service Area of Concession.* The Concession took effect on August 1, 1997 ("Commencement Date") and will expire on May 6, 2037 or on an early termination date as provided by the Concession Agreement. By virtue of the Concession Agreement, MWSS transferred its service obligations (i.e., water supply, sewerage and sanitation, and customer service) in the East Zone to the Company.

- O*wnership of Assets.* While the Company has the right to manage, operate, repair, decommission and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to MWSS by the Company during the Concession remains with MWCI until the expiration date (or an early termination date), at which time all rights, titles and interests in such assets will automatically vest in MWSS.

- *Ownership of the Company.* Under the Concession Agreement, MWSS granted concessions for water distribution to private-sector corporations at least 60.0% of the outstanding capital stock of which is owned and controlled by Philippine nationals. In addition, MWCI represents and warrants to MWSS that its outstanding voting capital is at least 60.0% owned by citizens of the Philippines or by corporations that are themselves at least 60.0% owned by citizens of the Philippines.

- *Sponsor Commitment.* Ayala, as local sponsor, and United Utilities PLC, as international operator, are each required to own, directly or through a subsidiary that is at least 51.0% owned or controlled, at least 20.0% of the outstanding capital stock of MWCI for the first five years (through December 31, 2002), and thereafter at least 10.0% each.

- *Operations and Performance.* MWCI has the right, as an agent of MWSS, to bill and collect for water and sewerage services supplied in the East Zone. In return, MWCI is responsible for the management, operation, repair and refurbishment of MWSS facilities in the East Zone and must provide service in accordance with specific operating and performance targets described in the Concession Agreement.

- *Concession Fees.* MWCI is required to pay MWSS the following:
    - Concession Fees consisting of the Peso equivalent of (i) 10.0% of the payments due under any MWSS loan that was disbursed prior to the Commencement Date; (ii) 10.0% of payments due under any MWSS loan designated for the Umiray-Angat Transbasin Project ("UATP") that was not disbursed prior to the Commencement Date; (iii) 10.0% of the local component costs and cost overruns related to the UATP; (iv) 100.0% of the payments due under any MWSS designated loans for existing projects in the East Zone that were not disbursed prior to the Commencement Date and were awarded to third party bidders or elected by the Company for continuation; and (v) 100.0% of the local component costs and cost overruns related to existing projects in the East Zone; and

    - Share in the annual operating budget of MWSS amounting to P396 million each year subject to annual inflation adjustments

  MWSS is required to provide MWCI with a schedule of Concession Fees payable during any year by January 15 of that year and a written notice of amounts due no later than 14 days prior to the scheduled payment date of principal, interest, fees and other amounts due. Currently, MWSS invoices MWCI monthly for these fees.

- *Appropriate Discount Rate.* MWCI is entitled to earn a rate of return equal to the Appropriate Discount Rate ("ADR") on its expenditures prudently and efficiently incurred for the remaining term of the Concession. The ADR is the real (net of inflation) weighted average cost of capital after

taxes as determined by the MWSS Regulatory Office based on conventionally and internationally accepted methods, using estimates of the cost of debt in domestic and international markets, the cost of equity for utility business in the Philippines and abroad with adjustments to reflect country risk, exchange rate risk and any other project risk. MWCI's ADR from 2003 to 2007 is 10.4%. Pursuant to MWSS Resolution No. 2007-278 dated December 14, 2007, the new ADR applicable for 2008 to 2012 is 9.3%.

- *Tariff Adjustments and Rate Regulation.* Water tariff rates are adjusted according to mechanisms that relate to inflation, extraordinary events, foreign currency differentials and Rate Rebasing exercises.

- *Early Termination.* MWSS has a right to terminate the Concession under certain circumstances which include insolvency of the Company or failure to perform an obligation under the Concession Agreement, which, in the reasonable opinion of the MWSS Regulatory Office, jeopardizes the provision of essential water and sewerage supply services to all or any significant part of the East Zone. The Company also has the right to terminate the Concession for the failure of MWSS to perform an obligation under the Concession Agreement, which prevents MWCI from carrying out its responsibilities or upon occurrence of certain events that would impair the rights of the Company.

- *Reversion.* On the expiration of the Concession Agreement, all the rights, duties and powers of the Company automatically revert to MWSS or its successors or assigns. MWSS has the option to rebid the Concession or renew the agreement with the express written consent of the Government.

Under the Concession Agreement, MWCI and the concessionaire of the West Zone of Metro Manila, Maynilad Water Services, Inc. ("Maynilad"), as Concessionaires, were required to enter into a joint venture or other arrangement that identifies the responsibilities and liabilities of each with regard to the operation, maintenance, renewal and decommissioning of certain common purpose facilities, as well as an interconnection agreement which governs such matters as water supply transfers between the East and West Zones and boundary definitions and identifies the responsibilities and liabilities of parties with regard to the management, operation and maintenance of certain interconnection facilities. Pursuant to this, the Concessionaires entered into the Common Purpose Facilities Agreement and the Interconnection Agreement in July 1997.

The Regulatory Office of MWSS

The Concession Agreement also provided for the establishment of the MWSS Regulatory Office under the jurisdiction of the MWSS Board of Trustees, to oversee and monitor the operations of the Concessionaires. The MWSS Regulatory Office is composed of five members with five-year terms, and no member of the MWSS Regulatory Office may have any present or prior affiliation with MWSS, MWCI or Maynilad. The MWSS Regulatory Office is funded by MWSS through the Concession Fee payments of the Concessionaires. The Concession Agreement provides that major disputes between the Company and the MWSS Regulatory Office be referred to an appeals panel consisting of two members appointed by each of the MWSS Regulatory Office and MWCI and a third member appointed by the Chairman of the International Chamber of Commerce. Under the Concession Agreement, both parties waive their right to contest decisions of the appeals panel through the courts.

Key Performance Indicators and Business Efficiency Measures

The CA initially set service targets relating to the delivery of services by the Company. As part of the Rate Rebasing exercise that ended on December 31, 2002, the Company and MWSS mutually agreed to amend these targets based on the Company's business and capital investment plan accepted by the MWSS-RO. In addition, the Company and MWSS adopted a new performance-based framework. This performance-based framework, designed to mimic the characteristics of a competitive market and help the MWSS-RO determine prudent and efficient expenditures, utilizes Key Performance Indicators (KPI) and Business Efficiency Measures (BEM) to monitor the implementation of the Company's business plan and will be the basis for certain rewards and penalties on the 2008 Rate Rebasing exercise.

Fourteen KPIs, representing critical performance levels for the range of activities the Company is responsible for, relate to water service, sewerage and sanitation service and customer service. The BEMs are intended to enable the MWSS-RO to evaluate the efficiency of the management and operation of the concessions and gauge progress toward the efficient fulfillment of the concessionaires' business plans. There are nine (9) BEMs relating to income, operating expenses, capital expenditures and NRW. The BEMs are evaluated for trends and annual forecasts. For the past years, the Company has been

consistently receiving commendation from the MWSS BOT for outperforming the target set by the regulators in terms of KPI and other service obligations.

Since 2003, the Company has consistently complied with its KPI and BEM targets, and has, exceeded some performance indicators.

Amendment to the Concession Agreement
The Concession Agreement was amended under *Amendment No. 1 to the Concession Agreement* executed on October 26, 2001. Amendment No. 1 adjusted water tariffs to permit adjustment for foreign exchange losses and reversal of such losses, which under the original Concession Agreement were recovered only when the Concessionaire petitioned for an Extraordinary Price Adjustment.

Organization
MWCI is organized into six functional groups: (i) Project Delivery (ii) Operations; (iii) East Zone Business Operations; (iv) Corproate Strategy and Development; (v) Corporate Resources; and (vi) Corporate Finance and Governance.

- The Project Delivery Group is charged with developing and executing the numerous infrastructure projects that are crucial for the company to deliver its water and wastewater services to the people. Aside from meeting business and regulatory commitments as stipulated in the Concession Agreement with MWSS, the delivery of projects is key in expanding services that improve people's lives and promote regional economic growth. The Project Delivery Group oversees the development, engineering, construction and commissioning of projects in fulfilment to the rate rebasing plans and company business targets. The Program Management department is in charge of the development of projects which includes conduct of feasibility and optioneering studies, acquisition of necessary land, consensus building among stakeholders, preparation of tender documents preparation, and ensuring that the program overall meets regulatory and business targets. The Design Department is in charge of ensuring that all engineering design meets company requirements and standards. This includes validation of the design concept and cost estimates in feasibility studies, conduct of preliminary and detailed design as necessary, spearhead technical review during bidding, and evaluate technical submissions of contractors and consultants. Upon project award, the Project Delivery Department steps in to implement the contract and supervise the performance of contractors ensuring the highest level of quality and safety. The PDG Support Department provides performance monitoring, efficiency analysis, and administrative support. With this dynamic collaborative systemin effect, the project delivery group successfully delivers the key infrastructure committed by the Company .

- The Operations Group is responsible for the operations and maintenance of the facilities to ensure the delivery of water and sewerage services to customers. The group also handles the monitoring of water demand and NRW levels (against available water supply) and other service targets to ensure compliance with the standards of the Company, MWSS-RO and other regulatory institutions. The different departments under the Operations Group help support the overall operations of the Company by providing services and coordinating with other groups in order to make business projections and meet regulatory requirements. A team oversees compliance with regulatory and environmental standards. The Operational Risk Management team helps mitigate possible hazards through on-site inspections and trainings they provide. On the other hand, the Common Purpose Facility team deals with its counterpart in MWSI and MWSS regarding projects, water distribution and management of Angat, La Mesa and Ipo dams. Facilities are backed-up by Maintenance, to make sure that machineries are efficiently operating and in good condition. Innovations Department allows the use of feasible approaches and technologies that enhance performance of facilities. Furthermore, Commissioning integrates existing assets with newly-acquired facilities in order to monitor available resources and maximize the usage of the Company’s assets. On the other hand, Standards Department defines and sets the benchmark for construction requirements, facilities, chemicals, instruments and other critical procedures, necessary for quality operation. The Safety Team creates safety regulations and implements policies to ensure a safety culture and environment among the Company as well as its contractors and business partners. Finally, the Operations Group and the Business Group also advise the Project Delivery Group on the infrastructure required to meet service targets.

- The East Zone Business Operations (EZBO) deals with the Company’s customers and is responsible in the operations of the business. It is composed of five departments in the EZBO Headquarters (HQ) namely: East Zone Business Area Operations, East Zone Business Support, Market Development, Technical Support Services for Water Network and Technical Support Services for Wastewater. The East Zone Business Area Operations is composed of eight (8) business areas, which are responsible in the delivery of water, wastewater and sanitation services

to the customers geared towards customer satisfaction. The Market Development team is in charge of creating new businesses within the East Zone concession area. The East Zone Business Support Department is composed of four sections: Demand Forecasting and TMS Management, Billing and Collection, Customer Service and Stakeholder Management and Program and Policy Development. The Demand Forecasting and TMS Management section is responsible for the performance management of all EZBO employees. It ensures that targets are achieved and opportunities are maximized in order to grow the business. The Billing and Collection section ensures that there are adequate payment options and facilities that cater to the needs of the customer for payment convenience and develops monitoring tools to ensure the quality of the customers' bills. The Customer Service and Stakeholder Management section reviews and enhances customer service processes and standards aimed to drive customer satisfaction. It regularly monitors customer centricity metrics to ensure that all customers concerns are attended efficiently and effectively. The Program and Policy Development section handles the rewards and recognition programs, organization, talent development and policy review and development for EZBO employees. The Technical Support Services Department for Water Network oversees the water network and ensures reliability by developing programs and conducting research on the latest technologies to reduce the water losses. Lastly, the Technical Support Services Department for Wastewater, manages the maintenance of the network for sewer lines and the implementation of the company's desludging services. All of the Business Areas and the HQ Departments are aimed towards driving business growth, reducing water losses, and delivering quality customer service.The Corporate Strategic Affairs Group (CSAG) is responsible for creating consistent corporate messaging, harmonizing communication channels, and leveraging on sustainability initiatives that are aligned with the Company's objectives in order to effectively connect with customers and stakeholders. The group is composed of three departments: Brand and Communications Development, Communication Affairs, and Sustainable Development. The Brand and Communications Development Department is in charge of building and differentiating the Manila Water brand through strategic communications research and development, visual standards management and new media establishment through social media and web presence. The Communication Affairs Department handles the execution of the Company's strategic as well as tactical or crisis communication programs through publicity, events and other stakeholder services. The department handles all Company publicity in the media (TV, radio, print and below-the-line), as well as media relations and engagement. It also manages and/or provides support for community and corporate events including the Lakbayan or Water Trail program. The department is also responsible for ensuring a well-informed workforce through the development and implementation of relevant internal communications. The Sustainable Development Department develops the Company's corporate social responsibility programs within the East Zone with focus on water supply provision to the urban poor, water education and environmental protection. The Sustainable Development Department also houses the Manila Water Foundation which is the expanded corporate social responsibility arm outside the East Zone, targeting Base of the Pyramid (BOP) communities. The Manila Water Foundation focuses on water supply and sanitation for BOP communities, water and environmental education, and community assistance and livelihood.

- The Corporate Strategy and Development Group interfaces with the MWSS-RO on all matters relating to the CA, including submitting reports and disclosures relating to compliance as well as handling negotiations with the MWSS-RO relating to the Company's service targets. The Group also distills information from the Company's other groups to produce and periodically update financial projections, which serve as the bases for petitions submitted to the MWSS-RO for quarterly, annual, and five-year tariff adjustments. In addition, the Group is responsible for the Company's new business development initiatives including Company's international expansion. On the other hand, the Sustainable Development Department develops and implements social and environmental programs that are consistent with corporate goals.

- The Corporate Resources Group is composed of three (3) Departments: Human Resources Services (HRS), Talent Management and Leadership Development (TMLD), and Corporate Services (CS). The HRS Department is responsible for the Rewards Management and Compensation and Benefits services as well as Employee Relations. The TMLD Department is responsible for various change management programs, development of talent management initiatives, implementation of innovative training programs and strategic staffing. The CS Department handles Labor Relations and Security Management. The Labor Relations Section administers the Company's Code of Conduct and assists the "line" in people management and disciplinary processes of its employees. It also manages the Company's relationship with its labor union, negotiates and administers the Collective Bargaining Agreement. Moreover, it is responsible in enhancing the Company's livelihood programs for its employees and their dependents. The Security Management Section provides a comprehensive security management

services and solutions to ensure the security of the Company's employees, facilities and other assets. A voluntary battalion of employees trained by the government, the 503rd Reserved Water Battalion, further secures the Company's offices and operational facilities.

- The Corporate Finance and Governance Group, which is headed by the Chief Finance Officer, performs financial services for the Company. The Group is composed of eleven departments namely: Treasury and Investor Relations, Contracts and Vendor Management, Accounting, Tax Management, Financial Planning and Policy Development (FPPD), Financial Controllership, Internal Audit, Legal and Corporate Governance, Land Acquisition and Right of Way, Logistics and Enterprise Risk Management (ERM). The Treasury and Investor Relations Department is primarily responsible for managing the Company's overall liquidity by efficiently managing the Company's daily cash position, as well as ensuring that funding is available for the Company's short-term and long-term cash requirements. It is also responsible for the management of investor communications and other investor-related concerns. The Contracts and Vendor Management Department ensures that external requirements of the Company from contractors, consultants and service providers are met in an efficient and cost effective manner without compromising integrity and transparency. The Contracts section handles the procurement of all asset expansion and reliability projects needed in order for the Company to meet its service obligations. The Accounting Department is responsible for managing the accounting records and preparing financial statements and reports for the Company. The Tax Management Department is responsible for the over-all compliance with all tax rules and regulations and ensures completion and application of all tax benefit programs of the Company. The Financial Controllership handles budget preparation, ensures implementation of adequate financial systems and controls. The Financial Planning and Policy Development Department and prepares management reports. The Internal Audit oversees compliance by operating units with internal controls. Internal Audit reports functionally to the Audit and Governance Committee and administratively to the Chief Finance Officer. The Legal and Corporate Governance Department provides legal services, advice and support across the entire organization and is also responsible for the prosecution and defense of cases filed by and against the Company. It is also responsible for the compliance with the Securities and Exchange Commission, Philippine Stock Exchange and Philippine Dealing and Exchange Corporation disclosure requirements. Furthermore, Legal and Corporate Governance Department also aids in the corporate secretariat work of the Company. Logistics Department is responsible for the provision of all supplies and materials needed for operations and projects to ensure continuity and support expansion of potable water supply and wastewater disposal services, in a cost efficient manner. It is also responsible for providing standard unit costs of materials, civil works and operating expenses to support the corporate goal on cost efficiency in projects implementation and operations. The ERM Department facilitates, supports, and integrates the Enterprise Risk Management processes of the Company. The Land Acquisitions and Right – of – Way Department is responsible in the acquisition of private properties and clearing and recovering of Right-of-Way owned by the Company and MWSS.

To better address customer concerns, MWCI follows a decentralized approach in the provision of water and sewerage services. Under this approach, the East Concession Area was divided into eight Business Areas, each composed of several Demand Monitoring Zones ("DMZs"). Each DMZ is comprised of 1,500-3,000 accounts and is managed by a Territory Manager. In empowering the Territory Manager to oversee the technical, business and customer service aspects of the DMZ, Manila Water is able to ensure that the needs of customers are given the utmost attention and the highest quality of service.

Water Operations

The supply of water by MWCI to its customers generally involves abstraction from water sources, subsequent treatment and distribution to customers' premises. In 2011, MWCI supplied approximately 1,268 MLD and billed 4.19 million cubic meters (MCM) of water compared to 1,259 MLD of water supplied and 396 MCM billed in 2010. MWCI serves a total of 1,157,807 households through 813,942 water service connections as of December 31, 2010, as compared to December 31, 2009 where a total of 1,086,296 households were served through 736,305 water service connections.

Water Resources

Under the Concession Agreement, MWSS is responsible for the supply of raw water, free of charge, to MWCI's distribution system and is required to supply a minimum quantity of water, currently pegged at 1,600 MLD. Should MWSS fail to supply the minimum quantity, MWCI is required to distribute available water equitably.

MWCI substantially receives all of its water from MWSS, which holds permits to the raw surface waters of the Angat and Umiray Rivers. The raw surface water which MWSS supplies to MWCI comes from the

Angat and Umiray Rivers, abstracted from the Angat Dam, and conveyed to the Ipo Dam through the Ipo River. The remainder of MWCI's water supply is ground-sourced through deep wells in various locations within the East Zone. As of December 31, 2011, MWCI has 12 operational deep wells with an average production of 16 MLD.

Water Treatment

Raw water is stored at the La Mesa reservoir located immediately downstream of the Novaliches portal interconnection prior to treatment in two filter plants in Balara located seven kilometers away. Aqueducts enable either intake from three towers at La Mesa reservoir or by-pass flow direct from the portal interconnection to Balara.

The Balara treatment plants have a total design capacity of 1,600 MLD and consist of two separate treatment systems: Balara 1, which was commissioned in 1935 and Balara 2 which was commissioned 1958. These treatment plants have common use of chemical preparation equipment and dosing facilities. The treatment process in these plants involves coagulation, flocculation, sedimentation, filtration and chlorination. The facilities consume higher quantities of chemicals during the rainy season when the turbidity of water increases, which leads to increased costs of operations.

Both plants are operating with an on-line monitoring system which enables real-time monitoring of water quality data which in turn provide an enhancement in chemical dosing efficiency. Currently, majority of the filter beds is being upgraded towards improved efficiency. The beds were modified using a multi-block underdrain system that includes an air-scour wash system which is a better way of cleaning the media using less water. Bulk of the sludge management plant was constructed in 2010 and is expected to operate in 2011. Future upgrades include the modification of the chemical dosing system.

The upgrading is expected to increase the total capacity of the plants by about 214 MLD this year.

Water Distribution

After treatment, water is distributed through the company's network of pipelines, pumping stations and mini-boosters. As of December 31, 2011, the Company's network consisted of around 4,000 kms of total pipeline, comprising of primary, secondary and tertiary pipelines ranging in diameter from 50 to 2,200 mm. The pipes are made of steel, cast iron, asbestos cement pipe, polyvinyl chloride and other materials. Due to pipes' excessive tendency to leak, the Company is replacing all of its asbestos cement pipes (ACP), which at the start were estimated to comprise approximately 25.5% of the total pipeline length. The Company has replaced a total of 561km of ACP as of December 31, 2011. From the start of the concession in 1997 until the end of 2011, MWCI has laid more than 3,000 km of pipeline through expansion or replacement.

Pumping stations also play a critical part in water distribution. Approximately 64.52% of the surface water supplied by the Company is pumped to ensure supply in high elevation areas. Currently, the Company operates twelve major pumping stations with a combined maximum pumping capacity of 3200 MLD and an average plant output of 970 MLD. The Balara, San Juan, Pasig, Makati, Fort Bonifacio, Siruna and Lucban pumping stations have reservoirs with a combined capacity of 269 ML. New reservoirs expected to operate this year is the Maguey Reservoir and East Ridge Reservoir with a combined capacity of 30ML which will serve the higher areas of Antipolo.

MWCI operates 15 line boosters in order to reach the fringe areas, which are quite distant from the Central Distribution System. Line boosters typically are small facilities aimed at augmenting water supply for areas that are not sufficiently supplied during the regular pumping operations of the main boosters.

Two additional pumping stations are in the process of completion which will increase the total number to 15.

Non-Revenue Water

Non-revenue water (NRW) refers to the volume of water lost in the company's distribution system due to leakage, pilferage, illegal connections and metering errors. As determined by the Regulatory Office, NRW is calculated as a percentage of the net volume of water supplied by the Company. The net volume of water supplied by the company comprises the total volume of water supplied by the company net of Cross Border Volume. Cross Border Volume is the volume of water transferred to the West Zone Concessionaire less transfers received by the East Zone from the West Zone Concessionaire in the past. To date, the cross border flows have completely stopped.

MWCI's NRW levels have been significantly reduced from an average of 63.0% at the date of commencement of operations under the Concession Agreement to an average of 11.2% for the year

ended December 31, 2011. The significant improvement in the Company's system losses was accomplished through effective management of water supply coupled with massive pipe replacement projects.

Water Quality

Since 1998, MWCI's water quality has consistently surpassed the Philippine National Standards for Drinking Water ("PNSDW") set by the Department of Health ("DOH") and based on World Health Organization water quality guidelines. MWCI's rating was based on a series of tests conducted regularly at 860 (EO 2010) sampling points within the East Zone. The Company's water samples scored an average bacteriological compliance of 100%, surpassing the threshold of 95.0% set in the PNSDW. In 1997, when the Concession began, only 87% of water samples complied with these quality standards. MWCI collects and tests samples for microbial examination and physico-chemical examination from our water sources, (Angat, Ipo, Bicti and La Mesa reservoirs) and ground water sources (Deepwells), water treatment plants and as well as from the distribution networks on frequencies as required in the standard.

Water quality at MWCI's treatment plants undergoes daily bacteriological and physical-chemical analysis. Across the distribution system within the coverage area, sampling is conducted jointly with the Regulatory Office and DOH and each sample collected undergo monthly bacteriological and physical/chemical analyses.

Sewerage Operations

MWCI is responsible for the provision of sewerage and sanitation services through the operation of new and existing sewerage systems and a program of regular maintenance of household septic tanks in the East Zone.

Sewerage and Sanitation System

Since 1997, MWCI has significantly improved and expanded the limited wastewater infrastructure originally operated and maintained by the MWSS. Sewerage services are provided in areas where treatment facility is feasible, politically, socially, and economically. With such limitations, sewered areas are mostly located in Quezon City and Makati, but parts of Manila, Taguig, Cainta, Pasig and Mandaluyong are also connected to sewer networks.

MWCI has few facilities for sewerage services in 1997. The Sewage Treatment Plant ("STP") in Magallanes Village is the largest treatment facility in the country with a 40 MLD capacity. The Karangalan Bio-module in Karangalan Village serves approximately 100 households but also produced substandard effluent quality before 1997. An imhoff tank in Phil-Am Village and thirty-one communal septic tanks ("CSTs") in Quezon City were also turned-over in 1997. These facilities serve approximately 19,000 households. These facilities have been upgraded to secondary treatment and now meet effluent standards set by the DENR.

In 2001, MWCI constructed two pilot package Sewage Treatment Plants ("STPs") to determine if they are feasible in terms of social, financial, and environmental aspects. These are located in Valle Verde Homes, Pasig that serves approximately 100 households and another serves some 400 households of the housing project in Makati together with approximately 4,000 students and employees in Rizal Elementary School.

With the success of the two pilot STPs, the Company implemented the Manila Second Sewerage Project ("MSSP") funded by World Bank. Under the MSSP, twenty-six STPs were constructed. Sixteen of these STPs were formerly CSTs and the rest are on-site STPs for medium and high rise housing establishments and for UP campus. Takeover and upgrade of the STP in Diego Silang, Taguig was also part of the MSSP.

In 2007, MWCI successfully took over the operations and maintenance of the Bonifacio Water Sewage Treatment Plant in Fort Bonifacio Taguig City. This facility brought an additional 5MLD treatment capacity.

Sewer coverage by the end of 2010 has increased to 23% from just 3% coverage in 1997, totaling more than 102,835 households benefiting from this service. As of year-end 2010, MWCI operates 34 Wastewater Facilities including two (2) Septage Treatment Plants, with a total capacity of 135 MLD, compared to 40 MLD in 1997.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the 'Sanitasyon Para Sa Barangay' ("SPSB") program. Through cooperation with the barangays the program aims to desludge all septic tanks in a barangay without charge over a specified, set schedule.

As part of its commitment to expand this service, MWCI constructed and subsequently operated in 2008 under the Manila Third Sewerage Project ("MTSP") two Septage Treatment Plants aimed at managing septic tank materials siphoned form the East Concession customers. More than 40 trucks from its current fleet of 92 desludging trucks operate daily to ensure the desludging service is rendered to the entire East Concession population over the next five years. Since 1997, Manila Water has already provided such service to more than 455,000 households.

Manila Water will further implement the World Bank-funded MTSP until 2010. The MTSP is a follow-up to the MSSP and has the ultimate objective of improving sewerage and sanitation conditions in the East Zone concession area.

Manila Water in 2009 pursued the implementation of the 3-River Master Plan that will provide 100% treatment to wastewater discharging to the Pasig River-, San Juan River- and Marikina River catchments within the East Zone. The 3-River Master Plan is envisioned to be a cornerstone of the regional effort to clean-up Manila Bay.

This P45 billion-mega project is a massive expansion of the "catchment approach" piloted in Manila Water's earlier projects. Comprehensive interceptor systems will capture hazardous wastewaters before they pollute waterways. Around twenty mega-STPs will be constructed to treat these pollutants before safely discharging them to rivers.

In December 2009, Manila Water began pre-qualification for the bidding of a 100 MLD STP in Bgy. Concepcion I, Marikina City. Preparation for the bidding of a 40 MLD STP in Bgy. Hagonoy, Taguig City was also completed. And with the completion of major Feasibility Studies for the 3-River Master Plan in 2009, the company is in top gear to complete the 3-River Master Plan by 2018.

Related Party Transactions

In the normal course of business, MWCI has transactions with related parties. The sales and investments with related parties are entered into and/or executed at normal market prices. Furthermore, service agreements are based on rates agreed upon by the parties.

As of December 31, 2011, outstanding balances for related party transactions are unsecured and interest-free. There have been no guarantees provided or received for any related party receivables or payable and the Company has not made any provision for probable losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

MWCI entered into a technical services agreement with United Utilities B.V., an affiliate of United Utilities Pacific Holdings B.V., for technical services necessary for the operation of MWCI. MWCI also contracted with Ayala Corporation for administrative, technical and support services in relation to human resources, treasury, accounting, capital works, corporate services and regulatory affairs and administrative management of MWCI. MWCI also had a Capital Works Program Agreement with Bechtel Overseas Corporation and Bechtel International, Inc. which was later assigned to Water Capital Works, Inc., a company owned by Ayala Corporation, United Utilities Pacific Holdings B.V., and BPI Capital Corporation, for services relating to the capital works program of the Company. The Capital Works Agreement was terminated effective January 2011.

No other transaction was undertaken by MWCI in which any director or executive officer was involved or had a direct or indirect material interest.

Environmental Compliance

MWCI's wastewater facilities must comply with Philippine environmental standards set by the Department of Environment and Natural Resources ("DENR") on water, wastewater, hazardous and solid wastes. In keeping with the Company's commitment to sustainable development, all projects are assessed for their environmental impact, and where applicable, must obtain an Environmental Compliance Certificate from the DENR prior to construction or expansion. Subsequent to construction, effluents from facilities, such as sewage and septage treatment plants, are routinely sampled and tested against DENR standards using international quality sampling and testing procedures.

MWCI has made efforts to meet and exceed all statutory and regulatory standards. MWCI employs what it believes to be appropriate treatment, disposal and monitoring procedures and communicates the need for conservation to its customers and employees. With technical assistance from United Utilities, the Company uses controlled work practices and preventive measures to minimize risk to the water supply, public health and the environment. MWCI's regular maintenance procedures involve regular disinfection of

service reservoirs and mains and replacement of corroded pipes. MWCI believes that all water and wastewater treatment processes meet the current standards of the Department of Health and DENR.

MWCI has contingency plans in the event of unforeseen failures in the water and wastewater treatment or chemical leakage and accidental discharge of septage and sewage. MWCI's Customer Care Center is used to ensure that discharge problems are tracked, monitored and resolved.

MWCI continues to undertake improvements in the way it recycles both treated wastewater and sewage sludge. The Company tests sludge for physio-chemical quality standards. Under the monitoring of the Fertilizer and Pesticide Authority ("FPA") and the Sugar Regulatory Administration, trials are being conducted by MWCI on the use of sludge as soil conditioner to reclaim fields damaged by volcanic debris in Pampanga. The FPA has awarded MWCI a license to manufacture and distribute biosolids as soil conditioner.

To address the concern on climate change, a policy on climate change was formulated to define MWCI's commitment to develop and implement a Carbon Management Plan, improve efficiency in energy consumption, and consider the impact of climate change in the Company's operations while putting in place mitigating measures.

Employees

As of December 31, 2011, MWCI had 1,578 employees. Approximately 39% were non-management employees and 61% held management positions. Six employees were seconded from Ayala.

The following table presents the number of employees as of the end of the periods indicated:

Year	Former MWSS	Direct Hires	Seconded from Ayala	Seconded from Bechtel and United Utilities	Consultants	Total
2011	1,150	421	6	0	1	1,578

The following table presents the number of employees by function as of the December 31, 2011:

Group	Management	Non-Management	Total
Office of the President	3	1	4
Corporate Finance & Governance	105	23	128
Corporate Strategy & Development	51	1	52
Corporate Human Resources	57	29	86
Corporate Strategic Affairs	13	1	14
East Zone Business Operations	416	387	803
Operations	206	142	348
Project Delivery	79	25	104
Strategic Asset Management	37	2	39
	967	611	1,578

As of December 31, 2011, headcount of CBU members 577.

Before the privatization, MWSS had 8.4 employees per 1,000 service connections. MWCI has improved this ratio to 1.4 employees per 1,000 service connections as of December 31, 2010, largely due to improvements in productivity achieved through, among other things: value enhancement programs; improvements on work processes; employee coaching and mentoring; transformation to knowledge workers; and various training programs. MWCI's organizational structure has been streamlined, reducing the number of non-management rank levels from sixteen to six, and empowering the employees through decentralized teams with responsibility for managing territories. In addition, MWCI formed multi-functional working teams, called clusters, composed of members of management tasked with addressing corporate issues such as quality, risk and crisis management.

As of December 31, 2011, 577 or 37% of the employees of MWCI belonged to the Manila Water Employees Union ("MWEU"). MWCI and MWEU concluded negotiations on a new Collective Bargaining

Agreement covering a 3-year period from 2008 to 2011. The agreement provides for a grant of ₱127.7 million compensation and benefits package to employees categorized as non-management Collective Bargaining Unit employees over three years. MWCI believes that its management maintains a strong relationship with union officials and members. MWCI has not had any strikes since its inception. Grievances are handled in management-led labor councils. The Collective Bargaining Agreement also provides for a mechanism for the settlement of grievances.

MWCI provides training and development programs to its employees, with its long-term plans and programs translating into career development opportunities for them. It envisioned and adopted a Water and Wastewater Systems Leadership (WWSL) program to train new managers to adeptly run both its water and wastewater facilities. The WWSL molds leaders into technically-equipped and humane individuals who can manage excellently and inspire people to deliver results.

MWCI also recognizes customer service excellence of its employees through various programs. Corporate social responsibility programs are also emphasized.

Pursuant to the Concession Agreement the Company adopted an Employee Stock Option Plan ("ESOP"). The ESOP was instituted to allow employees of MWCI to participate directly in the growth of the Company and enhance the employee's commitment toward its long-term profitability.

In 2005, MWCI adopted an Employee Stock Ownership Plan (ESOWN) as part of the incentives and rewards system of MWCI.

The Concession Agreement also mandates that MWCI institute a welfare fund to which it must contribute no less than 5.0% of the monthly basic salary of a member of the fund who has authorized MWCI to contribute to the fund. In 2005, MWCI's board of directors approved the establishment of an enhanced retirement and welfare plan. The plan is being administered by a retirement and welfare plan committee, which also has the authority to make decisions on the investment parameters to be used by the trustee bank.

Risk Factors
Water Supply Risk

Water distribution, which is the heart of Manila Water's operations, is primarily dependent on the availability and sustainability of water supply. The Company is exposed to water supply risk as it is primarily dependent on a single water source (Angat Dam) for 97% of the water requirement of the concession area.

Planning and Execution Risk

Proper execution of strategic, tactical and execution plans ensures that corporate and sustainability objectives are regularly met. Failure to plan and execute major initiatives in a systematic and well-coordinated manner could lead to non-achievement of business objectives.

IT Integrity Risk

Preserving software, hardware and data integrity is imperative in ensuring system up-time, reliability and recovery in cases of disasters. Delay or failure of information systems, including system or supervisory control and data acquisition, to provide reliable, relevant, meaningful and timely management information will significantly impact operations.

Socio-political and Regulatory Risk

The Company is bound under the CA to comply with certain service obligations and is required to meet numerous performance and business efficiency targets. Achieving these performance targets will require substantial capital investment in expansion and service improvement projects. Disbursements in connection with capital investment projects must not only be prudent and efficient but must also be aligned with the regulatory plan.

Incidents and Natural Events

Natural events such as earthquakes, droughts, floods and typhoons could result in significant losses as offices as well as water, wastewater, and other facilities may be severely damaged. These may lead to extended water service interruptions and seriously impair the Company's ability to meet customer demand for potable water. Business continuity in the event of natural disasters and/or malicious attacks

is imperative in sustaining the business for the long-run.

Capital Investment Risk

The Company is bound under the CA to comply with certain service obligations and is required to meet numerous performance and business efficiency targets. Achieving these performance targets will require substantial capital investment in expansion and service improvement projects. Failure to properly plan, manage, execute and monitor projects may lead to increase in project life cycle and project costs. Aggressive capital spending must be aligned with the regulatory plan and must be within set investment parameters.

Talent Management Risk

Business expansion, both local and abroad, requires a readily-available pool of quality talents. The current manpower profile, with its high average age bracket, demands a clear roadmap for succession planning as well as for talent recruitment and development.

Management of Risks
Enterprise Risk Management
Manila Water has embarked on an Enterprise Risk Management ("ERM") program to effectively manage risks through a standard and informed decision-making mechanism and by employing a common risk culture and language understood by every individual within the organization. The Risk Management Department ("RMD") headed by the Chief Risk Officer ("CRO"), acts as specialists and consultants on matters relating to ERM and is responsible for coordinating the various ERM initiatives across the organization.

As ERM is an enterprise-wide endeavor, a risk management oversight structure was formed which defined the place and role of each employee in the ERM process. The Board of Directors, supported by the Audit and Governance Committee, performs an oversight role of the ERM initiative. The Risk Management Executive Committee (RMEC) is at the forefront of this initiative and oversees the implementation of the ERM program. It is composed of the President, the CRO and the Group Directors for Corporate Resources, Finance, Project Delivery, Operations, and Regulatory Compliance as well as the Director for East Zone Business Operations. The President is the comprehensive risk executive and leads the process of managing the risks while the CRO champions the ERM framework across the entire organization.

MWCI uses a risk-based approach to planning and has institutionalized a holistic and unified planning process. Top management first defines the overall business strategy and direction for the organization. The strategic plan is then broken down into specific, short term action and plans at the functional unit level. Detailed execution plans are then formulated and individual employee targets are set.

Managing Top Corporate Risks
The Company has commenced the procurement process for the Laguna Lake/Rizal Province Water Supply Improvement Project. This project, undertaken to augment the current water supply, is part of the Company's approved 2008 Rate Rebasing Plan. This will reduce reliance on Angat Dam and improve Manila Water's ability to provide water even during dry spells.

Non-revenue water is at 11.22% as of end of 2011, still below the committed 25%. To date, over 600 MLD have been recovered from the system equivalent to PhP 25 billion in savings. The Company is also conducting a study on the economic level of leakage of water networks to ensure that water loss is managed at an efficient level. The economic level of leakage is the point at which the cost of reducing leakage is equal to the benefit gained from leakage reductions.

A comprehensive watershed management plan is also being undertaken to ensure that the forest cover of major dams remain adequate. This ensures sustainability of water supply as erosion and siltation are reduced and raw water quantity and quality are preserved. Approximately 450 hectares of the area surrounding Ipo Dam and 385 hectares of the Marikina Watershed have been reforested in 2011 with different groups from both the public and private sectors collaborating in these efforts.

Socio-political and Regulatory

Manila Water constantly interfaces with the MWSS and other key government stakeholders on regulatory matters and ensures strict compliance with CA provisions including quality standards as well as committed KPIs and BEMs. The Company is also subject to various operating standards on health,

environment and safety by government agencies.

Incidents and Natural Events

Manila Water is further enhancing its Business Continuity Plan (BCP) to improve its ability to respond to incidents and natural events. Spearheading this effort are the ERM and Safety Solutions Departments who are supported by a cross functional team composed of representatives from the different groups across the organization.

Manila Water conducts earthquake and fire drills annually to test the Company's readiness in terms of emergency preparedness and response. Representatives from the local government units, the Bureau of Fire Protection, the Philippine National Police and corporate contractors are also involved in these activities. The Company strengthened security measures to safeguard critical facilities. All facilities have undergone a comprehensive security risk assessment in order to be better protected against untoward incidents.

Manila Water has lined-up redundancy projects on the existing water delivery networks to ensure continuous water service in the event of failure.

Government Regulations
MWCI has to comply with environmental laws primarily for its wastewater operations. Among these regulations are the following:

- DENR Administrative Order No. 35, Series of 1990 (Revised effluent regulations);
- Resolution No. 25, Series of 1996 (Implementation of the Environmental User Fee System in the Laguna de Bay Region);
- Resolution No. 33, Series of 1996 (Approving the Rules and Regulations implementing the Environmental User Fee System in the Laguna de Bay Region); and
- DENR Administrative Order No. 26, Series of 1992 (Appointment/Designation of Pollution Control Officers).
- Philippine Clean Water Act of 2004 – Republic Act No. 9275

Other Matters

MWCI has not been involved in any **bankruptcy, receivership or similar proceeding** as of December 31, 2011. Further, except as discussed above, MWCI has not been involved in any material reclassification, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of business.[1] MWCI is not engaged in sales to foreign markets

MWCI is not dependent on a single customer or a few customers, the loss of any or more of which would have a material adverse effect on MWCI. Except as discussed above, government approval is not necessary for the Company's principal products or services. MWCI has not engaged in any research and development activities for the last three years.

Manual of Corporate Governance
Compliance with Leading Practices on Corporate Governance

Manila Water's corporate governance practices are anchored on its Corporate Governance Manual (the "Manual"), which supplements the Articles of Incorporation and By-Laws of MWCI. The Manual was first adopted on May 3, 2004 pursuant to SEC Memorandum Circular No. 2, Series of 2002. It was amended in November 2007 and was later amended in April 2010 to comply with the SEC Memorandum Circular No. 6, Series of 2009.

There has been no deviation from the Manual since its adoption. In a certification submitted to the SEC on January 13, 2011, MWCI's Compliance Officer, Luis Juan B. Oreta, stated that Manila Water adopted in

[1] An initial public offering of shares by the Company and certain selling shareholders took place in February and March 2005 and culminated in the listing of the Company with the Philippine Stock Exchange on 18 March 2005.

the Manual the leading practices and principles on good corporate governance and MWCI has fully complied with all the requirements of the Manual for the year 2010, including the requirements in relation to the board of directors, board committees, officers and stockholders' rights and interests.

The revised Manual strengthened protection to shareholders, particularly the minority, through the inclusion of additional provisions on transparency on business operations; communication of important information from management to the Board and from the Board to the shareholders; disclosures on and evaluation of directors' and management's performance; qualifications and disqualifications of directors; participation of independent directors in all meetings of the Board; and full and consistent compliance with financial, legal and regulatory requirements.

To better focus on improving corporate governance across the organization, Manila Water has re-organized its Compliance and Governance Section and formed a Corporate Governance Office (the "Office"). The Office formulates and implements initiatives and policies on corporate governance. It reports to the Audit and Governance Committee which performs oversight functions over Manila Water's corporate governance system.

Manila Water continues to implement its established corporate governance practices. Among these is the Insider Trading Policy, which prohibits directors, officers and confidential employees from trading in Manila Water shares within a certain period before and after the release of material information to the public. In addition, another policy that has been in continuous effect is the policy on acceptance of corporate entertainment/gifts. This policy prohibits all officers and employees from accepting corporate entertainment/gifts from suppliers, contractors and other business partners, which can be viewed as influencing the manner on which an officer or employee may discharge his duties.
MWCI's guidelines specifying conflict of interest situations involving all employees and their relatives up to the fourth degree of consanguinity and/or affinity, including common law relationships, have been strengthened. All such existing contracts/arrangements by employees and their relatives were required to be terminated immediately and correspondingly reported to the line manager and the Office of the Compliance Officer, as required under the Code. Any exception to the guidelines must be approved by the President and the Audit Committee.

Other policies of the Company that has been in continuous and effective implementation are the: (i) policy on reporting of fraudulent or dishonest acts and (ii) internal control systems which includes the Company's Capital Expenditures and Investments Committee that oversees bidding systems and grants approvals for capital expenditures.

Investments in Bank of the Phil. Islands (BPI or the Bank), and Globe Telecom (Globe) are significant associates. Their summarized financial information are therefore presented separately.

BANK OF THE PHILIPPINE ISLANDS

Bank of the Philippine Islands (BPI or the Bank) – highlights of balance sheets and income statements are shown below:

Balance Sheets
(In Million Pesos)

	December 2011	December 2010
	Audited	
Total Resources	842,616	878,146
Total Liabilities	752,086	795,871
Capital Funds for Equity Holders	89,152	81,031
Noncontrolling interest	1,378	1,244
Total Liabilities and Capital Funds	842,616	878,146

Statements of Income
(In Million pesos)

	December 2011	December 2010
	Audited	
Interest Income	38,689	36,987
Other Income	15,892	14,779
Total Revenues	54,581	51,766
Operating expenses	23,465	20,954
Interest expense	12,823	13,359
Impairment losses	2,150	3,454
Provision for Income Tax	3,130	2,520
Total Expenses	41,568	40,287
Net Income for the period	13,013	11,479
Attributable to:		
Equity holders of BPI	12,822	11,312
Noncontrolling Interest	191	167
	13,013	11,479
EPS:	3.61	3.38
Based on 3,556M common shares as of December 30, 2011 and 3,556M common shares as of December 31, 2010		

(1) Business Development

BPI is the third largest commercial bank in the country in terms of total assets. It has a significant market share in deposits, lending, and asset management and trust business. It is recognized as one of the top commercial bank in overseas Filipino (OF) remittances and enjoys a significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. BPI is a recognized leader in electronic

banking, having introduced most of the firsts in the industry, such as the automated teller machines (ATMs), a point-of-sale debit system, kiosk banking, phone banking, internet banking and mobile banking.

Historical Background. Founded in 1851, BPI is the country's oldest bank and was the issuer of the country's first currency notes in 1855. It opened its first branch in Iloilo in 1897 and pioneered in sugar crop loans thus paving the way for Iloilo and Negros to emerge as prime sugar exporters. It also financed the first tram service, telephone system, and electric power utility in Manila and the first steamship in the country.

Business Evolution. In the post World War II era, BPI evolved from a purely commercial bank to a fully diversified universal bank with activities encompassing traditional commercial banking as well as investment and consumer banking. This transformation into a universal bank was accomplished mainly through mergers and acquisitions in the eighties when it absorbed an investment house, a stockbrokerage company, a leasing company, a savings bank, and a retail finance company.

BPI consummated three bank mergers since the late 1990s. In 1996, it merged with City Trust Banking Corporation, a medium sized bank, which further solidified its stronghold in consumer banking, and in 2000, it consummated the biggest merger then in the banking industry when it merged with the former Far East Bank & Trust Company (FEBTC). This merger established its dominance in the asset management & trust services and branch banking as well as enhanced its penetration of the middle market. In 2000, it also formalized its acquisition of three major insurance companies in the life, non-life and reinsurance fields, a move that further broadened its basket of financial products. In 2005, BPI acquired and merged with Prudential Bank, a medium sized bank with a clientele of middle market entrepreneurs.

BPI evolved to its present position of eminence via a continuing process of enhancing its array of products and services while attaining a balanced and diversified risk structure that guaranteed the stability of its earning streams.

Business Milestones (2009-2011).

In October 2009, the Bangko Sentral ng Pilipinas approved the sale/transfer of equity shares of BPI in Pilipinas Savings Bank, Inc. (PSBI) consistent with the agreed ownership structure at 40% each for BPI and Globe Telecom, Inc and 20% for Ayala Corporation. Pilipinas Savings was subsequently renamed BPI Globe BanKO, a savings bank with mobile phone technology as the main platform for banking service delivery to reach the unbanked and the underbanked segment of the market. It currently extends wholesale microfinance loans and offers other microfinance products such as micro loans, microsavings and microinsurance directly to microentrepreneurs or thru partnership arrangement with microfinance institutions.

In November 2009, BPI entered into a strategic bancassurance partnership with The Philippine American Life Insurance Company (Philamlife) to form BPI-Philam Life Assurance Corp. The joint venture draws from the combined synergies, first-class resources and strength of two of the leading financial companies in the Philippines. Philamlife brings insurance distribution, product development, and innovation to the joint venture, while gaining exclusive access to BPI's customer base via its extensive branch network. BPI has reciprocal access to Philamlife's customers for cross selling bank products.

In 2010, BPI signed a Business Sale and Purchase Agreement with ING Bank, N.V. Manila (ING) to acquire ING's trust and investment management business and other related assets in the Philippines.

In March 2011, BPI completed the acquisition of ING Investment Management Manila making BPI the first bank in the Philippines to acquire the trust business of a foreign bank.

Principal Subsidiaries. The bank's principal subsidiaries are:

(1) BPI Family Savings Bank, Inc. (BFSB) serves as BPI's primary vehicle for retail deposits, housing loans and auto finance. It has been in the business since 1985.

(2) BPI Capital Corporation is an investment house focused on corporate finance and the securities distribution business. It began operations as an investment

house in December 1994. It merged with FEB Investments Inc. on December 27, 2002. It wholly owns BPI Securities Corporation, a stock brokerage company.

(3) BPI Leasing Corporation is a quasi-bank concentrating in lease finance. It was originally established as Makati Leasing and Finance Corporation in 1970. Its quasi-banking license was inherited from the merger with CityTrust Investment Phils. Inc. in May 1998. It merged with FEB Leasing & Finance Corporation on February 20, 2001. It wholly owns BPI Rental Corporation which offers operating leases.

(4) BPI Direct Savings Bank is a savings bank that provides internet and mobile banking services to its customers. It started operating as such on February 17, 2000 upon approval by the Bangko Sentral ng Pilipinas.

(5) BPI International Finance Limited, Hong Kong is a deposit taking company in Hong Kong. It was originally established in August 1974.

(6) BPI Express Remittance Corp. (U.S.A) is a remittance center for overseas Filipino and was incorporated on September 24, 1990.

(7) Bank of the Philippine Islands (Europe) Plc is a wholly owned subsidiary of BPI, which was granted a UK banking license by the Financial Services Authority (FSA) on April 26, 2007. It was officially opened to the public on October 1, 2007. In July 2008, BPI Europe was permitted by the FSA to carry out cross-border services in other EEA Member States. It presently has 3 branches in London.

(8) Ayala Plans, Inc. is BPI's wholly owned pre-need insurance company acquired through the merger with Ayala Insurance Holdings Corp (AIHC) in April 2000.

(9) BPI/MS Insurance Corporation is a non-life insurance company formed through a merger of FGU Insurance Corporation and FEB Mitsui Marine Insurance Company on January 7, 2002. FGU and FEB Mitsui were acquired by BPI through its merger with AIHC and FEBTC in April 2000.

(2) Business of Issuer

Principal Products & Services

The bank has two major categories for products & services. The first category covers its deposit taking and lending / investment activities. Revenue from this category is collectively termed as net interest income and accounts for about 62% of revenues. The second category covers services other than and auxiliary to the core deposit taking, lending, and investing business and from which is derives commissions, service charges & fees from turnover volume. These include investment banking & corporate finance fees, asset management & trust fees, foreign exchange, securities distribution fees, securities trading gains, credit card membership fees, rental of bank assets, income from insurance subsidiaries and service charges/ commissions earned on international trade transactions, drafts, fund transfers, various deposit related services, etc. Non-recurring gains are derived from the disposal of foreclosed/acquired properties.

Foreign Offices Contribution

	2009	**2010**	**2011**
Share in Total Revenue (%)	1.63	1.33	1.19
Hong Kong	0.28	0.27	0.30
USA	0.38	0.30	0.29
Europe	0.98	0.76	0.60
Share in Total Net Income (%)	(0.04)	(0.27)	0.06
Hong Kong	0.14	0.23	0.25
USA	0.09	(0.07)	(0.02)
Europe	(0.026)	(0.43)	(0.17)

Distribution Network

BPI has 809 branches across the country, including 91 kiosks by the end of 2011. Kiosks are branches much smaller than the traditional branch but fully equipped with terminals allowing direct electronic access to product information and customers' accounts as well as processing of self service transactions. They serve as sales outlets in high foot traffic areas such as supermarkets, shopping malls, transit stations, and large commercial establishments. Overseas, BPI has four (4) branches through International Finance Limited in Hong Kong and BPI Europe Plc's three (3) branches in London.

BPI's ATM network, known as the ExpressNet, complements the branch network by providing banking services to its customers at any place and time of the day. As of December 2011, the ExpressNet consortium had a total of 2,721 ATMs servicing its customers nationwide. The interconnection with Megalink and Bancnet in 1997 and 2006, respectively, gives BPI ATM cardholders access to almost 11,000 ATMs. BPI's ATM network is likewise interconnected with the Cirrus International ATM network and Visa International. In addition, BPI operates Express Payment System (point-of-sale/debit card system) terminals in major department stores, supermarkets, and merchant establishments. This facility, interconnected with the Maestro international POS network, allows customers to pay for purchases electronically through their ATM cards.

The BPI Express Phone Facility enables BPI depositors to inquire account balances and latest transactions, request for bank statements, transfer funds to other BPI accounts real time, pay for their various bills (e.g., PLDT, Meralco, club dues, insurance premiums) and reload prepaid cell phones electronically. To further enhance the Express Phone facility, a Call Center was established in 1998 to provide phone banker assisted services to its customers.

In 2000, BPI launched its B2C web-based platform, Express Online (EOL), which provides all the transactional services available through the Express Phone plus the real-time convenience of viewing transactional history and balances on screen. EOL now also allows investment transactions through its BPI Trade platform where customers can invest in equities without the need of any dealer or broker. EOL now also offers through it BPI Investment Online, the first full-service online investment fund facility where clients can now access portfolio information, apply for an investment fund account, subscribe to additional funds, redeem investments, and make regular contributions via the Regular Subscription Plan (RSP).

BPI Express Mobile, the bank's mobile banking platform upgraded with the telco-agnostic Mobile Banking Applet, an internet based application, provides customers with an Express Online-like platform in their mobile phones. BPI Express Mobile is also equipped with a Mobile Mall facility that enables clients to order and pay purchases at partner establishments. In addition, it also has Mobile Commerce application, which aims to assist entrepreneurs as it functions as an inventory manager. With this facility, clients can order their goods, pay for them via debit from their deposit accounts, and have the goods delivered to their offices.

BPI also maintains a specialized network of remittance centers for servicing overseas remittances from Filipinos working abroad. To date, BPI has 20 Remittance Centers and Desks located in Hong Kong, USA and Europe. BPI also maintains tie-ups with various foreign entities in locations where this mode of operation is more effective and cost-efficient.

On the lending side, BPI maintains 15 Business Centers across the country to process loan applications, loan releases, and international trade transactions, and provide after-sales servicing to both corporate and retail loan accounts.

Competition

Mergers, acquisitions and closures trimmed down the number of players in the industry from a high of 50 upon the liberalization of rules on the entry of foreign banks to 38 universal and commercial banks in 2011. Competition has remained intense despite the industry consolidation.

Lending by universal and commercial banks, excluding thrift banks grew by 19.3% in 2011. Loan requirements, especially from the top tier corporate sector, while still predominantly for working capital, have slightly recovered on stronger credit demand from power, real estate, business process outsourcing, as well as tourism related sectors. The top corporations though have the option of accessing the capital market for their funding needs. Hence it is in the SME and middle market where lending opportunities are better, and where most of the domestic banks' focus has been directed. BPI, being a well-entrenched, long-term player enjoys the advantage of having an

undisputed depth of experience in this demanding business that spans origination/credit selection, collection, and asset recovery activities.

Based on required published statements by the Bangko Sentral ng Pilipinas (BSP) as of December 2011, BPI is the third largest bank operating in the country in terms of assets, and capital and second in terms of deposits, loans and asset management and trust business. Total assets of BPI based on Philippine Financial Reporting Standards (PFRS) compliant audited financial statement are higher though than the published statements prepared along BSP standards.

Patents, Trademarks, Licenses, Franchises, etc

BPI sells its products and services through the BPI trademark and/or trade name. All its major financial subsidiaries carry the BPI name e.g. BPI Family Savings Bank, BPI Capital, BPI Securities, BPI Leasing, BPI Direct Savings, and so do its major product & service lines.

In addition to the BPI trademark, it markets its products through the "Express" brand name e.g.,

(1) BPI Express, for its banking kiosks
(2) Express Teller, for its ATM
(3) Express Deposit Service, for its cash acceptance machine
(4) Express Payment System or EPS, for its debit card payment facility
(5) ExpressNet, for its shared ATM network
(6) Express Credit, for its credit cards
(7) Express Cash, for its electronic cash card
(8) Express Phone, for its call center facility
(9) Express Online, for its internet based transaction platform for retail customers
(10) Express Mobile, for its mobile banking facility
(11) ExpressLink, for its internet based transaction platform for corporate customers
(12) Express Collect, for its corporate deposit related services
(13) Expresslink Mobile, for its mobile banking for corporate customers

At BPI Family Savings Bank, the product trademarks include the BPI Family Housing Loan, the BPI Family Auto Loan, the BPI Family Ka-Negosyo Business Loan, the BPI Family Ka-Negosyo Credit Line and BPI Family Motorcycle Loan. Other product brands of BPI, BFSB and BPI Direct are Maxi-One, Save-up, and Maxi-Saver.

In terms of corporate business licenses, BPI has an expanded commercial banking license while BPI Family Savings Bank and BPI Direct Savings have savings bank licenses. Both BPI and BPI Direct Savings have e-banking licenses. BPI Capital Corporation has an investment house license. BPI Leasing has a finance company as well as quasi-banking license.

Related Parties

In the ordinary course of business, the Bank has entered into various transactions with its Directors, Officers, Stockholders and their Related Interests or DOSRI including loan transactions. BPI and all its subsidiaries have always been in compliance with the General Banking Act and the Bangko Sentral ng Pilipinas Circulars and regulations on DOSRI loans and transactions. As of December 31, 2011, DOSRI loans amounted to 1.09% of loans and advances as per Note 32 of the 2011 Audited Financial Statements.

Government Regulations

Under the General Banking Act, the Monetary Board of the BSP is responsible for regulating and supervising financial intermediaries like BPI. The implementation and enforcement of the BSP regulations is primarily the responsibility of the supervision and examination sector of the BSP.

The General Banking Act was revised in 2000. The revisions allow (1) the issuance of tier 2 capital and its inclusion in the capital ratio computation, and (2) the 100% acquisition of a local bank by a foreign bank. The second item removes the advantage of a local bank over a foreign bank in the area of branching. In 2005, the BSP issued Circular no. 494 covering the guidelines in adopting the provision of Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial reporting period beginning 1 January 2005. These new accounting standards aim to promote fairness, transparency and accuracy in financial reporting.

In July 2007, the risk-based Capital Adequacy Ratio (CAR) under the Basel II accord, which assigns risk weights for credit, market and operational risks, was implemented by the BSP through BSP Circular 538. The circular, which covers all universal and commercial banks including their subsidiary banks and quasi-banks, also maintained the 10% minimum capital adequacy ratio for both solo and consolidated basis. Subsequently, the Internal Capital Adequacy Assessment Process (ICAAP) guidelines were issued in 2009 for adoption by January 2011.

Research and Development Activities
BPI spent the following for the last three years (in millions):

		% of Revenues
2009	215.5	0.6
2010	220.4	0.6
2011	206.1	0.5

Employees
Below is a breakdown of the manpower complement of BPI in 2011 as well as the approved headcount for 2012.

	December 31, 2011			2012
	Officers	Staff	Total	Plan
Unibank	3,693	8,318	12,011	12,082
Insurance Companies	52	292	344	368
TOTAL	3,745	8,610	12,355	12,450

Majority of the rank and file employees are members of various unionsThe Collective Bargaining Agreements (CBAs) of the parent company was concluded / signed last May 31, 2011 for the various BPI Provincial Employees Unions and June 9, 2011 for the BPI Metro Manila Employees Union. The new BPI CBA covers the period April 1, 2011 to March 31, 2014.

CBA for BPI Family Savings Bank was concluded / signed last February 21, 2011. The new BFSB CBA covers the period November 1, 2010 to October 31, 2013.

Risk Management
The Bank employs a disciplined approach to managing all the risks pertaining to its business to protect and optimize shareholder value. The risk management infrastructure covers all identified risk areas. Risk management is an integral part of day-to-day business management and each operating unit measures, manages and controls the risks pertaining to its business. Functional support on policy making and compliance at the corporate level is likewise provided for the major risk categories: credit risks, market risks and operating risks. Finally, independent reviews are regularly conducted by the Internal Audit group, regulatory examiners and external auditors to ensure that risk controls are in place and functioning effectively.

Credit risk isthe largest single risk that the bank faces. Credit risk management involves the thorough evaluation, appropriate approval, management and continuous monitoring of exposure risks, such as counterparty risk or borrower risk, facility risk, and industry risk relating to each loan account. The loan portfolio is also continuously monitored and reviewed as to quality, concentration and utilization of limits. The credit risk management process of the Unibank is anchored on the strict implementation of credit risk management policies, practices and procedures, control of delegated credit approval authorities and limits, evaluation of portfolio risk profile and the approval of new loan products taking into consideration the potential risk and compliance with regulatory requirements. For corporate borrowers, a new credit scoring model has been developed incorporating measures of possible default in line with international best practices. For consumer loans, credit risk management is additionally supported by established portfolio and credit scoring models.

Market risk management involves liquidity risk and price risk. Both risks are managed thru a common structure and process but use separate conceptual and measurement frameworks that are compatible with each other. Liquidity risk management involves the matching of asset and liability tenors to limit the bank's vulnerability to abnormal outflows of funds. Price risk management involves measuring the probable losses arising from changes in the values of

financial instruments and major asset and liability components as a result of changes in market rates, prices and volatility.

Operational risk management involves creating and maintaining an operating environment that ensures and protects the integrity of the assets, transactions, records and data of the institution and its customers, the enforceability of the institution's claims, and compliance with all pertinent legal and regulatory parameters.

Corporate Governance

The Corporate Governance of the bank is a system of checks and balances among the Board of Directors, management, and stockholders that is intended to efficiently increase long-term stockholder value through ethical conduct, reportorial accuracy and transparency, and compliance to all laws and regulations. The governance policies and guidelines are specified in the bank's Corporate Governance Manual that supplements and complements the Articles of Incorporation and By-Laws.

The Bank considers the Bangko Sentral ng Pilipinas (BSP) Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS, 0 to 5) rating as a measure of its governance quality. BPI maintained its CAMELS 4 rating, the highest among local banks, in its latest BSP examination.

Board of Directors

The Board of Directors consists of fifteen members, including five independent directors. The directors hold office for one year and until their successors are elected and qualified in accordance with the By-Laws of the Bank. Independent directors hold no interests affiliated with BPI, management or controlling shareholder at the time of his election or appointment and/or re-election.

The Board bears the primary responsibility of creating and enhancing long-term shareholder value of BPI. Its mandate includes the setting of strategic business directions, appointment of senior executive officers, the setup of appropriate organizational structures, oversight of major risk-taking activities, and the monitoring of business and management performance

In 2011, the Board had thirteen meetings. The director's record of attendance on all board meetings held during the year met the requirement of the Securities and Exchange Commission's more than 50% attendance.

An annual self-assessment of the Board of Directors is conducted to determine compliance not only with the bank's Manual of Corporate Governance but also with all other regulations and rules that prescribe good corporate governance.

Board Committees

The Board delegated specific responsibilities to its seven sub-committees.

1. <u>The Executive Committee</u> is composed of seven members of the Board, including one independent director, with one alternate member. This committee takes on the primary responsibilities of the Board and serves as the Board's operating arm on all corporate governance matters and for approving all major credit risks. In 2011, the committee held 37 meetings.

2. <u>The Nominations Committee</u> is composed of four members of the Board including two independent directors. This committee ensures, among others, that all directors of the Board have the qualifications and none of the disqualifications indicated in the Bank's Corporate Governance Manual, and vets on the qualifications of all Board appointees. In 2011, the committee held 2 meetings.

3. <u>The Personnel and Compensation Committee</u> is composed of five members of the Board including one independent director. This committee implements the Bank's human resources objectives, particularly those relating to talent development and hiring, promotions and succession planning, compensation and benefits, and performance evaluation.

4. <u>The Audit Committee</u> is composed of four members of the Board including two independent directors. This committee oversees the overall management of operating risks, financial reporting and control, internal auditors and external auditors, and compliance with the Corporate

Governance Manual and the BSP audit recommendations. The committee is governed by the Audit Committee Charter.

The Committee also recommended to the stockholders the re-engagement of Isla Lipana & Company as the Bank's external auditor for 2011.

5. The Corporate Governance Committee is composed of four members of the Board including two independent directors. This committee assists the Board in ensuring observance of sound corporate governance principles and guidelines.

6. The Risk Management Committee is composed of five members of the Board including two independent directors. This committee sets risk management policies and procedures and manages -- identifies, measures, monitors and controls -- all risks that the Bank is and may be subjected to, and fosters risk awareness, control, and management throughout the Bank's organization.

The committee had twelve regular meetings in 2011 where various risk strategies, policies, compliance and reports were approved and/or noted.

Operating Management / Risk Management
The responsibility of managing BPI and implementing all major business strategies rests on the President and Chief Executive Officer who is in turn supported by his Chief Operating Officer and the senior management team.

Compliance System
The Compliance Office promotes compliance with the regulations of the BSP through active liaison and dialogue with regulators as well as the dissemination within the Bank of new regulations.

For further details on the BPI's financial condition and operations, please refer to the 2011 Audited Financial Statements which is incorporated herein in the accompanying index to exhibits

GLOBE TELECOM, INC. (Globe or Globe Telecom)

Globe Telecom's highlights of balance sheets and income statements are shown below :

Balance Sheets
(In Million Pesos)

	December 2011	December 2010
	Audited	
Total Current Assets	23,564	21,585
Non-current Assets	107,275	109,043
Total Assets	130,839	130,628
Current Liabilities	38,987	35,309
Non-current Liabilities	43,424	48,450
Stockholders' Equity	48,428	46,869
Total Liabilities & Stockholders' Equity	130,839	130,628

Statements of Income
(In Million pesos)

	December 2011	December 2010
	Audited	
Net Operating Revenues	72,437	66,623
Other Income	319	33
Total Revenues	72,756	66,656
Costs and Expenses	58,659	52,618
Provision for Income Tax	4,265	4,294
Total Expenses	62,924	56,912
Net Income	9,832	9,745
EPS:		
Basic	74.02	73.29
Diluted	73.77	73.12

As of December 31, 2011
Basic based on 132,349K common shares
Diluted based on 133,271K common shares

As of December 31, 2010
Basic based on 132,343K common shares
Diluted based on 133,275K common shares

Form and date of organization

Globe Telecom, Inc. is a major provider of telecommunications services in the Philippines, supported by over 5,700 employees and over 782,000 retailers, distributors, suppliers, and business partners nationwide. The Company operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe currently has over 30 million mobile subscribers, over 1,411,000 broadband customers, and over 671,000 landline subscribers.

Globe is also one of the largest and most profitable companies in the country, and has been consistently recognized both locally and internationally for its corporate governance practices. It is listed on the Philippine Stock Exchange under the ticker symbol GLO and had a market capitalization of US$3.4 billion as of the end of 2011.

Globe's principal shareholders are Ayala Corporation and Singapore Telecom, both industry leaders in the country and in the region. Aside from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

The Globe Group is composed of the following companies:

- Globe Telecom, Inc. (Globe) provides mobile telecommunications services;
- Innove Communications Inc. (Innove), a wholly-owned subsidiary, provides fixed line telecommunications and broadband services, high-speed internet and private data networks for enterprise clients, services for internal applications, internet protocol-based solutions and multimedia content delivery;
- G-Xchange, Inc. (GXI), a wholly-owned subsidiary, provides mobile commerce services under the *GCash* brand;

- Entertainment Gateway Group Corp. and EGGstreme (Hong Kong) Limited (EHL) (collectively referred here as EGG Group),is engaged in the development and creation of wireless products and services accessible through telephones and other forms of communication devices, it also provides internet and mobile value added services, information technology and technical services including software development and related services; and

- GTI Business Holdings, Inc. (GTI), a wholly-owned subsidiary, is an investment company with authority to provide VOIP services and its wholly owned subsidiary GTI Corporation (GTIC) a company organized under the General Corporation Law of the State of Delaware for the purpose of engaging in any lawful act or activity

Globe is a grantee of various authorizations and licenses from the National Telecommunications Commission (NTC) as follows: (1) license to offer and operate facsimile, other traditional voice and data services and domestic line service using Very Small Aperture Terminal (VSAT) technology; (2) license for inter-exchange services; and (3) Certificate of Public Convenience and Necessity (CPCN) for: (a) international digital gateway facility (IGF) in Metro Manila, (b) nationwide digital cellular mobile telephone system under the GSM standard (CMTS-GSM), and (c) nationwide local exchange carrier (LEC) services after being granted a provisional authority in June 2005, and (d) international cable landing stations located in Nasugbu, Batangas and Ballesteros, Cagayan.

In 1928, Congress passed Act No. 3495 granting the Robert Dollar Company, a corporation organized and existing under the laws of the State of California, a franchise to operate wireless long distance message services in the Philippines. Subsequently, Congress passed Act No. 4150 in 1934 to transfer the franchise and privileges of the Robert Dollar Company to Globe Wireless Limited which was incorporated in the Philippines on 15 January 1935.

Globe Wireless Limited was later renamed as Globe-Mackay Cable and Radio Corporation ("Globe-Mackay"). Through Republic Act ("RA") 4630 enacted in 1965 by Congress, its franchise was further expanded to allow it to operate international communications systems. Globe-Mackay was granted a new franchise in 1980 by Batasan Pambansa under Batas Pambansa 95.

In 1974, Globe-Mackay sold 60% of its stock to Ayala Corporation, local investors and its employees. It offered its shares to the public on 11 August 1975.

In 1992, Globe-Mackay merged with Clavecilla Radio Corporation, a domestic telecommunications pioneer, to form GMCR, Inc. ("GMCR"). The merger gave GMCR the capability to provide all forms of telecommunications to address the international and domestic requirements of its customers. GMCR was subsequently renamed Globe Telecom, Inc. ("Globe").

In 1993, Globe welcomed a new foreign partner, Singapore Telecom, Inc. (STI), a wholly-owned subsidiary of Singapore Telecommunications Limited ("SingTel"), after Ayala and STI signed a Memorandum of Understanding.

In 2001, Globe acquired Isla Communications Company, Inc. ("Islacom") which became its wholly-owned subsidiary effective 27 June 2001. , In 2003, the National Telecommunications Commission ("NTC") granted Globe's application to transfer its fixed line business assets and subscribers to Islacom, pursuant to its strategy to integrate all of its fixed line services under Islacom. Subsequently, Islacom was renamed as Innove Communications, Inc. ("Innove").

In 2004, Globe invested in G-Xchange, Inc. ("GXI"), a wholly-owned subsidiary, to handle the mobile payment and remittance service marketed under the *GCash* brand using Globe's network as transport channel. GXI started commercial operations on 16 October 2004.

In November 2004, Globe and seven other leading Asia Pacific mobile operators ('JV partners') signed an agreement ('JV agreement') to form Bridge Alliance. The joint venture company operates through a Singapore-incorporated company, Bridge Mobile Pte. Limited (BMPL) which serves as a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform to deliver different regional mobile services to their subscribers. The Bridge Alliance currently has a combined customer base of over 250 million subscribers among its partners in India, Thailand, Hong Kong, South Korea, Macau, Philippines, Malaysia, Singapore, Australia, Taiwan and Indonesia.

In 2005, Innove was awarded by the NTC with a nationwide franchise for its fixed line business, allowing it to operate a Local Exchange Carrier service nationwide and expand its network coverage. In December 2005, the NTC approved Globe's application for third generation (3G) radio frequency spectra to support

the upgrade of its cellular mobile telephone system ("CMTS") network to be able to provide 3G services. The Company was assigned with 10-Megahertz (MHz) of the 3G radio frequency spectrum.

On 19 May 2008, following the approval of the NTC, the subscriber contracts of *Touch Mobile* or *TM* prepaid service were transferred from Innove to Globe which now operates all wireless prepaid services using its integrated cellular networks.

In August 2008, and to further grow its mobile data segment, Globe acquired 100% ownership of Entertainment Gateway Group ("EGG"), a leading mobile content provider in the Philippines. EGG offers a wide array of value-added services covering music, news and information, games, chat and web-to-mobile messaging.

On 25 November 2008, Globe formed GTI Business Holdings, Inc. (GTIBH) primarily to act as an investment company.

On October 30, 2008, Globe, the Bank of the Philippine Islands (BPI) and Ayala Corporation (AC) signed a memorandum of agreement to form a joint venture that would allow rural and low-income customers' access to financial products and services. Last October 2009, the Bangko Sentral ng Pilipinas (BSP) approved the sale and transfer by BPI of its shares of stock in Pilipinas Savings Bank, Inc. (PSBI), formalizing the creation of the venture. Globe's and BPI's ownership stakes in PSBI is at 40% each, while AC's shareholding is at 20%. The partners plan to transform PSBI (now called BPI Globe BanKO, Inc.) into the country's first mobile microfinance bank. The bank's initial focus will be on wholesale lending to other microfinance institutions but will eventually expand to include retail lending, deposit-taking, and micro-insurance. BPI Globe Banko opened its first branch in Metro Manila in the first quarter of 2011 and now has 6 more branches nationwide, with over 1,000 BanKO outlets and over P1.2 billion in deposits.

There was no bankruptcy, receivership or similar proceedings initiated during the past three years.

Business Segments

1. Mobile Business

Globe provides digital mobile communication services nationwide using a fully digital network based on the Global System for Mobile Communication (GSM) technology. It provides voice, data and value-added services to its mobile subscribers through three major brands: *Globe Postpaid, Globe Prepaid* and *TM*.

Globe Postpaid includes all postpaid plans such as regular *G-Plans*, consumable *G-Flex Plans, Load Allowance Plans, Load Tipid, Apple* TM *iPhone 3G plans* and high-end *Platinum Plans.* In 2010, the Company further expanded its postpaid offerings to include *MY SUPERPLAN* and *MY FULLY LOADED PLAN* which allow subscribers to personalize their plans, choose and combine various unlimited call, text and web browsing service options. In addition to these personalized plans, Globe has made available various add-on roaming and mobile browsing plans to cater to the needs of its subscribers. In 2011, Globe consolidated its personalized and customizable plan service with the launch of the *All New My Super Plan* where subscribers are given the flexibility to create their own plans by either subscribing to an All-Unlimited Plan or an All-Consumable Plan. Subscribers also get the chance to design their plans based on their usage by selecting the freebies and add-on services that would come with their subscriptions. To further enhance their experience, subscribers are allowed to change the freebies and add-on services monthly. Driven by the popularity of social networking sites as well as increased smartphone penetration, Globe introduced a fully-customizable unlimited data plan to its subscribers in mid-2011. The *Unli Surf Combo Plan* provides uninterrupted mobile surfing for on-the-go subscribers without the need for a WiFi connection to satisfy their browsing needs. Data plan subscriptions also come with consumable amounts which subscribers may use to make local and international calls and texts. On top of this, subscribers also get bonus calls and SMS which they may change monthly depending on their needs.

Globe Prepaid and *TM* are the prepaid brands of Globe. *Globe Prepaid* is targeted towards the mainstream market. In 2011, the Company refreshed *Globe Prepaid* through its *Today I Will* campaign which aims to support the aspirations of the Filipino youth aided by the brand's suite of products and services. Its unique brand proposition revolves around its innovative product and service offerings, superior customer service, and Globe's "worldwidest" services and global network reach. *TM*, on the other hand, caters to the value-conscious segment of the market.

In addition to digital wireless communications, Globe also offers mobile payments and remittance service under the *GCash* brand. *GCash* is an internationally acclaimed micro payment service that transforms a mobile phone into a virtual wallet, enabling secure, fast, and convenient money transfers at the speed and

cost of a text message. Since the launch of *GCash*, wholly-owned subsidiary GXI has established a wide network of local and international partners that includes government agencies, utility companies, cooperatives, insurance companies, remittance companies, universities, and commercial establishments which have agreed to accept *GCash* as a means of payment for products and services.

Globe offers various top-up or reloading options and facilities for prepaid subscribers including prepaid call and text cards, bank channels such as ATMs, credit cards, and through internet banking. Subscribers can also top-up at over 782,000 *AutoLoad Max* retailers nationwide, all at affordable denominations and increments. A consumer-to-consumer top-up facility, *Share-A-Load,* is also available to enable subscribers to share prepaid load credits via SMS. Globe's *AutoLoad Max* and *Share-A-Load* services are also available in selected OFW hubs all over the world.

During the year, Globe launched a loyalty and rewards program called *My Rewards, My Globe* for *Globe Prepaid* subscribers and *TM Astig Rewards* for *TM* subscribers. Under the program, and based on a defined scoring system, prepaid subscribers earn points based on tenure and reload. Subscribers can use their points to redeem rewards including *Globe* and *TM* products, travel mileage, and gift certificates from leading retail establishments. *Globe Postpaid* subscribers outside the lock-up period can also earn points based on their monthly billed amounts and length of stay with Globe. Rewards also include Globe products, as well as bill rebates, gadgets, gift certificates, and travel mileage. Subscribers have the option to redeem rewards instantly, or accumulate points to avail of higher-value rewards.

Redeemed points in the form of telecom services is netted out against revenues whereas points redeemed in a form of non-telco services such as gift certificates and other products are reflected as marketing expense. At the end of each period, Globe estimates and records the amount of probable future liability for unredeemed points.

(a) <u>Mobile Voice</u>

Globe's voice services include local, national and international long distance call services. It has one of the most extensive local calling options designed for multiple calling profiles. In addition to its standard, pay-per-use rates, subscribers can choose from bulk and unlimited voice offerings for all-day or off-peak use, and in several denominations to suit different budgets.

Globe keeps Filipinos connected wherever they may be in the world, made possible by its tie-up with over 600 roaming partners in more than 200 calling destinations worldwide. Globe also offers roaming coverage on-board selected shipping lines and airlines, via satellite. Through its *Globe Kababayan* program, Globe provides an extensive range of international call and text services to allow OFWs (Overseas Filipino Workers) to stay connected with their friends and families in the Philippines. This includes prepaid and reloadable call cards and electronic PINs available in popular OFW destinations worldwide.

(b) <u>Mobile Data and Value-Added Services</u>

Globe's data services include local and international SMS offerings, mobile browsing and content downloads. Globe also offers various bucket and unlimited SMS packages to cater to the different needs and lifestyles of its postpaid and prepaid subscribers. Additionally, Globe subscribers can send and receive Multimedia Messaging Service (MMS) pictures and video, or do local and international 3G video calling.

Globe's mobile browsing services allow subscribers to access the internet using their internet-capable handsets, devices or laptops with USB modems. Data access can be made using various technologies including HSPA+, 3G with HSDPA, EDGE and GPRS. Browsing subscribers also have multiple charging options available with Globe's Flexible Mobile Internet Browsing rates which allow subscribers to choose between time or usage-based rates. They can also choose between hourly, daily or monthly browsing plans.

Globe also offers a full range of downloadable content covering multiple topics including news, information, and entertainment through its web portal. Subscribers can purchase or download music, movie pictures and wallpapers, games, mobile advertising, applications or watch clips of popular TV shows and documentaries as well as participate in interactive TV, mobile chat and play games, among others.

Through Globe's partnership with major banks and remittance companies, and using Globe's pioneering *GCash* platform, subscribers can perform mobile banking and mobile commerce transactions. Globe subscribers can complete international and domestic remittance transactions, pay fees, utility bills and

income taxes, avail of micro-finance transactions, donate to charitable institutions, and buy Globe prepaid load credits using its *GCash*-activated SIM.

***2.* Fixed Line and Broadband Business**

Globe offers a full range of fixed line communications services, wired and wireless broadband access, and end-to-end connectivity solutions customized for consumers, SMEs (Small & Medium Enterprises), large corporations and businesses.

(a) <u>Fixed Line Voice</u>

Globe's fixed line voice services include local, national and international long distance calling services in postpaid and prepaid packages through its *Globelines* brand. Subscribers get to enjoy toll-free rates for national long distance calls with other Globelines subscribers nationwide. Additionally, postpaid fixed line voice consumers enjoy free unlimited dial-up internet from their *Globelines* subscriptions. Low-MSF (monthly service fee) and fixed lines bundled with internet plans are available nationwide and can be customized with value-added services including multi-calling, call waiting and forwarding, special numbers and voice mail. For corporate and enterprise customers, Globe offers voice solutions that include regular and premium conferencing, enhanced voice mail, IP-PBX solutions and domestic or international toll free services.

(b) <u>Fixed Line Data</u>

Fixed line data services include end-to-end data solutions customized according to the needs of businesses. Globe's product offerings include international and domestic data services, wholesale and corporate internet access, data center services and segment-specific solutions tailored to the needs of specific industries.

Globe's international data services provide its corporate and enterprise customers with the most diverse international connectivity solutions. Globe's extensive data network allow customers to manage their own virtual private networks, subscribe to wholesale internet access via managed international private leased lines , run various applications, and access other networks with integrated voice services over high-speed, redundant and reliable connections. In addition to bandwidth access from multiple international submarine cable operators, Globe also has two international cable landing stations situated in different locales to ensure redundancy and network resiliency.

Globe's domestic data services include data center solutions such as business continuity and data recovery services, 24x7 monitoring and management, dedicated server hosting, maintenance for application-hosting, managed space and carrier-class facilities for co-location requirements and dedicated hardware from leading partner vendors for off-site deployment.

Other fixed line data services include access services that deliver premium-grade access solutions combining voice, broadband and video offerings designed to address specific connectivity requirements. These include Broadband Internet Zones (BIZ) for broadband-to-room internet access for hotels, and Internet Exchange (GiX) services for bandwidth-on-demand access packages based on average usage.

(c) <u>Broadband</u>

Globe offers wired, fixed wireless, and fully mobile internet-on-the-go services across various technologies and connectivity speeds for its residential and business customers. *Tattoo@Home* consists of wired or DSL broadband packages bundled with voice, or broadband data-only services which are available at download speeds ranging from 256 kbps up to 3 mbps. In selected areas where DSL is not yet available, Globe offers *Tattoo WiMAX*, a fixed wireless broadband service using its WiMAX network. Meanwhile, for consumers who require a fully mobile, internet-on-the-go broadband connection, *Tattoo On-the-Go* allows subscribers to access the internet using HSPA+, 3G with HSDPA, EDGE, GPRS or Wi-Fi at various hotspots nationwide using a plug-and-play USB modem. This service is available in both postpaid and prepaid packages. In addition, consumers in selected urban areas who require faster connections have the option to subscribe to *Tattoo Torque* broadband plans using leading edge GPON (Gigabit Passive Optical Network) technology with speeds of up to 100 mbps.

<u>Sales and Distribution</u>
Globe has various sales and distribution channels to address the diverse needs of its subscribers.

1. Independent Dealers

Globe utilizes a number of independent dealers throughout the Philippines to sell and distribute its prepaid wireless services.. This includes major distributors of wireless phone handsets who usually have their own retail networks, direct sales force, and sub-dealers Dealers are compensated based on the type, volume and value of reload made in a given period. This takes the form of fixed discounts for prepaid airtime cards and SIM packs, and discounted selling price for phonekits. Additionally, Globe also relies on its distribution network of over 750,000 AutoloadMax retailers nationwide who offer prepaid reloading services to Globe, *TM,* and *Tatoo* subscribers.

2. Globe Stores

Globe has a total of 135 Globe Stores in major cities across the country where customers are able to inquire and subscribe to wireless, broadband and fixed line services, reload prepaid credits, make *GCash* transactions, purchase handsets and accessories, request for handset repairs, try out communications devices, and pay bills. The Globe Stores are also registered with the Bangko Sentral ng Pilipinas (BSP) as remittance outlets.

Last June 2010, and in line with the company's thrust to become a more customer-focused and service-driven organization, Globe opened its Greenbelt 4 store in Makati using a new design concept. Departing from the traditional store concept which is transactional in nature, the new redesigned Globe Store carries a seamless, semi-circular, two-section design layout which allows anyone to easily browse around the product display as well as request for after sales support. It also boasts of a wide array of mobile phones that the customers can feel, touch and test. In addition, there are laptops with high speed internet broadband connections for everyone to try.

The Globe store has an Express Section for fast transactions such as modification of account information and subscription plans; a Full-Service Section for more complex transactions and opening of new accounts; and a Cashier Section for bill payments. The store also has a self-help area where customers can, among others, print a copy of their bill, and use interactive touch screens for easy access to information about the different mobile phones and Globe products and services.

In 2011, the Company accelerated the roll-out of stores under the new format, averaging 4 to 5 new stores a month, nationwide. As of December 31, 2011, there are a total number of 64 Globe Stores under the new format, including stores in Alabang Town Center, SM City North EDSA, SM City Fairview, Ayala Center Cebu, SM City Southmall, SM City Tarlac and Gaisano Grand Mall in Tagum City.

3. Customer Facing Units

To better serve the various needs of its customers, Globe organized dedicated customer facing units (CFUs) within the Company to focus on the integrated mobile and fixed line needs of specific market segments. There is a Consumer CFU to address the needs of retail customers, and a Business CFU (Globe Business) focused on the needs of big and small businesses. Globe Business provides end-to-end mobile and fixed line solutions and is equipped with its own technical and customer relationship teams to serve the requirements of its client base. Beginning 2011, Globe organized an International Business Group tasked to grow and defend the Company's international revenues and to leverage the Company's product portfolio to tap and develop regional and global opportunities. This group was created to serve the voice, data, and roaming needs of overseas Filipinos and their families and loved ones in the Philippines, seafarers, tourists, and business travellers.

4. Others

Globe also distributes its prepaid products SIM packs, prepaid call cards and credits through consumer distribution channels such as convenience stores, gas stations, drugstores and bookstores. Lower denomination IDD prepaid loads are also available in public utility vehicles, street vendors, and selected restaurants nationwide via the Globe IDD *Tingi* load, an international voice scratch card in affordable denominations.

Operating Revenues

Net Operating Revenues by Business Segment	Year Ended 31 December					
(in Php Mn)	2011	% of total	2010	% of total	2009	% of total
Net Service Revenues						
Mobile…………………………………………….	**53,953**	**75%**	**50,503**	**77%**	**53,321**	**83%**
Voice[1]………………………………………..	25,752	36%	24,998	38%	26,497	41%
Data[2]…………………………………………	28,201	39%	25,505	39%	26,824	42%
Fixed Line and Broadband……………………	**13,858**	**20%**	**12,052**	**18%**	**9,122**	**15%**
Broadband[3]…………………………………	7,496	11%	5,748	9%	3,289	6%

Fixed Line Data[4]…………………………….	3,792	5%	3,488	5%	3,038	5%
Fixed Line Voice[5]…………………………..	2,570	4%	2,816	4%	2,795	4%
Net Service Revenues………………………….	**67,811**	**95%**	**62,555**	**95%**	**62,443**	**98%**
Non Service Revenues………………………...	**3,753**	**5%**	**2,993**	**5%**	**1,418**	**2%**
Net Operating Revenues………………………	**71,564**	**100%**	**65,548**	**100%**	**63,861**	**100%**

[1] Mobile voice service revenues include the following:

a) Prorated monthly service fees on consumable minutes of postpaid plans;
b) Subscription fees on unlimited and bucket voice promotions including the expiration of the unused value of denomination loaded;
c) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments, or CERA, net of loyalty discounts credited to subscriber billings; and
d) Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and revenues generated from inbound international and national long distance calls and international roaming calls.

Revenues from (a) and (d) are reduced by any interconnection or settlement payouts to international and local carriers and content providers.

[2] Mobile data net service revenues consist of revenues from value-added services such as inbound and outbound SMS and MMS, mobile internet browsing and content downloading, infotext, and subscription fees on unlimited and bucket prepaid SMS services, net of any interconnection or settlement payouts to international and local carriers and content providers.

Mobile data net service revenues consist of prorated monthly service fees on free text allocation of postpaid plans, revenues from value-added services such as inbound and outbound SMS and MMS, content downloading, mobile data browsing and infotext, international VAS and related services, subscription fees on unlimited and bucket prepaid SMS and add-on VAS services, net of any interconnection or settlement payouts to international and local carriers and content providers.

[3] Broadband net service revenues consist of the following:

a) Monthly service fees of wired, fixed wireless, and fully mobile broadband data only and bundled voice and data subscriptions;
b) Browsing revenues from all postpaid and prepaid wired, fixed wireless and fully mobile broadband packages in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
c) Value-added services such as games; and
d) Installation charges and other one-time fees associated with the service.

[4] Fixed Line data net service revenues consist of the following:

a) Monthly service fees from international and domestic leased lines;
b) Other wholesale transport services;
c) Revenues from value-added services; and
d) One-time connection charges associated with the establishment of service.

[5] Fixed Line voice net service revenues consist of the following:

a) Monthly service fees including CERA of voice-only subscriptions;
b) Revenues from local, international and national long distance calls made by postpaid, prepaid fixed line voice subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
c) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;
d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
e) Installation charges and other one-time fees associated with the establishment of the service; and
f) Revenues from DUO and SUPERDUO (fixed line portion) services consisting of monthly service fees for postpaid and subscription fees for prepaid subscribers.

Revenues from (a) and (c) are net of any interconnection or settlement payments to domestic & international carriers.

Globe's mobile business contributed ₱54.0billion in 2011 accounting for 80% of total service revenues, lower compared to the 81% level posted in 2010. Its mobile voice service revenues amounted to ₱25.8billion in 2011, accounting for 48% of total mobile service revenues compared to 49% in 2010. On the other hand, mobile data business contributed ₱28.2 billion in 2011 compared to ₱25.5 billion in 2010.

Globe's fixed line and broadband business delivered revenues of ₱13.9 billion in 2011, accounting for the remaining 20% of total service revenues with increased contribution from Broadband, which posted revenues of ₱7.5 billion in 2011 compared to ₱5.7 billion in 2010.

Competition

1. Industry, Competitors and Methods of Competition

(a) Mobile Market

The Philippine wireless market is a maturing market with a total industry SIM base of 93.7 million and wireless industry penetration rate of over 97% as of December 30, 2011. Approximately 96% of industry subscribers are prepaid.

The Philippine government liberalized the communications industry in 1993 after a framework was developed to promote competition within the industry and accelerate market development. Ten operators were granted licenses to provide CMTS services and deploy the network technology of their choice – Globe, Innove (previously Islacom), Bayantel, CURE, Digitel, Extelcom, MultiMedia Telephony, Next Mobile (NEXTEL), Piltel and SMART. Eight operators continued on to operate commercially except for Bayantel and MultiMedia which have yet to roll out their CMTS services commercially.

Since 2000, the mobile communications industry experienced a number of consolidations while new players continued to enter the market. PLDT acquired and consolidated SMART and Piltel in 2000 while Globe Telecom acquired Islacom. In 2003, Digitel formally launched its mobile service under the brand name, Sun Cellular. In 2008, SMART purchased CURE and subsequently launched another wireless brand, Red Mobile. During the same year, San Miguel Corporation partnered with Qatar Telecom, bought interests in Liberty Telecom Holdings, Inc., and announced plans to enter the mobile and broadband businesses. In October 2011, PLDT acquired a controlling interest in Digitel, holding approximately 99.4% of the outstanding common stock of Digitel.

The mobile market continues to grow as shown in the table below.

	Mobile Subscribers (Mn)	Penetration Rates (%)	Growth Rate
1997	1.13	1.9	45%
1998	1.62	2.5	43%
1999	2.68	3.8	65%
2000	5.26	8.6	96%
2001	10.53	14.2	100%
2002	15.17	19.0	44%
2003	22.31	27.3	47%
2004	32.87	39.4	47%
2005	34.61	40.6	5%
2006	42.04	48.3	21%
2007	54.86	61.2	30%
2008	68.03	74.6	24%
2009	75.43*	81.1	11%
2010	86.15*	91.2	14%
2011	93.74*	97.0	9%

** Estimated end of year figures.*
Source: National Telecommunications Commission (Statistical Data 2007), publicly available information and Company estimates

In 2011, the mobile industry grew by 9% in SIM terms as nominal penetration rates reached over 97%, ending with a cumulative industry base of 93.7 million. Globe ended the year with a SIM base of 30.0 million, with an estimated SIM share of 32% compared to the prior year's share of 31%.

With the high penetration level and increasing incidences of multi-SIM usage and shifting of consumer preferences to unlimited and bulk offers, competition in the mobile market continues to intensify. Sun Cellular entered the market in 2003 with an unlimited call and text service that has allowed it to increase its subscriber base. In response to Sun's unlimited call and text offers, both Globe and Smart responded by creating a new set of value propositions for their subscribers in the form of bucket SMS and unlimited call and text offerings. In 2008, PLDT purchased Connectivity Unlimited Resources Enterprises or CURE, one of the four recipients of 3G licenses awarded by the NTC in 2005. PLDT subsequently launched its own 3G mobile service under the brand, *Red Mobile*, further heightening competition in the market. San Miguel Corporation has also stated their interest in entering the mobile market. In 2011, PLDT acquired a controlling interest in Digitel, which owns the Sun Cellular brand, thereby allowing it to control over two-thirds of industry subscribers. , San Miguel Corporation has also

previously stated their interest in entering the mobile market, in addition to their current presence in the broadband segment.

(b) Fixed Line Voice Market

There are at least eight major local exchange carriers (LEC) in the Philippines with licenses to provide local and domestic long distance services. Each LEC operator (other than PLDT and Globe, both of whom are authorized to provide nationwide fixed line services) is assigned service areas in which it must install the required number of fixed lines and provide service. The NTC has created 15 such service areas in the Philippines. In order to promote network construction, it has been the government policy to allow only one or two major operators (in addition to PLDT) in each service area. Rates for local exchange and domestic long distance services have been deregulated and operators are allowed to have metered as well as flat monthly fee tariff plans for the services provided.

Over the past three years, several industry players, including Globe, Bayantel, and PLDT, have introduced fixed wireless voice services that provided some mobile phone capabilities but had the tariff structure of a fixed line voice service. Subscribers to this fixed wireless voice service were able to enjoy limited mobility.

Industry size has been relatively flat, with the number of lines in service estimated at over 3.1 million lines as of December 31, 2011 with PLDT's subscriber market share at 16%, followed by Globe (15%), Bayantel (13%) and Digitel (11%).

Competition in the fixed line voice market intensified over the past 4 years as the major players, Globe, Bayantel, Digitel and PLDT introduced fixed wireless voice services with limited mobile phone capabilities to take advantage of the increasing preference for mobile services. Fixed wireless services were initially offered in postpaid versions in selected areas where there were no available fixed line facilities but prepaid kits were eventually made available as coverage was expanded.

(c) Fixed Line Data Market

The fixed line data business is a growing segment of the fixed line industry. As the Philippine economy grows, businesses are increasingly utilizing new networking technologies and the internet for critical business needs such as sales and marketing, intercompany communications, database management and data storage. The expansion of the local IT Enabled Service (ITES) industry which includes call centers and Business Process Outsourcing (BPO) companies has also helped drive the growth of the corporate data business.

Dedicated business units have been created and organized within the Company to focus on the mobile and fixed line needs of specific market segments and customers – be they residential subscribers, wholesalers and other large corporate clients or smaller scale industries. This structure has also been driven by Globe's corporate clients' preferences for integrated mobile and fixed line communications solutions.

(d) Broadband Market

Broadband continues to be a major growth area for the local telecom industry. Industry subscribers grew by about 25% to 4.6 million in 2011 from 3.7 million the previous year. The aggressive network roll-out of the various operators, the wider availability of affordable prepaid broadband packages, as well as lower PC and USB internet stick prices were the main drivers of subscriber growth. Operators used both wired and wireless technologies (including 3G and WiMax) to serve the growing demand for internet connectivity.

While household penetration rates remained low, competition in this space was intense. Operators accelerated the rollout of their broadband network, and introduced more affordable and bundled offerings.

As of end 2011, Globe had 1.4 million subscribers, up by 31% from the prior year. The Company's subscriber share was estimated at 31%, the same level as it was in 2010. PLDT had 2.4 million subscribers with a subscriber share of 52%, from 56% the year before. Globe and PLDT accounted for almost 83% of cumulative subscribers. . Wireless broadband subscribers account for around two thirds of the combined broadband subscribers of Globe and Smart.

In February 2010, Liberty Telecoms Holdings, Inc, a partnership between San Miguel Corporation and Qtel Group of Qatar Telecom, launched its WiMAX broadband service under the brand name Wi-Tribe. It ended the year with an estimated 80,000 subscribers.

(e) International Long Distance Market

Total inbound international long distance (ILD) traffic for the year was higher against 2010 levels, while the lower volume total outbound international traffic decreased due to the availability of alternative communication modes, including email, instant messaging, social network sites, and voice over IP. International long distance providers in the Philippines generate revenues from both inbound and outbound international call traffic whereby the pricing of calls is based on agreed international settlement rates. Similarly, settlement rates for international long distance traffic are based on bilateral negotiations. Commercial negotiations for these settlement rates are settled using a termination rate system where the termination rate is determined by the terminating carrier (e.g. Philippines) in negotiation with the originating foreign correspondent.

To date, there are eleven licensed international long distance operators, nine of which directly compete with Globe for customers. Both Globe and Innove offer ILD services which cover international calls between the Philippines and over 200 countries. To drive growth in this segment, the Company offers discounted call rates to popular calling destinations, sustains its usage campaigns and marketing efforts for OFW SIM packs, and ensures the availability of popular prepaid load denominations.

2. Principal Competitive Strengths of the Company

(a) Market Leadership Position

Globe is a major provider of telecommunications services in the Philippines. It is a strong player in the market and operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe's distinct competitive strengths include its technologically advanced mobile, fixed line and broadband network, a substantial subscriber base, high quality customer service, a well-established brand identity and a solid track record in the industry.

(b) Strong Brand Identity

The Company has some of the best-recognized brands in the Philippines. This strong brand recognition is a critical advantage in securing and growing market share, and significantly enhances Globe's ability to cross-sell and push other product and service offerings in the market.

(c) Financial Strength and Prudent Leverage Policies

Globe's financial position remains strong with ample liquidity, and debt at conservative levels. At the end of 2011, Globe had total interest bearing debt of ₱48.7 billion representing 50% of total book capitalization. Consolidated gross debt to equity ratio stood at 1.01:1 and is well within the 2:1 debt to equity limit prescribed by its debt covenants. Additionally, approximately 89% of its debt is in pesos while the balance of 11% is denominated in US dollars. Expected US dollar inflows from the business offset any unhedged US dollar liabilities, helping insulate Globe's balance sheet from any volatilities in the foreign exchange markets.

Globe intends to maintain its strong financial position through prudent fiscal practices including close monitoring of its operating expenses and capital expenditures, debt position, investments, and currency exposures. Globe believes that it has sufficient financial flexibility to weather the current economic downturn and pursue its strategies.

(d) Proven Management Team

Globe has a strong management team with the proven ability to execute on its business plan and achieve positive results. With its continued expansion, it has been able to attract and retain senior managers from the telecommunications, consumer products and finance industries with experience in managing large scale and complex operations.

(e) Strong Shareholder Support

The Company's principal shareholders are Ayala Corporation (AC) and Singapore Telecom (STI), both industry leaders in the country and in the region. Apart from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others

Suppliers

Globe works with both local and foreign suppliers and contractors. Equipment and technology required to render telecommunications services are mainly sourced from foreign countries. Its principal suppliers, among others, are as follows:

The Company's suppliers of mobile equipment include Nokia/Siemens (Finland); Ericsson Radio Systems AB (Sweden), Ericsson (Sweden), Alcatel (France), and Huawei Technologies Co., Ltd. (China). For the Company's network modernization program, Huawei was the selected partner given its technical expertise and strong track record of success. Huawei has likewise committed to establish a Joint Innovation Center (JIC) that would bring the latest technological developments and help address the Company's customization needs.

For fixed line and broadband, Globe's principal equipment suppliers include Fujitsu Ltd. (Japan), Lucent Technologies (USA), NEC (Japan), Alcatel (Italy), Motorola (USA), AT&T Global (US), British Telecom (UK), Huawei Technologies Co., Ltd. (China), Singapore Telecom (Singapore), Tellabs (USA/Singapore) and NERA (Norway).

Customers

Globe has a large subscriber base accross the country. On the mobile front, Globe ended the year with 30.0 million mobile subscribers/SIMs, comprised of 1.5 million postpaid and approximately 28.6 million prepaid subscribers. Meanwhile, Globe has around 672,000 fixed line voice subscribers and around 1.4 million broadband customers.

No single customer and contract accounted for more than 20% of Globe's total sales in 2011.

Transactions with Related Parties

Globe Telecom and Innove, in their regular conduct of business, enter into transactions with their major stockholders, AC and STI, venturers and certain related parties. These transactions, which are accounted for at market prices normally charged to unaffiliated customers for similar goods and services

Licenses, Patents, and Trademarks

Globe Telecom currently holds the following major licenses:

Service	Type of License	Date Issued or Last Extended	Expiration Date
Globe			
Wireless	CPCN [1]	July 22, 2002	December 24, 2030
Local Exchange Carrier	CPCN [1]	July 22, 2002	December 24, 2030
International Long Distance	CPCN [1]	July 22, 2002	December 24, 2030
Interexchange Carrier	CPCN [1]	February 14, 2003	December 24, 2030
VSAT	CPCN [1]	February 6, 1996	February 6, 2021
International Cable Landing Station & Submarine Cable System (Nasugbu, Batangas)	CPCN [1]	October 19, 2007	December 24, 2030
International Cable Landing Station & Submarine Cable System (Ballesteros, Cagayan)	CPCN [1]	June 29, 2010	December 24, 2030

Innove	Type of License	Date Issued or Last Extended	Expiration Date
Wireless	CPCN [1]	July 22, 2002	April 10, 2017
Local Fixed line	CPCN [1]	July 22, 2002	April 10, 2017
International Long Distance	CPCN [1]	July 22, 2002	April 10, 2017
Interexchange Carrier	CPCN [1]	April 30, 2004	April 10, 2017

[1] *Certificate of Public Convenience and Necessity. The term of a CPCN is co-terminus with the franchise term.*

In July 2002, the NTC issued CPCNs to Globe and Innove which allow Globe to operate respective services for a term that will be predicated upon and co-terminus with Globe's congressional franchise under RA 7229 (Globe) and RA 7372 (Innove). Globe was granted permanent licenses after having demonstrated legal, financial and technical capabilities in operating and maintaining wireless telecommunications systems, local exchange carrier services and international gateway facilities. Additionally, Globe and Innove have exceeded the 80% minimum roll-out compliance requirement for coverage of all provincial capitals, including all chartered cities within a period of seven years.

Globe also registered the following brand names with the Intellectual Property Office, the independent regulatory agency responsible for registration of patents, trademarks and technology transfers in the

Philippines: Globe, Globe Life Device, Globe Load, Globe Commerce, Globe International, Globe Platinum, Globe Kababayan, Globe Plans, Globe Calls, Globe Labs, Globe GCash, Connected 24ever and Device, Gloo Netwrkz, Globe Landline Postpaid Plus, Globe Share-A-Load, Globe Kababayan, Globe Broadband, Globe Telecom, Pixlink, Unlichat, Appzone, Tipidd, Wizard, Duo Mobile Plus Landline in One, Astig Ang Signal ng TM, Globe Tattoo, Globe Duo, Astig Ang Signal, Republika Ng TM Astig Tayo Dito, Tattoo, Astig, Astig Rewards, Astigunli, Astig Load, Astig Pabonus Reward, TM Diskarte, Immortalload, AstigTawag, Astigtxt, Todo Bigay Habambuhay, Duoplus, Load4life, Call4Life, Text4Life, Globe Text, Todo Text, Globe Tattoo Youniverse, Immortaltxt, Superduo, Tattoo, Globe All you Can, Ka-Globe Retailer Club, and Muzta!, Ang Wordlwidest, Globe for You, Globe Life, Globe Content, My Rewards.MyGobe, Tattoo Superstick, Super Unli Call and Text, Tattoo Stick, Tattoo Myfi, Tattoo Torque, Tattoo Live Without Limits.

Further, Globe also applied and registered the following brand names: Globe Telecom (Australia, Taiwan, Japan, Singapore, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Korea, Canada), Globe and Globe Life Device (Hong Kong, Taiwan, Singapore, Japan, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Macau, Qatar, UAE, USA, Saudi Arabia), , Globe GCash (Singapore, Hong Kong, United Kingdom, Taiwan, Japan, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Qatar, Korea, UAE, Saudi Arabia, Italy), Globe Kababayan (Singapore, Hong Kong, Taiwan, united Kingdom, Australia, Japan, Macau, USA, Saudi Arabia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Malaysia, UAE, Italy), Globe Autoload Max (Norway, Singapore, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Japan, Hong Kong), Globe M-Commerce Hub (Taiwan, Singapore, Korea, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Australia, Macau, Qatar, Malaysia), Muzta, and Smiley With Salakot Device (Japan, UK, Australia, Kuwait, USA), Smiley with Salakot (Japan, United Kingdom, Australia, USA), and Muzta (Bahrain, UAE, Canada, Qatar, Saudi Arabia).

Innove registered "Innove Communications" and Gxchange registered "GXchange," “GCash Remit, GCash Click” with the Intellectual Property Office.

Government approvals/regulations

The Globe Group is regulated by the NTC under the provisions of the Public Service Act (CA 146), Executive Order (EO) 59, EO 109, and RA 7925. Under these laws, Globe is required to do the following:

(a) To secure a CPCN/PA from the NTC for those services it offers which are deemed regulated services, as well as for those rates which are still deemed regulated, under RA 7925.

(b) To observe the regulations of the NTC on interconnection of public telecommunications networks.

(c) To observe (and has complied with) the provisions of EO 109 and RA 7925 which impose an obligation to rollout 700,000 fixed lines as a condition to the grant of its provisional authorities for the cellular and international gateway services.

(d) Globe remains under the supervision of the NTC for other matters stated in CA 146 and RA 7925 and pays annual supervision fees and permit fees to the NTC.

On October 19, 2007, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station and submarine cable system in Nasugbu, Batangas

On May 19, 2008, Globe Telecom, Inc. announced that the NTC has approved the assignment by its wholly-owned subsidiary Innove Communications (Innove) of its Touch Mobile (*TM*) consumer prepaid subscriber contracts in favor of Globe. Globe would be managing all migrated consumer mobile subscribers of *TM*, in addition to existing Globe subscribers in its integrated cellular network.

On September 11, 2008, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station in Ballesteros, Cagayan Province.

Research and Development

Globe did not incur any research and development costs from 2009 to 2011.

Compliance with Environmental Laws

The Globe Group complies with the Environmental Impact Statement ('EIS') system of the Department of Environment and Natural Resources ('DENR') and pays nominal filing fees required for the submission of applications for Environmental Clearance Certificates ('ECC') or Certificates of Non-Coverage ('CNC') for its cell sites and certain other facilities, as well as miscellaneous expenses incurred in the preparation of applications and the related environmental impact studies. The Globe Group does not consider these amounts material.

Globe has not been subject to any significant legal or regulatory action regarding non-compliance to relevant environmental regulations.

Employees

The Globe Group has 5,757 active regular employees as of December 31, 2011, of which about 9% or 494 are covered by a Collective Bargaining Agreement (CBA) through the Globe Telecom Employee's Union (GTEU).

Globe has a long-standing, healthy, and constructive relationship with the GTEU characterized by industrial peace. It is a partnership that mutually agrees to focus on shared goals – one that has in fact allowed the attainment of higher levels of productivity and consistent quality of service to customers across different segments.

Strong partnership and mutual understanding between the company and the union has been continuously demonstrated throughout the years. In fact, throughout the many changes and transformations initiated by the company to achieve its goals, the union has been there, working hand in hand with Globe in support of its business goals.

GTEU and Globe has recently concluded its 5-year collective bargaining agreement for year 2011-2015, a testament to the strong and peaceful relationship between the two.

Breakdown of employees by main category of activity from 2008 to 2010 are as follows:

Employee Type	**2011**	**2010**	**2009**
Rank & File, CBU	2,812	2,844	2,750
Supervisory	1,714	1,683	1,600
Managerial	920	839	800
Executives	311	301	301
Total *	**5,757**	**5,667**	**5,451**

**Includes Globe, Innove, & GXI (excluding Secondees)*

Globe continues to explore new ways to enhance employee productivity and realize operating efficiencies. The Company believes that these initiatives will improve corporate agility, enhance Globe's overall competitiveness and strengthen its position as a service leader in the telecom industry, thereby enhancing shareholder value.

Risk Factors

1. Foreign Exchange Risk

Globe's foreign exchange risk results primarily from movements of the Philippine peso (PHP) against the US dollar (USD) with respect to its USD-denominated financial assets, liabilities, revenues and expenditures. Approximately 24% of its revenues are in USD while substantially all of its capital expenditures are in USD. In addition, 11%, 15% and 14% of debt as of December 31, 2011, 2010 and 2009, respectively, are denominated in USD before taking into account any swap and hedges.

Globe's foreign exchange risk management policy is to maintain a hedged financial position after taking into account expected USD flows from operations and financing transactions. It enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

Globe mitigates its foreign exchange risk through the following:

First, Globe has foreign currency-linked revenues which include those (a) billed in foreign currency and settled in foreign currency; (b) billed in pesos at rates linked to a foreign currency tariff and settled in

pesos, or (c) fixed line monthly service fees and the corresponding application of the Currency Exchange Rate Adjustment (CERA) mechanism under which Globe has the ability to pass the effects of local currency depreciation to its subscribers.

Second, Globe enters into short-term currency forwards to manage foreign exchange exposure related to foreign currency denominated monetary assets and liabilities while it enters into long term foreign currency and interest rate swap contracts to manage foreign exchange and interest rate exposures of certain long term foreign currency denominated loans.

There are no assurances that declines in the value of the Peso will not occur in the future or that the availability of foreign exchange will not be limited. Recurrence of these conditions may adversely affect Globe's financial condition and results of operations.

2. Industry and Operational Risks

(a) Competitive Industry

Competition remains intense in the Philippine telecommunications industry as current operators seek to increase market share with aggressive offerings while new entrants serve to further heighten the competitive dynamics amidst a maturing mobile market. Globe's principal competitors are the PLDT/SMART and Digitel groups. Other players licensed to provide mobile services include Bayantel, which has yet to launch its mobile services, and Extelcom.

The Philippine telecommunications industry continues to be dominated by the mobile segment which contributed an estimated 70% of total industry revenues in 2011, higher than the 66% it registered in 2010. Mobile subscriber growth has slowed down with nominal penetration rates now in excess of 97%. Industry revenue growth has likewise slowed in recent years, and has actually contracted in 2010 in spite of the significant rise in voice and data traffic. Aggressive price competition have contributed to the decline in industry revenues, and the continued shift in traffic from the standard pay-per-use services to unlimited and bucket offers have put pressure on industry revenues and margins. The strong peso has also negatively affected US$-linked revenues. For 2011, mobile industry revenues have recovered from 2010's decline, rising 1% against the prior year.

The continued growth and development of the mobile industry will depend on many factors. Any significant economic, technological or regulatory development could result in either a slowdown or growth in demand for mobile services and may impact Globe's business, revenues and net income. Globe's mobile revenues in 2011 and 2010 accounted for 80% and 81%, respectively of its total service revenues.

(b) Highly Regulated Environment

Globe is regulated by the NTC for its telecommunications business, and by the SEC and the BSP for other aspects of its business. The introduction of, changes in, or the inconsistent or unpredictable application of laws or regulations from time to time, may materially affect the operations of Globe, and ultimately the earnings of the company which could impair its ability to service debt. There is no assurance that the regulatory environment will support any increase in business and financial activity for Globe.

The government's communications policies have been evolving since 1993 when former President Fidel V. Ramos initiated a more liberalized Philippine communications industry. Changes in regulations or government policies or differing interpretations of such regulations or policies have affected, and will continue to affect Globe's business, financial condition and results of operation. The NTC was established in 1979 to act as an independent regulatory body to oversee, administer and implement the policies and procedures governing the communications industry. The NTC grants licenses for varied terms. It may grant a long-term license, called a certificate of public convenience and necessity ("CPCN"). Globe has obtained CPCNs for its international gateway facility ("IGF"), local exchange carrier ("LEC"), cellular mobile telephony service ("CMTS"), and interexchange carrier ("IXC") services. Though valid for 25 years, the NTC may amend certain terms of a CPCN, or revoke it for cause, subject to due process procedures. Additionally, the exercise of regulatory power by regulators, including monetary regulators, may be subject to review by the courts on the complaint of affected parties.

No assurance can be given that the regulatory environment in the Philippines will remain consistent or open. Current or future policies may affect the business and operations of Globe.

(c) Philippine Political and Economic Factors

The growth and profitability of Globe may be influenced by the overall political and economic situation of the Philippines.

(i) Economic Considerations

The Philippines has in the past experienced periods of slow or negative growth, high inflation, and volatility in its exchange rate.

In 2011, the Philippine economy grew at a relatively slower pace compared to the strong growth posted last year. This decline was primarily driven by the sharp decrease in exports, and lower than expected government spending, coupled with the continued weakness in international economic climate, on the back of the sluggish recovery of the US economy, and the slowdown in the Eurozone that tested the strength of the financial markets. Regional trade flows were also disrupted due to the string of natural calamities that hit Japan and Thailand.

Gross Domestic Product for the year grew at a slower 3.7% compared to the 7.3% growth posted last year. This growth was supported by the 2.6% increase in the service sector on the back of increased real estate, renting, and business activities as well as strong finance and private services that continued to benefit from the global outsourcing trends, although at a decreasing pace. The industry sector also slowed down, growing 1.9% year on year compared to the 12.1% growth in 2010. This was mainly due to the 4.7% growth in manufacturing and the 4.1% growth in mining and quarrying. These were partially offset by the slowdown seen in utilities sector as well as in construction, as the 6.3% increase in private construction failed to offset the 29.4% decline in public works. The Agriculture, Fishery and Forestry (AFF) sector, on the other hand, reversed its 0.5% decline last year and grew by 2.6% despite the continued decline in the fishing industry group.

On the demand side, private consumption, which comprises over 70% of the country's total GDP, grew by 6.1% in 2011 on the back of increased credit activity driven by high liquidity and declining inflation. The increased consumption was also supported by the increased strength of OFW remittances, which increased from US$18.8 billion in 2010 to US$20.1 billion in 2011. Tempering this growth was the 3.8% decrease in exports due to lower exported goods due to the slowdown in global trade. Capital formation, likewise, showed signs of weaker growth, with fixed capital formation growing a mere 2.7% due to a decline in construction spending.

In 2011, Fitch Ratings ("Fitch") upgraded the country's credit rating on long-term foreign obligations to BB+ from BB, noting that the country was on-track to meet its medium-term fiscal development goals. This upgrade puts the country's rating a notch below investment grade, Moody's likewise upgraded the ratings of the country's foreign and local currency long-term bond to Ba2, 2 notches below investment grade. Looking forward, the Aquino administration is optimistic that the Philippines will be receiving a ratings upgrade, namely from Standard & Poor's ("S&P) and Moody's. Both ratings agencies upgrading the country's outlook from stable to positive, with S&P raising its watch in December 2011 and Moody's raising it in January 2012.

Various economic experts expect a moderate improvement in economic growth for the year ahead from the 3.7% posted in 2011 to 4.5% in 2012, with public spending poised to increase. This will provide a stable base from which the country can anchor its economic expansion; however, this projected growth remains fragile as the global economy remains at an unsteady state with the euro zone threatening to enter a mild recession as its debt crisis remains unresolved. Adding to the uncertainty, economic expansion remains tied to the recovery of exports, and continued strength of OFW remittances, which are both subject to the global risks. Furthermore, business process outsourcing, the country's fastest growing segment, faces the new risk of the tightening US market as well as the new US economic plan that aims to encourage "in-sourcing" through different incentives. These events could negatively impact the country's growth prospects and as such, could materially and adversely affect Globe's business, financial condition and results of operations, including Globe's ability to enhance the growth of its subscriber base, improve its revenue base and implement its business strategies.

(ii) Political Considerations

The Philippines has from time to time experienced political, social and military instability. In February 1986, a peaceful civilian and military uprising ended the 21-year rule of President Ferdinand Marcos and installed Corazon Aquino as President of the Philippines. Between 1986 and 1989, there were a number of attempted *coups d'état* against the Aquino administration, none of which was successful.

Political conditions in the Philippines were generally stable during the mid to late 1990s following the election of Fidel Ramos as President in 1992. His successor, Joseph Estrada was subject to various allegations of corruption. He was eventually ousted from office following impeachment proceedings, mass public protests and the withdrawal of support by the military on corruption charges. Following President Estrada's resignation, then Vice President Gloria Macapagal Arroyo was sworn in as President on January 20, 2001. President Arroyo was subjected to various impeachment complaints during her term. These impeachment complaints involved various allegations including the manipulation of the results of the presidential election in 2004, corruption and bribery. These complaints have fueled mass protests led by various cause-oriented groups calling for the President to resign.

The Philippines held its most recent elections in May 2010, which marked the first attempt of the Commission on Elections to implement a computerization of the national elections that includes presidential, legislative and local positions. The elections have been deemed a success, with the automation of the process and the relative decrease in election-related violence adding credibility to the results. In June 2010, Benigno "Noynoy" Aquino III was inaugurated as the 15th President of the Philippines. The son of former President Corazon Aquino garnered over 40% of the vote and has injected the country with renewed optimism.

Despite the recent successful national elections, there can be no assurance that the future political environment in the Philippines will be stable or future governments will adopt economic policies conducive to sustaining economic growth. The growth and profitability of Globe may be influenced by the overall political and economic situation of the Philippines. Any political instability in the Philippines could negatively affect the country's general economic conditions which in turn could adversely affect Globe's business, financial condition or results of operations.

Management of Risks

Cognizant of the dynamism of the business and the industry and in line with its goal to continuously enhance value for its stakeholders, Globe Telecom has put in place a robust risk management process.

As part of its annual planning cycles, senior management and key leaders regularly conduct an enterprise–wide assessment of risks focused on identifying the key risks that could threaten the achievement of Globe's business objectives, both at the corporate and business unit level, as well as specific plans to mitigate or manage such risks.

Risks are prioritized, depending on their impact to the overall business and the effectiveness by which these are managed. Risk mitigation strategies are developed, updated and continuously reviewed for effectiveness, and are also monitored through various control mechanisms.

Globe employs a two-dimensional view of risk monitoring. Business unit or functional group level leaders regularly monitor the status of operational, legal, financial, project risks that may threaten the achievement of defined business outcomes and are accountable for the completion of the approved mitigation plans meant to address the risks to the business. Senior management's oversight of enterprise level risks includes strategic risks, major programme risks, regulatory risks and the status of risk mitigation plans as they relate to the attainment of key business objectives.

Percentage of sales or revenues and net income contributed by foreign sales
Globe operates its telecommunications services in the Philippines although it earns minimal revenue from the roaming usage of its subscribers abroad

Bankruptcy, receivership or similar proceeding: There was no bankruptcy, receivership or similar proceedings initiated during the past three years.

Material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.
No material consolidation or purchase or sale of a significant amount of assets (not in the ordinary course of business) from 2009 to 2011.

CORPORATE GOVERNANCE

Governance Mechanism

Part of Globe Telecom ethos believes that integrity, accountability and transparency in all aspect of the business are crucial ingredients to the Company's success. These are the principles that make up the

Company's foundation to achieving its missions, visions and goals. With the continuous tests brought by global and national state of affairs, these values help the Company endure these challenges.

The Company's **Articles of Incorporation** and **By-Laws** maintain the basic structure of corporate governance while the **Manual for Corporate Governance** act as its supplement. These two legal documents are the core of the Company's operational framework to its smallest detail including the principle duties of the members of the board with emphasis on the composition and balance of the board, ensuring a diverse pool of skills and background which ensures that duties and responsibilities are performed in a proper manner despite an increasingly competitive environment.

In 2009, the Company conducted a review of the Manual of Corporate Governance with the intention to improve and update the document, making it more suitable to present economic and financial conditions. The review was completed in February 2010, adding new stipulations to the manual in compliance to SEC Memorandum Circular No. 6, Series of 2009 Revised Code of Corporate Governance. The Board Committee Charters were also revised to keep consistencies with the Manual of Corporate Governance.

In addition, Globe Telecom implements a **Code of Conduct, Conflict of Interests** and **Whistleblower Policy**. Formal policies on **Unethical, Corrupt and Other Prohibited Practices** were put in effect to guard against unbecoming activities and serve as a guide to work performance, dealings with employees, customers and suppliers, and managing assets, records and information including the proper reporting, handling of complaints and fraudulent reports and whistleblowers. These policies cover both employees and members of the Board. These documents are the key to the balance of control and governance at Globe Telecom.

The following sections summarize the key corporate governance structures, processes and practices adopted by Globe.

Board of Directors

Key Roles

The Board of Directors is the supreme authority in matters of governance. The Board establishes the vision, mission, and strategic direction of the Company, monitors over-all corporate performance, and protects the long-term interests of the various stakeholders by ensuring transparency, accountability, and fairness. The Board has oversight responsibility for risk management function while ensuring the adequacy of internal control mechanisms, reliability of financial reporting, and compliance with applicable laws and regulations.

In addition, certain matters are reserved specifically for the Board's disposition, including the approval of corporate operating and capital budgets, major acquisitions and disposals of assets, major investments, and changes in authority and approval limits.

Board Composition

The Board is composed of eleven (11) members. These board members are elected during the Annual Stockholders Meeting (ASM) and hold office for the ensuing year until the next ASM. Of the 11 members of the board, only the President and CEO is an executive director while the rest are non-executive directors who are not involved in the day-to-day management of business.

The roles of the Chairman of the Board and the Chief Executive Officer (CEO) are clearly delineated and are held by two individuals to ensure balance of power and authority and to promote independent decision making. Of the eleven members of the Board, only the President and CEO is an executive director; the rest are non-executive directors who are not involved in the day-to-day management of the business.

In compliance with the Revised Code of Corporate Governance, the Board has two independent directors of the caliber necessary to effectively weigh in on Board discussions and decisions. Globe defines an independent director as a person who is independent from management and free from any business or other relationship which could materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

For further details on the Globe's financial condition and operations, please refer to the 2011 Audited Financial Statements which is incorporated herein in the accompanying index to exhibits.

Item 2. Description of Properties

Ayala Corporation owns 4 floors of the Tower One Building located in Ayala Triangle, Ayala Avenue, Makati. These units were purchased in 1995 and are used as corporate headquarters of the Company. Other properties of the Company include various provincial lots relating to its business operations totaling about 860 hectares and Metro Manila lots totaling 2.6 hectares. The Honda Cars Makati, Honda Cars Pasig, Honda Cars Alabang, Isuzu Alabang and Honda Cars Global City dealership buildings are located on its Metro Manila lots which are leased to these dealerships.These properties do not have any mortgage, lien or encumbrance.

The following table provides summary information on ALI's landbank as of December 31, 2011. Properties are wholly-owned and free of lien unless noted.

Location	*Hectares*	*Primary land use*
Makati [1]	49	Commercial/Residential
Taguig [2]	23	Commercial/Residential
Makati (outside CBD)	22	Commercial/Residential
Alabang [3]	18	Commercial/Residential
Las Piñas/Paranaque	132	Commercial/Residential
Manila / Pasay [4]	6	Commercial/Residential
Quezon City [5]	116	Commercial/Residential
Metro Manila	***366***	
Canlubang [6]	1,382	Commercial/Residential/Industrial
Laguna (ex-Canlubang) [7]	525	Commercial/Residential/Industrial
Cavite[8]	199	Commercial/Residential
Batangas/Rizal/Quezon [9]	74	Commercial/Residential
Calabarzon	***2,180***	
Bulacan/Pampanga [10]	***765***	Commercial/Residential
Others in Luzon [11]	***1,088***	Commercial/Residential
Bacolod/Negros Occidental [12]	21	Commercial/Residential
Cebu [13]	197	Commercial/Residential
Davao [14]	70	Commercial/Residential
Cagayan De Oro [15]	180	Commercial/Residential
Iloilo [16]	18	
Visayas/Mindanao	***486***	
TOTAL	***4,885***	

[1] Makati includes sites of Mandarin Hotel (1.6 ha.) and Peninsula Hotel (2.0 ha.) which are 50% owned through Ayala Hotels, Inc., and remaining area at Roxas Triangle (0.3 ha.) which is 50% owned.

[2] Taguig includes 9.8 ha. site of Market! Market! under lease arrangement with BCDA; 0.6 ha. in Serendra which is under joint development agreement with the Bases Conversion and Development Authority ("BCDA"); 11.3 ha. in Taguig is owned through Fort Bonifacio Development Corporation.

For Market! Market!, the lease agreement with the BCDA covers a period of 25 years (renewable for another 25 years) and involves an upfront cash payment of ₱688 million and annual lease payments with fixed and variable components.

For Serendra, the joint development agreement with BCDA involves an upfront cash payment of ₱700 million plus a guaranteed revenue stream totaling ₱1.1 billion over an 8-year period, which ended on February 15, 2012.

[3] Alabang pertains to the 17.6 ha. Alabang Town Center which is 50% owned through Alabang Commercial Corp. (ACC), 3.7 ha. of which is subject of a Mortgage Trust Indenture as security for ACC's short-term loans with Bank of the Philippine Islands.

[4] Manila/Pasay includes 1.7 ha. which are under joint venture with Manila Jockey Club, Inc. and 0.3 ha. site of Metro Point which is 50% owned through ALI-CII Development Corp.

[5] Quezon City includes 46.5 ha. under lease arrangement with University of the Philippines; the 13 ha. site of TriNoma which is is 49% owned by ALI through North Triangle Depot Commercial Corp. is under lease arrangement with the Department of Transportation and Communication; a 9.9 ha. property under a joint development agreement and a 4.1 –ha. property being developed under a lease contract - both of which are with the Philippine Tuberculosis Society, Inc.; a 2.0 ha. property which is being leased from Ellimac Prime Holdings, Inc.; a 29.2 ha. property on a joint development agreement with the National Housing Authority and a 2.0 ha. property under lease agreement with MBS Development Corp.

[6] Canlubang includes 1,062 ha. which are 70% owned through Aurora Properties, Inc. and Vesta Holdings, Inc.; also includes 253 ha. which are 65% owned through Ceci Realty, Inc.

[7] Laguna (excluding Canlubang) includes 156 ha. which are under a 50-50% joint venture with Greenfield Development Corp.; 11.1 ha. in Laguna Technopark, Inc. which is 75% owned by Ayala Land; and 3.3 ha. site of Pavilion Mall which is under 25-year lease arrangement with Extra Ordinary Group, with an option to renew every 5 years thereafter.

[8] Cavite includes 2.9 ha. in Riego de Dios Village which is under joint venture with the Armed Forces of the Philippines and a 5 ha. property being developed under a land lease agreement.

[9] Batangas includes 7 ha. in Sto. Tomas project which is under an override arrangement.

[10] Pampanga includes 540 ha. in Porac is 55% owned under Nuevo Centro.

[11] Other properties in Luzon includes 275.8 ha in Bataan pertaining to the Anvaya Cove property which is under joint development agreement with SUDECO, a 6.5 ha. property in Subic on lease agreement with Subic Bay Management Authority and a 19 ha. land lease with the government in Palawan.

[12] Bacolod includes 1.8 ha. in Ayala Northpoint which is under override arrangement.

[13] Cebu includes about 10 ha. in Cebu Business Park (including Ayala Center Cebu) which is 47% owned through Cebu Holdings, Inc. (CHI); 0.62 ha. Cebu Insular Hotel site owned by Ayala Hotels, Inc. and Cebu Holdings, Inc.; 8 ha. in Asiatown IT Park which is owned by Cebu Property Ventures and Development Corporation which in turn is 76% owned by CHI; 7.3 ha. in Amara project, (66% owned by CHI) which is under joint venture with Coastal Highpoint Ventures, Inc.

8.84 ha. property (within the Cebu Business Park) which houses the Ayala Center Cebu is subject of a mortgage trust indenture securing term loan with Bank of the Philippine Islands.

0.62 ha. is subject of a mortgage trust indenture securing Cebu Insular Hotel Company Inc.'s term loan with Bank of the Philippine Islands, as of year-end 2011.

Also includes a 2.1 ha. property under a joint development agreement with Villareal Real Corp.

[14] Davao includes a 9.6 ha. property which is 70% owned through Accendo Commercial Corp.

[15] Cagayan de Oro includes 3.3 ha. which are 70% owned through Cagayan de Oro Gateway Corp. and 177 ha. which is under a JDA agreement with Promenade Land Holdings, Inc.

[16] Includes a 2.0 ha. land lease for the Iloilo BPO property and a 16 ha. property owned through a JDA agreement

BPI's Head Office is located at the BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. Of the 809 branches, 671 operate as BPI branches: 353 in Metro Manila/Greater Metro Manila Area and 318 in the provincial area. The parent bank owns 34% of these branches and leases the remaining 66%. Total annual lease amounted to Php 540 million. Expiration dates of the lease contracts vary from branch to branch.

BPI Family Savings Bank operates 138 branches of which 22% are bank owned while 78% are leased. Total annual lease amounted to Php 105 million.

The head offices of BPI and BPI Family Savings Bank as well as the 809 branches are maintained in good condition for the benefit of both the employees and the transacting public. The bank enforces standards for branch facade, layout, number and types of equipment and upkeep of the premises.

All of the bank-owned properties are free from any lien.

The bank will maintain its existing number of branches and will continue to reconfigure the mix of its traditional branches, and kiosk branches as it adjusts to the needs of its customers.

Total lease expense for 2011 for BPI and its subsidiaries amounted to P870 million as per Note 26 of Audited Financial Statement.

Globe owns several floors of Pioneer Highlands Towers 1 and 2, located at Pioneer Street in Mandaluyong City, which serves as its corporate headquarters. This building was later renamed as Globe Telecom Plaza. Globe also has started construction work on its future Head Office in the Fort Bonifacio Global City Taguig, which is expected to be completed by 2013. In addition, the Company also owns host exchanges in the following areas: Bacoor, Batangas, Ermita, Iligan, Makati, Mandaluyong, Marikina, Vito Cruz, Cubao-Aurora, among others.

The Company leases office spaces along Sen. Gil Puyat Avenue, EDSA and Ermita for its technical, administrative and logistics offices and host exchange, respectively. It also leases the space for most of its Globe Stores, as well as its 12,427 base stations and 6,963 cell sites throughout the Philippines.

IMI has production facilities in the Philippines (Laguna, Cavite and Taguig), China (Shenzhen, Jiaxing, Chongqing and Chengdu), Singapore, Bulgaria, Czech Republic, and Mexico. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, Bulgaria and Czech Republic. IMI also has a global network of sales and logistics offices in Asia, North America, and Europe.

The Parent Company does not own land. As a result, it leases the land on which its manufacturing plants, office buildings and sales offices are located. The head office and main plant of IMI are located at North Science Avenue, Laguna Technopark, Biñan, 4024, Laguna,Philippines. The premises are leased from Technopark Land, Inc. On December 23, 2008, IMI renewed the lease for 3 years, which expired on December 31, 2011. On January 2, 2012, the Parent Company again extended the lease contract for another three years commencing January 2, 2012 up to December 31, 2015. The lease contract is renewable at the option of the lessor upon such terms and conditions and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. IMI is liable to pay a monthly rent specified in the lease contract, exclusive of value added tax, which increases over the years. In the event of sale, transfer or disposition of the leased premises, the lessor shall ensure that the lease will be honored by the buyer.

IMI's subsidiaries, except for IMI-USA, IMI-Japan and Speedy-Tech Electronics (HK) Limited in Hong Kong, lease the land on which their respective manufacturing and office buildings are located. While the newly-acquired subsidiaries in Bulgaria, Czech Republic and Mexico own the land wherein their respective manufacturing and office premises are located.

MWCI's corporate head office located in Balara, Quezon City is leased from MWSS and is subject to yearly renewal. In 2010, rent expense of the Company to MWSS amounted to ₱16.8 million.

For 2011, the MWCI expects to spend capital expenditures amounting to at least P10 billion. These capital expenditures are to be partially funded by proceeds of the MWCI's cash from operations and debt. The two (2) main components of these expenditures are reliability and expansion. These will ensure uninterrupted services to customers even in the event of disasters such as typhoons and earthquakes and deliver water and wastewater services to the farthest areas in the East Zone which are currently unserved, and to ensure sufficient water supply in response to the increased demand due to population growth.

Rental Properties

ALI's properties for lease are largely shopping centers and office buildings. It also leases land, carparks and some residential units. In the year 2010, rental revenues from these properties accounted for P6.75billion or 18% of Ayala Land's consolidated revenues. Lease terms vary depending on the type of property and tenant.

Property Acquisitions
With 4,855 hectares in its landbank as of end-2011, Ayala Land believes that it has sufficient properties for development in next twenty-five (25) years.

Nevertheless, the Company continuous to seek new opportunities for additional, large-scale, masterplanned developments in order to replenish its inventory and provide investors with an entry point into attractive long-term value propositions. The focus is on acquiring key sites in the Mega Manila area and other geographies with progressive economies that offer attractive potential and where projected value appreciation will be fastest.

Item 3. Legal Proceedings

Except as disclosed herein or in the Information Statements of the Company's subsidiaries or affiliates which are themselves public companies or as has been otherwise publicly disclosed, there are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years and the preceding years until March 23, 2012 to which Ayala or any of its subsidiaries or affiliates or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

In any event, below are the legal proceedings involving the Company and its subsidiaries and affiliates that may be significant:

ALI
Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning October 1993, ALI filed petitions in the RTC of Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these adverse claimants. A number of these cases are at various stages of trial and appeal. Some of these cases have been finally decided by the Supreme Court ("SC") in ALI's favor. These include decisions affirming the title of ALI to some of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale. The controversy involves the remaining area of approximately 126 hectares.

ALI has made no provision in respect of such actual or threatened litigations.

Manila Water Co., Inc.
Antonio Baltazar vs. Hon. Oscar Garcia, et al., OMB Case No. C-A-05-0205-E and OMB Case No. C-A-05-0208-E, Ombudsman

Criminal complaints were filed with the Office of the Ombudsman against members of the Board of Trustees of the Metropolitan Waterworks and Sewerage System (MWSS) and the MWSS Regulatory Office and the presidents of the Company and Maynilad Water Services, Inc. ("Maynilad"), for violation of Republic Act No. 3019 and for "conduct prejudicial to the best interests of the service." The complaint arose from the water rate increases which became effective on January 1, 2005. The Company filed the Counter-Affidavit of its President in 2005.

In a Decision dated April 30, 2009, the Ombudsman dismissed OMB Case No. C-A-05-0208-E. In a Resolution of even date, the Ombudsman also dismissed OMB Case No. C-A-05-0205-E. The complainant moved for the reconsideration of the Decision and Resolution, which were timely opposed in behalf of the President of the Company. The Motion for Reconsideration was denied in an Order dated October 21, 2009. Thereafter, the complainant filed with the Office of the Ombudsman a Petition for Review assailing the Decision dated April 30, 2009 and Order dated October 21, 2009. No resolution has yet been issued with regard to the Petition for Review.

Manila Water Company, Inc. and Maynilad Water Services, Inc. vs. Hon. Borbe, et al., CBAA Case No. L-69 Central Board of Assessment Appeals ("Central Board")

This case is an appeal from the denial by the Local Board of Assessment Appeals of Bulacan Province (the "Local Board") of the Company's (and Maynilad's) appeal from the Notice of Assessment and Notice of Demand for Payment of Real Property Tax in the amount of P357,110,945 made by the Municipal Assessor of Norzagaray, Bulacan. The Company is being assessed for half of the amount. In a letter dated April 3, 2008, the Municipal Treasurer of Norzagaray and the Provincial Treasurer of the Province of Bulacan, informed both MWSS concessionaires (Company and Maynilad) that their total real property

tax accountabilities have reached P648,777,944.60 as of December 31, 2007. This amount, if paid by the concessionaires, will ultimately be charged to the customers as part of the water tariff rate. The concessionaires (and the MWSS, which intervened as a party in the case) are thus contesting the legality of the tax on a number of grounds, including the fact that the properties subject of the assessment are owned by the MWSS. MWSS is both a government-owned and controlled corporation and an instrumentality of the National Government that is exempt from taxation under the Local Government Code.

The Central Board conducted a hearing on June 25, 2009. In that hearing, parties were given the opportunity and time to exchange pleadings on a motion for reconsideration filed by the Municipality to have the case remanded to and heard by the Local Board, rather than by the Central Board.

Trial is now on-going and the Company had already concluded its presentation of evidence and witnesses. Maynilad and MWSS shall be presenting their respective witnesses.

Herminio dela Peña, et al. vs. Manila Water Company, Inc., NLRC NCR (South) Case No. 30-02-00723-0/NLRC CA No. 025614-2000/ CA G.R. SP No.67134/ SC-G.R. No. 158255, Supreme Court

This case stemmed from a complaint for illegal dismissal filed before the National Labor Relations Commission (NLRC) by a group of contractual collectors belonging to the Associated Collectors Group, Inc. (ACGI).

ACGI's collection service was engaged by the Company in November 1997 up to February 1999. Complainants claim that they are regular employees of the Company and were illegally dismissed when the Company terminated its service contract with ACGI. The Labor Arbiter ruled in favor of the complainants and awarded separation pay amounting to P222,500.00. Upon appeal by the Company, the decision of the Labor Arbiter was reversed by the NLRC.

Subsequently, the complainants appealed to the Court of Appeals who ruled in their favor. The decision of the Court of Appeals was subsequently sustained by the Supreme Court. However, the Supreme Court deleted the award of moral and exemplary damages amounting to P10,000.00 per complainant.

Upon the finality of the decision of the Supreme Court and the subsequent remanding of the case to the Labor Arbiter, the latter granted complainants' Motion to Approve Computation of Complainants' Backwages and to Issue Writ of Execution. The Labor Arbiter directed the Company to reinstate complainants and to pay them their backwages in the amount of P19,576,500.00. The Company appealed the order of the Labor Arbiter. Subsequently, the NLRC granted the appeal of the Company. The complainants elevated the case to the Court of Appeals via a Petition for Certiorari but their petition was denied. Consequently, on August 11, 2008, the complainants filed a Petition for Review with the Supreme Court which was timely opposed by the Company. The petition was denied by the Supreme Court in a Decision dated July 20, 2009. Complainants sought a reconsideration of the said Decision which was also denied in a Resolution dated December 15, 2009. Complainants thereafter filed a second motion for reconsideration. In a Resolution dated February 24, 2010, the Supreme Court denied the second motion for reconsideration.
On May 31, 2011, the Company and the complainants filed with the NLRC a Satisfaction of Judgment pursuant to the Release Waiver and Quitclaim signed by the complainants in favor of the Company before NLRC Labor Arbiter Jaime Reyno who explained the legal effects of such documents.

Manila Water Company, Inc. vs. The Regional Director, Environmental Management Bureau-National Capital Region, et al., CA-G.R. No. 112023 (DENR-PAB Case No. NCR-00794-09)

This case arose from a complaint filed by OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board (PAB) against the Company, Maynilad and the MWSS for alleged violation of R.A. No. 9275 (Philippine Water Act of 2004), particularly the five-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On April 22, 2009, the PAB through DENR Secretary and Chair Jose L. Atienza, Jr., issued a *Notice of Violation* finding that the Company, Maynilad and MWSS have committed the aforesaid violation of R.A. 9275. Subsequently, a Technical Conference was scheduled on May 5, 2009. In the said Technical Conference, the Company, MWSS and Maynilad explained to the PAB their respective positions and it

was established that DENR has a role to play to compel people to connect to existing sewer lines and those that are yet to be established by the Company and Maynilad.

In addition to the explanations made by the Company during the Technical Conference, the Company together with MWSS and Maynilad, wrote a letter dated May 25, 2009 and addressed to the respondent Secretary, stating their position on the matter.

In response to the May 25, 2009 letter, the OIC, Regional Director for NCR, the Regional Director of Region IV-A and the Regional Director of EMB Region III submitted their respective *Comments*. The Company thereafter submitted its letter dated July 13, 2009 to the public respondent PAB where it detailed its compliance with the provisions of R.A. No. 9275 and reiterated its position that the continuing compliance should be within the context of the Company's *Concession Agreement* with MWSS. Despite the explanations of the Company, the PAB issued the challenged *Order* dated October 7, 2009 which found the Company, Maynilad and MWSS to have violated R.A. 9275. The Company filed its *Motion for Reconsideration* dated October 22, 2009 which the PAB denied in an *Order* dated December 2, 2009. Hence, the Company filed its Petition for Review dated December 21, 2009 with the Court of Appeals. The Company thereafter filed an amended Petition for Review dated January 25, 2010. Per CA Resolution dated October 6, 2010, the petition is now deemed submitted for decision.

Globe Telecom, Inc.

On 23 July 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the cellular mobile telephone service (CMTS) whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme. In compliance with NTC MC 05-07-2009, Globe refreshed and offered to the general public its existing per-second rates that, it bears emphasizing, comply with the NTC Memorandum Circular. Globe made per second charging for Globe-Globe/TM-TM/Globe available for Globe Subscribers dialing prefix 232 (GLOBE) OR 803 plus 10-digit TM or Globe number for TM subscribers. The NTC, however, contends that Globe's offering does not comply with the circular and with the NTC's Order of 7 December 2009 which imposed a three-tiered rate structure with a mandated flag-down of P3.00, a rate of P0.4375 for the 13th to the 160th second of the first minute and P0.65 for every 6-second pulse thereafter. On 9 December 2009, the NTC issued a Cease and Desist Order requiring the carriers to refrain from charging under the previous billing system or regime and refund consumers.

Globe maintains that the Order of the NTC of 7 December 2009 and the Cease and Desist Order are void as being without basis in fact and law and in violation of Globe's rights to due process. Globe, Smart, Sun and CURE all filed petitions before the Court of Appeals seeking the nullification of the questioned orders of the NTC. On 18 February 2010, the Court of Appeals issued a Temporary Restraining Order preventing the NTC from enforcing the disputed Order.

On 25 May 2010, the CA issued a writ of preliminary injunction directing the NTC to cease and desist from enforcing their assailed Order/s. On 28 December 2010, the CA rendered a Decision declaring the questioned decisions invalid for being violative of the Petitioners' right to due process, among others. The Petitioners and the NTC filed their respective Motions for Partial Reconsideration. The motions were DENIED by the CA in an Order dated 19 January 2012. Due to lack of material time, the NTC and the Petitioners seasonably filed their respective Motions for Extension of Time to File Petition for Review with the Supreme Court. Globe filed its Petition on 12 March 2012. The other Movants are expected to file their respective petitions within the month of March 2012.

Globe believes that its legal position is strong and that its offering is compliant with the NTC's Memorandum Circular 05-07-2009, and therefore believes that it would not be obligated to make a refund to its subscribers. If, however, Globe would be held as not being in compliance with the circular, Globe may be contingently liable to refund to any complaining subscribers any charges it may have collected in excess of what it could have charged under the NTC's disputed Order of 7 December 2009, if indeed it is proven by any complaining party that Globe charged more with its per second scheme than it could have under the NTC's 6-second pulse billing scheme stated in the disputed Order. Management has no estimate of what amount this could be at this time.

On 22 May 2006, Innove received a copy of the Complaint of Subic Telecom Company ("Subictel"), Inc., a subsidiary of PLDT, seeking an injunction to stop the Subic Bay Metropolitan Authority and Innove from taking any actions to implement the Certificate of Public Convenience and Necessity granted by SBMA to

Innove. Subictel claimed that the grant of a CPCN allowing Innove to offer certain telecommunications services within the Subic Bay Freeport Zone would violate the Joint Venture Agreement ("JVA") between PLDT and SBMA. The Supreme Court ordered the reinstatement of the case and has forwarded it to the NTC-Olongapo for trial.

PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City. In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the Bonifacio Global City.

In the case filed by PLDT against the NTC in Branch 96 of the Regional Trial Court (RTC) of Quezon City, where PLDT sought to obtain an injunction to prevent the NTC from hearing the case filed by Innove, the RTC denied the prayer for a preliminary injunction and the case has been set for further hearings. PLDT has filed a Motion for Reconsideration and Globe has intervened in this case. In a resolution dated 28 October 2008, the RTC QC denied BCC's motion for the issuance of a temporary restraining order (TRO). The case is still pending with the QC RTC.

In the case filed by BCC against FBDC, Globe Telecom and Innove, Bonifacio Communications Corp. before the Regional Trial Court of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a Temporary Restraining Order and has instead scheduled several hearings on the case. The case is still pending with the RTC Pasig.

On 11 November 2008, Bonifacio Communications Corp. (BCC) filed a criminal complaint against the officers of Innove Communications Inc., the Fort Bonifacio Development Corporation (FBDC) and Innove contractor Avecs Corporation for malicious mischief and theft arising out of Innove's disconnection of BCC's duct at the Net Square buildings. The accused officers filed their counter-affidavits and are currently pending before the Prosecutor's Office of Pasig. The case is still pending resolution with the Office of the City Prosecutor.

On 21 January 2011, BCC and PLDT filed with the Court of Appeals a Petition for Certiorari and Prohibition against NTC, et al. seeking to annul the Orders of the NTC dated 28 October 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and the CEASE AND DESIST from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. BCC and PLDT anchor their petition on the grounds that: 1) the NTC has no jurisdiction over BCC it being a non telecommunications entity; 2) the NTC violated BCC and PLDT's right to due process; and 3) there was no urgency or emergency for the issuance of the cease and desist order.

On April 25, 2011, Innove Communications, filed its comment to the Petition arguing, among others, that Innove is duly authorized to provide services in the BGC, that BCC and PLDT have no right to maintain their monopolistic hold of the BGC telecommunications market; and that it is in the public's best interest that open access and free competition among telecom operators be allowed at the Bonifacio Global City.
On August 16, 2011, the Ninth Division of the CA ruled that PLDT's case against Innove and the National Telecommunications Commission (NTC) lacked merit, and thus denied the petition and DISMISSED the case. PLDT and its co-petitioner, BCC file their motion for reconsideration. Innove seasonably filed its Opposition thereto. The case is pending with the court of appeals.

IMI and BPI are not involved in any significant pending legal proceedings.

b. **Certain Relationships and Related Transactions**
The Company, in the regular conduct of business, has entered into transactions with associates, jointly controlled entities and other related parties principally consisting of advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at normal market prices.

No other transaction was undertaken by the Company in which any director or executive officer was involved or had a direct or indirect material interest.

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

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant Common Equity and Related Stockholder Matters
Market Information
The company's common equity is traded at the Philippine Stock Exchange.

The following table shows the high and low prices (in PHP) of Ayala Corporation's shares in the Philippine Stock Exchange for the year 2010 and 2011:

	2011		2010	
	High	Low	High	Low
1st qtr	338.33	270.33	332.50	260.00
2nd qtr	332.50	306.00	355.00	307.50
3rd qtr	335.00	277.60	413.20	317.00
4th qtr	311.00	273.20	423.00	360.00

Source: Bloomberg

The market capitalization of the Company's common shares as of end-2011, based on the closing price of ₱311.00/share, was approximately ₱179.53 billion.

The price information of Ayala common and preferred "A" shares as of the close of the latest practicable trading date, March 19, 2012, is ₱423.00 and ₱548.00.00, respectively.

Holders

There are approximately 7,440, 55, and 931 registered holders of common shares, preferred "A", and voting preferred shares, respectively, as of January 31, 2012 (based on number of accounts registered with the Stock Transfer Agents).

The following are the top 20 registered holders of the Company's securities:

Common Shares

	Stockholder name	No. of common shares	Percentage of common shares
1.	Mermac, Inc.	303,689,196	52.61%
2.	PCD Nominee Corporation (Non-Filipino)	134,401,712	23.28%
3.	Mitsubishi Corporation	63,077,540	10.93%
4.	PCD Nominee Corporation (Filipino)	36,487,210	6.32%
5.	Shoemart, Inc.	19,539,049	3.38%
6.	Henry Sy, Sr.	1,555,963	0.27%
7.	ESOWN Administrator 2009	1,497,957	0.26%
8.	SM Investment Corporation	1,280,610	0.22%
9.	ESOWN Administrator 2008	887,320	0.15%
10.	Philippine Remnants Co., Inc.	823,046	0.14%
11.	ESOWN Administrator 2007	619,912	0.11%
12.	Sysmart Corporation	618,912	0.11%
13.	ESOWN Administrator 2006	471,652	0.08%
14.	BPI TA 14105123	455,588	0.08%
15.	ESOWN Administrator 2005	378,528	0.07%
16.	Mitsubishi Logistics Corporation	360,512	0.06%
17.	Antonio O. Olbes	277,865	0.05%
18.	Eduardo Olbes	249,745	0.04%
19.	Telengtan Brothers & Sons, Inc.	136,857	0.02%
20.	Lucio Yan	127,996	0.02%

Preferred "A" Shares

	Stockholder name	**No. of preferred "A" shares**	**Percentage of preferred "A" shares**
1.	PCD Nominee Corp – Filipino	11,414,700	95.12%
2.	Ayala Land, Inc.	200,000	1.67%
3.	Knights of Columbus Fraternal Association of the Philippines, Inc.	60,000	0.50%
3.	First Guarantee Life Assurance Company Inc.	60,000	0.50%
4.	Amon Trading Corporation	21,000	0.18%
5.	Uymatiao Trading Corporation	20,000	0.17%
5.	Dy, Luisa Tan	20,000	0.17%
5	Securities Investors Protection Fund, Inc.	20,000	0.17%
6.	PCD Nominee Corp.- Non-Filipino	18,660	0.15%
7.	Ricardo G. Librea &/or Marieta P. Librea	17,500	0.15%
8.	Northwest Insurance & Surety Co. Inc.	10,000	0.08%
8.	Uymatiao, Gregorio Jr. Lim or Uymatiao, Gerard Lim	10,000	0.08%
8.	Sy, Danford S. and/or Marianne Mae S. Sy	10,000	0.08%
8.	Sy, Sr. Julio Ong or Krebs, Jeanne Sy	10,000	0.08%
8.	Gregorio L. Uymatiao, Jr. or Alez Sy or Tyrone Ramas Uypitching	10,000	0.08%
8.	Cebu International Finance Corporation	10,000	0.08%
9.	Antrilia Resources Corporation	8,400	0.07%
10.	Church in Pasay, Inc.	7,800	0.06%
11.	Tan, Richard Castro or Uy, Guillermo, Jr. Chan	6,400	0.05%
12.	Gatchalian, Joaquin Jr. Lim	5,000	0.04%
13.	Casino Espanol de Cebu, Inc.	4,040	0.03%
14.	Benito Alfonso Unchuan	4,000	0.03%
14.	Rosalinsa C. Ko or James C. Ko	4,000	0.03%
14.	Chua, William H. &/or Tita P. Chua &/or Elizabeth T. Po	4,000	0.03%
14.	Torres, George C. &/or Torres, Auralyn S.	4,000	0.03%
14.	Enrique M. Zalamea Jr.	4,000	0.03%
15.	See, Manuel Go &/or See, Annabelle Llorca	3,200	0.03%
16.	Picazo Buyco Tan Fider & Santos	3,000	0.02%
17.	See, David Go	2,000	0.02%
17.	Borja, Enrico L.	2,000	0.02%
17.	Victor R. Trinidad &/or Johannah Alexandria N. Trinidad	2,000	0.02%
17.	Manuel D. Tanglao	2,000	0.02%
17.	Llamas, Joanna Monica G. or Maria Cleofe	2,000	0.02%
17.	Chua, Wilfredo T. &/or Chua Marcela D.	2,000	0.02%
17.	Ho, Luisa Chua &/or Ho, Benito Gansan	2,000	0.02%
17.	See, Albert Go &/or See, Anna Lisa Chu	2,000	0.02%
17.	See, Philip Go	2,000	0.02%
17.	See, Put &/or See, Martha Go	2,000	0.02%
17.	Yap, Benjie Go	2,000	0.02%
18.	Renato L. Paras or Aurea G. Paras or Maria Teresa P. Goduco	1,200	0.01%
19.	Tan, Mariano Vicente Lim&/or Tan, Katherine Lim	1,000	0.01%
19.	Jallorina, Fernando S.	1,000	0.01%
19.	David, Donna N.	1,000	0.01%
19.	Kim, Hong Gu	1,000	0.01%
20.	Macabuhay, Melchor T.	800	0.01%

Voting Preferred Shares

	Stockholder name	No. of voting preferred shares	Percentage of voting preferred shares
1.	Mermac, Inc.	159,577,460	79.79%
2.	Mitsubishi Corporation	32,640,492	16.32%
3.	Deutsche Bank AG Manila A/C UBS AG Hongkong	1,561,478	0.78%
4.	Fernando Zobel de Ayala	554,983	0.28%
5.	Jaime Augusto Zobel de Ayala	543,802	0.27%
6.	HSBC Manila OBO A/C 000-171579-574	364,810	0.18%
7.	Delfin L. Lazaro	258,297	0.13%
8.	BPI Securities Corporation	203,608	0.10%
9.	HSBC Manila OBO A/C 000-595686-550	170,064	0.09%
10.	HSBC Manila OBO A/C 000-808154-573	169,803	0.08%
11.	Deutsche Regis Partners, Inc. A/C Clients	137,372	0.07%
12.	HSBC Manila OBO A/C 000-170670-569	118,194	0.06%
13.	AB Capital Securities Inc.	115,873	0.06%
14.	BDO Securities Corporation	115,794	0.06%
15.	HSBC Manila OBO A/C 000-595686-574	106,486	0.05%
16.	Mercedita S. Nolledo	84,996	0.04%
17.	Ariston Dela Rosa Estrada, Jr.	84,396	0.04%
18.	Asiasec Equities Inc.	78,234	0.04%
19.	HSBC Manila OBO A/C 000-083766-550	73,272	0.04%
20.	HSBC Manila OBO A/C 000-171579-567	72,884	0.04%

Dividends

Stock Dividends		
PERCENT	RECORD DATE	PAYMENT DATE
20%	May 22, 2007	June 18, 2007
20%	April 24, 2008	May 21, 2008
20%	July 5, 2011	July 29, 2011

***Cash dividends* – 2009**			
CLASS	PAYMENT DATE	RATE	TERM / RECORD DATE
On common shares	July 10, 2009 February 2, 2010	2.00/share 2.00/share	June 23, 2009 January 8, 2010

***Cash dividends* – 2010**			
CLASS	PAYMENT DATE	RATE	TERM / RECORD DATE
On common shares	July 16, 2010 February 2, 2011	2.00/share 2.00/share	June 22, 2010 January 7, 2011

***Cash dividends* – 2011**			
CLASS	PAYMENT DATE	RATE	TERM / RECORD DATE
On common shares	July 26, 2011 January 24, 2012	2.00/share 2.00/share	June 30, 2011 December 28, 2011

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Recent Sales of Unregistered Securities or Exempt Securities

The following shares were issued to/subscribed by the Company's executives as a result of the exercise of stock options (ESOP) and the subscription to the stock ownership (ESOWN) plans:

	No. of shares	
Year	**ESOP**	**ESOWN***
2010	183,610	18,244
2011	411,743	53,683

**Net of cancelled subscriptions*

The above shares formed part of the 8,864,000 ESOP and ESOWN shares subject of the Commission's resolution dated January 12, 2006 confirming the issuance of such shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

Item 6. Management's Discussion and Analysis of Operations

2011

Ayala Corporation's consolidated revenues reached P107.5 billion in 2011, 10% higher than full year consolidated revenues in 2010 of P98.1 billion. The bulk of this was accounted for by Sales of Goods and Services which made up 87% of total.

Sale of Goods and Services grew by 15% to P94.0 billion mainly due to higher sales of Ayala Land, Inc. (ALI) and Integrated Microelectronics, Inc. (IMI) as well as the full year impact of the consolidation of Manila Water Co., Inc. (MWC) versus only ten months in 2010. This was partly offset, however, by lower sales of the automotive unit as a result of supply constraints following the impact of the natural calamities that struck Japan and Thailand in 2011.

ALI registered a 17% increase in its consolidated revenues to P44.2 billion, driven by the sustained growth across all its business segments. Its residential development revenues grew by 29% to P24.0 billion as sales take-up and bookings increased across all its residential brands. Revenues from its commercial leasing portfolio also grew by 16% to P7.4 billion driven by the increase in occupied gross leasable area (GLA) of its malls and business process outsourcing (BPO) offices. Occupied retail GLA expanded to over 1 million square meters by year-end, while occupied BPO GLA expanded by 23% to over 230,000 square meters. Revenues from Hotels and Resorts likewise increased by 18% with the full consolidation of the acquisition of El Nido resorts.

Electronics unit IMI saw its consolidated sales revenues improve by 40% to US$575.5 million in 2011 from US$412.3 million in 2010. The above-industry average revenue growth was due to increased turnkey businesses in China, strong growth in the automotive and industrial segments for the Philippine operations, and additional revenues from PSi Technologies Inc and IMI's new entities in Europe and Mexico. The company continued to be affected, however, by the difficult global economic environment, as well as rising costs of direct labor and materials which continued to put pressure on operating margins.

MWC also registered a 9% growth in consolidated revenues to P 12 billion as a result of higher average tariff rates and a slight increase in billed volume. MWC's operating subsidiaries, Laguna AAA Water Corporation, Boracay Island Water Company and Clark Water Corporation, contributed total revenues of P307 million, while the project in Vietnam added P169 million to MWC's consolidated revenues.

Its auto unit, Ayala Automotive, however recorded lower revenues in 2011 as sales were impacted by supply disruptions following the natural disasters that hit Japan and Thailand. Revenues declined by 23% to P8.8 billion in 2011.

Ayala's share in the net earnings of associates and jointly controlled entities grew by 26% to P7.7 billion. The increase was mainly due to higher equity share in the net earnings of its banking unit, Bank of the Philippines Islands (BPI), as well as lower equity losses from LiveIt Investments, its holding company for its BPO investments.

BPI posted a net income of P12.8 billion for full year 2011, a 13% increase over the P11.3 billion earnings it reported in 2010. This was mainly on the back of a 9% growth in revenues as net interest income improved by 9% due to a healthy growth in average asset base and a slight expansion in net interest

margin. Non-interest income also increased by 8%. The bank's loan growth was strong as it grew by 20% during the year driven by all market segments.

Telecom unit, Globe Telecom, reported stable net income of P9.8 billion in 2011, 1% higher than last year's P9.7 billion. The latter included a one-time upward adjustment of P526 million from prepaid load credits that have either expired or have been used up. Core net income, however, which excludes foreign exchange and mark-to-market gains and losses, as well as non-recurring items, was up by 11% to P10.0 billion from P9.1 billion the prior year. Globe continued its upward momentum as it hit record consolidated service revenues of P67.8 billion, up 8% against prior year and significantly outperforming the industry's modest 1% growth during the period.

LiveIt Investments, which has investments in four BPO companies, saw significant improvement in 2011. The company achieved significant growth in its share of revenues and EBITDA. Full year share of revenues were US$318 million, up 16% year-on-year due to growth across all the 4 investee companies. Full year share of EBITDA was US$25 million, up 63% as a result of greater scale and operational efficiencies. LiveIt recorded a full year net loss of US$18 million, which represents an improvement of US$14 million over 2010's net loss, after excluding the 2010 non-cash net revaluation gain of $37 Million due largely to the investment of Actis in Integreon. The net loss in 2011 included US$22 million in non-operating items such as non-cash amortization of intangibles related to acquisitions and interest expense for the leveraged buyout of Stream.

Ayala's consolidated interest income increased by 30% to P3.3 billion mainly due to higher funds invested by ALI and MWC. Other income, however, declined by 66% to P2.5 billion in 2011 as 2010 included an extraordinary gain of P6.4 billion. This was from the revaluation gain on Ayala's investment in Manila Water after it increased its stake in the company. In addition, LiveIt also recognized a revaluation gain after the buy-in of a private entity into Integreon.

Consolidated costs and expenses reached P91.7 billion, 12% higher versus 2010. Cost of sales and services increased by 14%to nearly P70 billion in line with the growth in consolidated sales and services. Consolidated general and administrative expenses declined slightly to P10.9 billion from P11.4 billion the prior year. Interest and other financing charges grew by 30% to P6.2 billion mainly due to higher interest expense as a result of higher loan balances at the parent company as well as subsidiaries ALI and MWC.

These resulted in a consolidated net income of nearly P15.8 billion. Excluding minority interest, net income attributable to the parent company was at P9.4 billion, 16% lower than reported net income in 2010 of P11.2 billion. Excluding extraordinary net gains in 2010 of P3.6 billion and in 2011 of around P600 million which arose from the gains realized from the exchange in ownership in Arch Capital and Arch Capital Asian Partners with The Rohatyn Group as well as the non-cash revaluation gain realized from IMI's acquisition of the EPIQ group, core net income was at P8.8 billion, 16% higher than 2010's core net income of P7.6 billion.

Ayala's balance sheet remains very strong. Current assets rose by 14% on a consolidated basis to P123.6 billion largely due to higher inventory of new projects of ALI and IMI's acquisition of EPIQ. Accounts receivables likewise increased in these two subsidiaries. Cash and short term investments combined was at P55.2 billion by year-end 2011, slightly lower than the P57.1 billion at the start of the year. Consolidated current ratio at year-end stood at 1.76 times versus 1.89 the prior year.

Consolidated non-current assets grew by 13% to P234.1 billion as a result of higher equity share in the net income of associates and joint ventures as well as new investments made in the power sector. Higher property, plant, and equipment also partly contributed to the increase in non-current assets.

Total consolidated liabilities increased by 25% to P186.4 billion mainly due to higher loans of ALI, MWC, IMI and the parent company as they pursue their expansion plans. Notwithstanding this, consolidated net debt to equity ratio stood at 0.48 to 1. Return on equity at year-end was at 8.8%.

Capital expenditure reached P65 billion in 2011 across the group. This is expected to increase by 38% in 2012 with group capex estimated at P91 billion. The bulk of this is for real estate development, network improvement in its telecom unit, acquisitions as well as investments in its water business, and new investments in the power and transport infrastructure sectors.

Causes for any material change

Balance Sheet Items
(December 31, 2011 Vs. December 31, 2010)

Short-term investments – 60% decrease from P3,994mln to P1,613mln
Decrease due to liquidation of short-term investments to fund property acquisition and launching of new projects by the real estate and water utilities groups. This account is at 1% of the total assets as of December 31, 2011 and 2010, respectively.

Accounts receivable (current) – 21% increase from P25,935mln to P31,320mln
Increase due to the higher sales of the real estate, electronics and water utilities groups; combined with acquisition of new subsidiaries of the electronics group. This account is at 9% and 8% of the total assets as of December 31, 2011 and 2010, respectively.

Inventories – 51% increase from P18,375mln to P27,766mln
Increase due to the reclassification from land and improvements to saleable inventories and developments in new and existing projects of the real estate group. Also contributing is the higher inventory of the electronics manufacturing group as it acquired new operating subsidiaries. This account is at 8% and 6% of the total assets as of December 31, 2011 and 2010, respectively.

Other current assets – 34% increase from P6,912mln to P9,289mln
Increase due to the higher prepaid expenses arising from new projects offset by matured fixed income securities of the real estate group; acquisition of certain investments of the international group. This account is at 2% of the total assets as of December 31, 2011 and 2010, respectively.

Accounts receivable (non-current) – 72% increase from P4,793mln to P8,251mln
Increase due primarily to the higher sales of the real estate group; and water utilities group's acquisition of a subsidiary. This account is at 2% of the total assets as of December 31, 2011 and 2010, respectively.

Land and improvements – 13% increase from P16,434mln to P18,531mln
Increase due primarily to the higher land banking and new projects of real estate group. This account is at 5% of the total assets as of December 31, 2011 and 2010.

Investment in associates and jointly controlled entities– 11% increase from P72,005mln to P79,659mln
Increase is attributable to the 2011 equity earnings from telecommunications and financial services group, coupled with new investments of the real estate, water utilities and energy power groups; partly offset by dividends received from these companies. This account is at 22% of the total assets as of December 31, 2011 and 2010 .

Investment in bonds and other securities – 23% decrease from P4,854mln to P3,745mln
Decrease due primarily to redemption of certain investment shares of the water utilities group and return of investment made by the international group. This account is at 1% and 2% of the total assets as of December 31, 2011 and 2010.

Investment in real properties – 12% increase from P29,488mln to P33,135mln
Increase due primarily to expansion and new projects of real estate group. This account is at 9% of the total assets as of December 31, 2011 and 2010.

Property and equipment – 18% increase from P11,699mln to P13,851mln
Increase is traceable to capital expenditures of the real estate group; and expansion projects and acquisition of a new subsidiary of the electronics group. This account is at 4% of the total assets as of December 31, 2011 and 2010.

Service concession asset – 12% increase from P59,098mln to P66,247mln
Increase due primarily to expansion of service areas and launching of related projects of water utilities group. This account is at 19% of the total assets as of December 31, 2011 and 2010, respectively.

Intangible assets – 38% increase from P3,114mln to P4,312mln
Mainly due to recording of preliminary goodwill arising from acquisition of subsidiaries under information technology & business process, electronics and others (energy/power) groups. As of December 31, 2011 and 2010, this account is at 1% of the total assets, respectively.

Deferred tax assets – 12% increase from P2,749mln to P3,081mln
Mainly due to higher service works and projects of the water utilities group. As of December 31, 2011 and 2010, this account is at 1% of the total assets, respectively.

Other non-current assets – 18% increase from P2,587mln to P3,060mln

Mainly caused by higher deposits of the real estate group. As of December 31, 2011 and 2010, this account is at 1% of the total assets, respectively.

Accounts payable and accrued expenses – 35% increase from P37,713mln to P51,014ml
Primarily due to increase in payables of the real estate group arising from new projects and expansion; and higher payables due to better operations of water utilities group and inclusion of accounts of a newly acquired subsidiary of the electronics manufacturing group. This account is at 28% and 25%of the total liabilities as of December 31, 2011 and 2010.

Short-term debt – 47% increase from P4,519mln to P6,666mln
Mainly due to by new loan availments of the real estate and electronics manufacturing groups to support higher inventory purchases; plus inclusion of accounts of the newly acquired subsidiary of the electronics group; partially offset by lower loan balance of international operations group. Short-term debt remained at 4% and 3% of the total assets as of December 31, 2011 and 2010.

Income tax payable – 10% increase from P441mln to P483mln
Higher taxable income of most of the real estate group. As a percentage to total liabilities, this account is at 0.3% as of December 31, 2011 and 2010.

Current portion of long-term debt – 34% decrease from P11,237mln to P7,460mln
Largely due to payment of matured loans of real estate, electronics manufacturing, water utilities and other groups; offset partially by reclassification of the parent company's debt into current portion. As of December 31, 2011 and 2010, current portion of long-term debt is at 4% and 8% of the total liabilities, respectively.

Service concession obligation – current portion – 23% increase from P794mln to P981mln
Increase was mainly due to higher computed and actual obligation due within one year. This account is at 1% of the total liabilities as of December 31, 2011 and 2010.

Non-current portion of long-term debt – 38% increase from P67,080mln to P92,592mln
Mainly due to new loans availed/issuance of bonds by the parent company, real estate, electronics and water utilities groups offset by lower debt level of the international operations group due to intercompany elimination . As of December 31, 2011 and 2010, non-current portion of long-term debt is at 50% and 45% of the total liabilities, respectively.

Pension liabilities – 21% increase from P341mln to P414mln
Largely on account of increase in water utilities group. This account stood at 0.2% of the total liabilities as of December 30, 2011 and 2010, respectively.

Paid-up capital - 13% increase from P37,855mln to P42,833mln
Mainly due to this year's 20% stock dividends declared and exercise of ESOP/ESOWN. This account stood at 25% of total equity.

Share-based payments - 55% decrease from P1,243mln to P554mln
Mainly due to reclassification of share in the share-based payments of the subsidiaries into non controlling interest account.

Cumulative translation adjustment – 31% increase from -P1,763mln to -P2,311mln
Mainly due to higher balances of the information technology and BPO services and electronics groups.

Equity Reserve – 585% increase from P148mln to P1,016mln
Increase due to movements in ownership in the companies under the real estate, electronics and water utilities groups.

Net unrealized gain on available-for-sale financial assets – 53% increase from P1,129mln to P1,725mln
Mainly due to increase in the market value of securities held by the financial services group.

Treasury stock – 157% increase from P4,832mln to P12,409mln
Mainly due to share buy-back program and the redemption of Preferred shares of the company.

Noncontrolling interest – 8% increase from P59,210mln to P64,194mln
Share in 2011 operational results of the real estate and water utilities group. This account stood at 37% of total equity.

Income Statement items
(YTD December 31, 2011 Vs YTD December 31, 2010)

Sale of goods – 20% increase from P46,531mln to P55,704mln
Improved sales performance of real estate and electronics groups; offset by lower sales performance of the automotive and others group mainly due to shortage of vehicle supply. As a percentage to total income, sale of goods is at 47% to 52% in 2010 and 2011, respectively.

Rendering of services – 8% increase from P35,549mln to P38,329mln
Primarily on account of improved sales performance of water utilities group plus effect of full consolidation of this group for whole year in 2011 vs. ten months in 2010. As a percentage to total income, rendering of services is 36% in 2010 and 2011.

Equity in net earnings of associates and jointly ventures – 26% increase from P6,124mln to P7,727mln
Increase mainly due to earnings of financial services and telecommunications groups; coupled with lower net loss registered by investees of international and information technology and BPO Services groups. As a percentage to total income, this account is 7% to 6% in 2010 and 2011, respectively.

Interest income – 30% increase from P2,521mln to P3,282mln
Improved income arising from higher investible funds by real estate and water utilities groups. This account is 3% of the total income in 2011 and 2010, respectively.

Other income – 66% decrease from P7,347mln to P2,491mln
Decline was due to gains resulting from change in accounting for investments in the water utilities companies owned by the Parent Company and a former subsidiary in IT and BPO services group booked in 2010. This account is at 2% and 7% of the total income in 2011 and in 2010, respectively.
Cost of sales – 19% increase from P36,957mln to P43,934mln
Increase attributable to higher sales of the real estate and electronics; offset partially by lower costs of automotive and others group. As a percentage to total costs and expenses, sale of goods is at 47% to 50% in 2010 and 2011, respectively.

Cost of rendering of services – 7% increase from P24,395mln to P26,143mln
Primarily on account of higher sales of water utilities group plus effect of full consolidation of this group for whole year in 2011 vs. ten months in 2010. As a percentage to total costs and expenses, rendering of services is 31% and 30% in 2010 and 2011, respectively.

Interest expense and other financing charges – 30% increase from P4,756mln to P6,175mln
Increase mainly due to higher borrowings of the parent company, real estate and water utilities groups. This expense classification accounts for 7% and 6% of costs and expenses in 2011 and 2010.

Other charges – 64% decrease from P2,072mln to P737mln
Decrease mainly on provisions by the international group in 2010. This expense classification accounts for 1% and 3% of costs and expenses in 2011 and 2010, respectively.

Provision for income tax – 33% increase from P2,900mln to P3,869mln
Primarily due to higher taxable income of the several subsidiaries significant part of which comes from real estate, electronics and water utilities groups on account of better sales and other operating results.

Noncontrolling interests – 33% increase from P4,824mln to P6,404mln
Attributable to the favorable performance of the real estate and water utilities groups in 2011.

2010

Ayala Corporation generated consolidated revenues of P98.1 billion in 2010, 28% higher than the prior year's P76.3 billion. This was mainly driven by significantly higher sales and service revenues, which rose by 30% to P82.1 billion from P63.2 billion as a result of the strong performance of its real estate and automotive units, as well as the impact of the full consolidation of its water distribution business after Ayala increased its ownership stake in the water company. Consolidated net income reached P11.2 billion, up 37% year-on-year.

Ayala's real estate unit, Ayala Land, Inc. (ALI) achieved record high performance in 2010 as revenues reached an all-time high of P37.8 billion, a 24% growth from prior year's level. Net income also reached a record P5.5 billion, 35% higher than net income in 2009. Ayala Land's growth was driven by all its business lines with residential development revenues comprising the bulk and growing by 19%. The

robust demand in the domestic property sector resulted in strong take up of its residential projects. Take-up values of ALI's residential units across all brands grew significantly with incremental contribution from its fourth residential brand, *Amaia*. Its leasing revenues also rose by 13%. Revenues from shopping centers grew by 3% while the office segment rose by 21%. Occupied gross leasable area expanded for commercial center and offices by 5% and 35%, respectively, while rental rates increased slightly. In the meantime, revenues from its new foray in hotels and resorts also rose by 33% reflecting the consolidation of the acquisition of 60% of El Nido Resort in Palawan.

Ayala's automotive business also contributed to consolidated sales and service revenues. Ayala Automotive posted a 6% growth in revenues to P11.5 billion mainly from better service and parts sales, improved performance of collateral business, and higher equity share from Honda Cars Philippines, Inc. Ayala Auto registered a 29% growth in net income to P295 million in 2010 from P229 million in 2009.

Manila Water Co., Inc. (MWC) revenues grew 16% year-on-year to P11.0 billion. This was due to the steady growth in water volume sales as billed volume grew by 3.5% despite the El Nino condition, coupled with the impact of a downward adjustment in depreciation expense. Continued improvements in operating efficiency further improved non-revenue water to 11% in 2010 from 15.8% the prior year. Manila Water registered a net income of almost P4.0 billion in 2010, 23% higher than prior year.

While the electronics manufacturing unit, Integrated Microelectronics, Inc. was impacted by the lingering effects of the global downturn, it contributed to the group's revenue growth with a 4% increase in dollar revenues during the year driven by the sustained strong performance of its China operations. Net income, however declined by 53% versus the prior year but excluding one-off expenses earnings were up by 27%.

The robust revenue performance were partly tempered by the effect of the deconsolidation of Integreon, a subsidiary of LiveIt, Ayala's holding company for its investments in business process outsourcing (BPO).

Ayala's equity in net earnings of associates and jointly controlled entities declined by 17% to P6.1 billion from P7.4 billion the prior year. The decline mainly reflects the company's shift in the accounting for its investment in Manila Water from equity method to full consolidation method, following its increased stake in the water company and impairment provisions on one of its BPO investments. In addition, the company also booked an impairment provision on AG Holdings for certain real estate investments in North America.

Intense competition in the telecommunications sector weighed on earnings of its telecom unit, Globe Telecom. While Globe's net income of P9.7 billion was 22% lower than prior year, performance in the fourth quarter of 2010 was strong as quarter-on-quarter service revenues were up by 7%. This was led by the surge in postpaid plan subscriptions and the increased usage and top-ups in both the Globe Prepaid and TM brands. As a result, Globe expanded total SIM base by 14% to 26.5 million by year-end. On the other hand, the momentum of its broadband business remains strong with revenues up 75% year-on-year. Further improvements in broadband's profitability will also improve consolidated EBITDA margins, which ended the year at 53%.

The decline in equity earnings at the telecom unit were cushioned by the robust growth of Ayala's banking and financial services unit. The Bank of the Philippine Islands (BPI) had another strong year with net income reaching a record P11.3 billion, up 33% for the second consecutive year. Solid business growth and trading gains both fuelled the rise in its earnings. Revenues rose by 13% with net interest income up 10% to P24 billion driven by a 12% increase in its average asset base. Non-interest income was up 18% due to higher gains from securities trading as well as fee-based income. Loan growth was strong across all segments, sustaining double-digit expansion. The bank's total resources reached P877 billion, up 21% while deposits grew by 24% to P720 billion as the bank introduced new deposit products to address the needs of its various customers.

Other Income rose by 140% to P7.4 billion in 2010 from P3.1 billion in 2009. This was mainly due to the revaluation gain on Ayala's investments in Manila Water after it increased its stake in the company. In addition, LiveIt also recognized a revaluation gain after the buy-in of a private equity investor in Integreon. These revaluations are in accordance with Philippine Financial Reporting Standards (PFRS).

Consolidated costs and expenses increased by 24% to P79.2 billion, mainly because of a 22% increase in consolidated cost of sales and services. This mainly reflects the impact of the consolidation of Manila Water and expansion of new projects in the real estate group. General and administrative expenses increased by 31% while interest and other financing charges increased by 24%, also largely reflective of the impact of the full consolidation of the water unit.

Other charges were up 44% to P2.1 billion due to the impairment provisions taken by AG Holdings for certain assets in North America.

Over-all, Ayala maintains a very strong financial condition. Consolidated cash reached P57.1 billion by year-end 2010 with consolidated net debt-to-equity of 0.24 to 1. Return on equity was at 10.6%. On a group-wide basis, capital expenditures are expected to reach P79 billion in 2011, 21% higher than capex in 2010, reflecting the group's optimism on the country's growth prospects.

Causes for any material change
(Increase or decrease of 5% or more in the financial statements)

Balance Sheet Items
(December 30, 2010 Vs December 31, 2009)

Cash and cash equivalents – 16% increase from P45,657mln to P53,143mln
Dividends received net of dividends paid, proceeds from new loans availed and disbursements to fund various investments by the parent company. Also contributing is reclassification from short-term investment and improvement in sales of the real estate group, full consolidation of the water utilities group offset by deconsolidation of a former subsidiary in the information technology (IT) and business process outsourcing (BPO) services group. As a percentage to total assets, cash and cash equivalents decreased to 17% from 20% as of December 31, 2010 and December 31, 2009, respectively.

Short-term investments – 12% decrease from P4,561mln to P3,994mln
Money market placements with maturity of more than 3 months up to 6 months by the parent company and the consolidation of the water utilities group offset by reduction in placements by the real estate group. As a percentage to total assets, short-term investments is at 1.3% as of December 31, 2010 and 2% as of December 31, 2009.

Inventories – 80% increase from P10,225mln to P18,375mln
Increase due to the reclassification from land and improvements to saleable inventories and developments in new and existing projects of the real estate group; higher inventory of the electronics and automotive groups and full consolidation of saleable property units of a subsidiary in international operation group. This account is at 6% and 4% of the total assets as of December 31, 2010 and December 31, 2009, respectively.

Noncurrent accounts and notes receivable – 80% increase from P2,658mln to P4,793mln
Higher receivables of the real estate group from improvements in sales and full consolidation of the water utilities group. Noncurrent accounts and notes receivable is at 2% and 1.1% of the total assets as of December 31, 2010 and December 31, 2009.

Land and improvements – 7% decrease from P17,583mln to P16,434mln
Reclassification of various properties of the real estate group into saleable inventories. This account is at 5% of the total assets as of December 31, 2010 and 8% as of December 31, 2009.

Investment in bonds and other securities –37 % increase from P3,543mln to P4,854mln
Increase largely due to full consolidation of the water utilities group. This account is at 2% of the total assets as of December 31, 2010 and December 31, 2009.
Investment in real properties – 5% increase from P28,124mln to P29,488mln
Primarily due to the completion of malls and buildings owned by the real estate group. As a percentage to total assets, investment in real properties is at 9% and 12% as of December 31, 2010 and December 31, 2009, respectively.

Property, plant and equipment – 34% increase from P8,738mln to P11,699mln
Mainly due to full consolidation of water utilities group plus acquisitions of the real estate and electronics groups offset by deconsolidation of a former subsidiary of IT and BPO services group and depreciation expense for the year by major groups. As of December 31, 2010 and December 31, 2009, the group's property, plant and equipment account is at 4% of the total assets.

Deferred tax assets –70 % increase from P1,396mln to P2,370mln
Due to higher unrealized sales collection by the real estate group and full consolidation of the water utilities group. As of December 31, 2010 and December 31, 2009, this account remained at 1% of the total assets.
Pension assets –44 % increase from P132mln to P191mln
Increase in pension assets of the parent company. This account is at 0.1% of the total assets as of December 31, 2010 and December 31, 2009.

Intangible assets – 33% decrease from P4,612mln to P3,083mln

Mainly caused by deconsolidation of a former subsidiary of the IT and BPO services group offset by new acquisitions of the electronics group. As of December 31, 2010 and December 31, 2009, this account is at 1% and2% of the total assets, respectively.

Service concession assets
An asset account of the water utilities group which was fully consolidated during the year. This account, with a balance of P59,098mln, is at 19% of the total assets as of December 31, 2010.

Other noncurrent assets – 93% increase from P1,342mln to P2,587mln
Primarily caused by full consolidation of the water utilities group combined with increase in deposits of real estate group from improved sales. Other noncurrent assets remained at 1% of the total assets as of December 31, 2010 and December 31, 2009.

Accounts payable and accrued expenses – 37% increase from P27,665mln to P37,897mln
Primarily caused by full consolidation of the water utilities group coupled with increase in payables of the real estate group arising from new projects and expansion. This account is at 26% and 29%of the total liabilities as of December 31, 2010 and December 31, 2009.

Short-term debt – 71% increase from P2,639mln to P4,519mln
Mainly caused by availments of the real estate and electronics groups to support higher sales. Short-term debt remained at 3% of the total assets as of December 31, 2010 and December 31, 2009.

Income tax payable –13 % decrease from P506mln to P441mln
Higher payments of most of the subsidiaries offset by impact of full consolidation of water utilities group. As a percentage to total liabilities, this account is at 0.3% and 0.5% as of December 31, 2010 and December 31, 2009, respectively.

Current portion of long-term debt – 358% increase from P2,453mln to P11,237mln
Largely due to the reclassification of the parent company's and real estate and electronics groups' current maturing loans from long-term debt plus full consolidation of the water utilities group. As of December 31, 2010 and December 31, 2009, current portion of long-term debt is at 8% and 3% of the total liabilities, respectively.

Service concession obligation – current portion
A liability account of the water utilities group which was fully consolidated during the year. This account, with a balance of P794mln, is at 0.5% of the total liabilities as of December 31, 2010.

Other current liabilities – 7% decrease from P2,822mln to P2,631mln
Mainly resulting from full consolidation of the water utilities group offset by deconsolidation of a former subsidiary of the IT and BPO services group. Other current liabilities account is at 2% and 3% of the total liabilities as of December 31, 2010 and December 31, 2009.

Non-current portion of long-term debt – 30% increase from P51,432mln to P67,080mln
Largely due to the reclassification of the parent company's and real estate and electronics groups' current maturing loans from long-term debt combined with full consolidation of the water utilities group. As of December 31, 2010 and December 31, 2009, current portion of long-term debt is at 45% and 53% of the total liabilities, respectively.

Service concession obligation – non-current portion
A liability account of the water utilities group which was fully consolidated during the year. This account, with a balance of P7,026mln, is at 5% of the total liabilities as of December 31, 2010.

Deferred tax liabilities – 2558% increase from P207mln to P5,514mln
Mainly due to full consolidation of the water utilities group. As a percentage to total liabilities, this account is at 3% and 0.2%as of December 31, 2010 and December 31, 2009.

Pension liabilities –49 % increase from P228mln to P340mln
Largely on account of full consolidation of the water utilities group offset by adjustment from recent actuarial valuation of the parent company. This account stood at 2% of the total liabilities as of December 30, 2010 and December 31, 2009, respectively.

Other noncurrent liabilities – 25% increase from P8,780mln to P10,942mln
Largely due to full consolidation of the water utilities group. As a percentage to total liabilities, this account slightly increased from 7% to 9% as of December 31, 2010 and December 31, 2009, respectively.

Share-based payments –17% increase from P1,060mln to P1,243mln
Increase in share-based payments of the parent company and electronics and real estate groups.

Retained earnings – 13% increase from P65,739mln to P74,148mln
2010 net income net of dividends declared.

Cumulative translation adjustment –30 % increase from (P1,351mln) to (P1,763mln)
Mainly due to forex rate changes.

Net unrealized gain on available-for-sale financial assets – 811% increase from P124mln to P1,129mln
Mainly due to improvement in the market prices of securities held by the group.

Parent company preferred shares held by subsidiary -150 % increase from (P100mln) to (P250mln)
Mainly due to shares held by the water utilities group which was fully consolidated as of December 31, 2010.

Equity reserve
Arising from business combination transactions of real estate, electronics and water utilities group.

Noncontrolling interest –78 % increase from P33,158mln to P59,245mln
Noncontrolling interests' share in 2010 net income combined with full consolidation of the water utilities group.

Income Statement Items
(YE December 31, 2010 Vs YE December 31, 2009)

Sales and services revenue – 30% increase from P63,237mln to P82,080mln
Due to the consolidation of the water utilities group in 2010, higher sales from new projects of the real estate group, higher sales volume of the automotive group, partly offset by the effect of the deconsolidation of a former subsidiary of IT and BPO services group. This revenue account is at 84% and 83% of the total income in 2010 and 2009.

Equity in net earnings of associates and jointly controlled entities – 17% decrease from P7,361mln to P6,124mln
Due to change in accounting for investments in the water utilities companies owned by the Parent Company and a former subsidiary in IT and BPO services group - from equity method to full consolidation method; combined with provision for impairment on investment of the IT and BPO services and international operation groups. This account comprised 6% and 10%of the total income in 2010 and 2009.

Other income –140 % increase from P3,061mln to P7,346mln
Substantially due to gain on revaluation of investments in water utilities and IT and BPO services groups. This account is 7% and 4% of the total income in 2010 and in 2009, respectively.

Cost of sales and services – 22% increase from P49,318mln to P60,262mln
Due to the consolidation of the water utilities group in 2010, higher costs on new projects of the real estate group, higher sales volume of the automotive group, partly offset by the effect of the deconsolidation of a former subsidiary in IT and BPO services group. This account is 22% of the costs and expenses in 2010 and 76% in 2009.

General and administrative expenses – 31% increase from P9,215mln to P12,096mln
Mainly caused by the consolidation of the water utilities group in 2010. This account is 15% of the costs and expenses in 2010 and 14% in 2009.

Interest and other financing charges – 24% increase from P3,822mln to P4,756mln
Largely due to consolidation of the water utilities group. This account is 6% of the costs and expenses in 2010 and 2009.

Other charges – 44% decrease from P1,435mln- to P2,071mln
Mainly due to the provisions for various assets of the international operation group. This account is 3% and 2% of the costs and expenses in both 2010 and 2009.

Provision for income tax – 71% increase from P1,699mln to P2,900mln
Mainly caused by full consolidation of the water utilities group and significant improvement in income of the real estate group.

Key performance indicators of AC and its significant subsidiaries:
The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

(In million pesos, except ratios)	**2011**	**2010**	**2009**
Income	107,532	98,071	76,293
Net Income Attributable to Equity Holders	9,395	11,161	8,154
Total Assets	357,627	315,370	232,149
Total Debt	106,717	82,836	56,523
Stockholders' Equity	107,044	107,541	102,260
Current Ratio[1]	1.78	1.89	2.57
Debt to Equity Ratio[2]	1.00	0.77	0.55

Ayala Land, Inc.

(In million pesos, except ratios)	**2011**	**2010**	**2009**
Revenue	44,205	37,813	30,455
Net Income Attributable to Equity Holders	7,140	5,458	4,039
Total Assets	154,619	121,675	107,741
Total Debt	34,531	20,971	18,812
Stockholders' Equity	62,357	56,857	52,392
Current Ratio[1]	1.65	1.67	1.95
Debt to Equity Ratio[2]	0.55	0.37	0.36

Integrated Micro-Electronics, Inc.

(In thousand US dollars, except ratios)	**2011**	**2010**	**2009**
Revenue	575,454	412,327	395,502
Net Income Attributable to Equity Holders	3,289	4,739	10,066
Total Assets	444,692	339,083	302,082
Total Debt	99,407	55,922	48,302
Stockholders' Equity	190,322	169,291	166,690
Current Ratio[1]	1.51	1.23	1.89
Debt to Equity Ratio[2]	0.52	0.33	0.29

Manila Water Company, Inc.

(In million pesos, except ratios)	**2011**	**2010**
Revenue	12,004	11,013
Net Income Attributable to Equity Holders	4,154	4,074
Total Assets	60,897	48,621
Total Debt	23,268	14,133
Stockholders' Equity	22,637	19,815
Current Ratio[1]	1.11	0.98
Debt to Equity Ratio[2]	1.02	0.71

[1] *Current Assets/ Current Liabilities.*

[2] *Total Debt/ Stockholders' Equity (Total Debt includes short-term debt, long-term debt and current portion of long-term debt).*

In general, the Company posted stable results with the improvements in most of the performance indicators. Buoyed by growing overall economic activities and the Company's growth initiatives in certain identified industries, the above key indicators were within targeted levels.

Net income to equity holders, after factoring out the extraordinary gains in 2010, showed significant growth on strong revenues.

The marked improvements in balance sheet items (total assets and debt) were results of focused financial management. The Company will continue to adopt the following benchmarks: a) current ratio of not lower than 0.5:1.0; and b) debt to equity ratio not to exceed 3.0:1.0, both supported by prudent debt management policies.

There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

At the holding company level, Ayala Corp. has allocated P7.0billion for identified capital expenditure projects in 2012. The Company is prepared to increase this should there be strategic opportunities to expand. The Company has sufficient internal cash, which amounted to P17.2 billion as of year-end 2011.

There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Item 7. Financial Statements and Supplementary Schedules

The consolidated financial statements and schedules as listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17 A.

As regards the significant accruals for payroll, taxes other than income taxes, interest and any other material items, details are not reasonably available because the Company's present consolidation process/system covers only major and/or condensed expense classifications which are not segregated into accrued and cash portions.

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

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There are no disagreements with SGV & Co. on accounting and financial disclosure.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new and amended Philippine Financial Reporting Standards (PFRS) and the Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2011. The Group will also adopt several amended and revised standards and interpretations in 2012 and 2013.

Please refer to Note 2 of the attached Company's audited financial statements on the Summary of Significant Accounting Policies for the accounting of the new PFRS and IFRIC which became effective in 2011 and new PFRS and IFRIC that will be effective in 2012 and 2013.

Information on Independent Public Accountant

a. The external auditor of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for appointment as external auditor at the annual meeting.

b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the annual stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

   Pursuant to the General Requirements of SRC Rule 68 (2011 Amended), Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor, and Ms. Lucy L. Chan has been the Partner In-Charge effective audit year 2007.

External Audit Fees and Services

Ayala Corporation paid or accrued the following fees, including VAT, to its external auditors in the past two years:

	Audit & Audit-related Fees	Tax Fees	Other Fees
2011	₱ 5.30 M	-	₱ 1.15M
2010	₱ 3.18 M	-	₱ 3.52M

SGV & Co. was engaged by the Company to audit its annual financial statements. SGV & Co. was also engaged to conduct post reviews and other procedures to issue comfort letters for the Company and the Underwriters for the issuance of the Seven-Year Put Corporate Bonds in 2010 and the Ten-Year Fixed Multiple Put Bonds in 2011.

No tax consultancy services were secured from SGV & Co. for the past two years.
In 2011, SGV & Co. billed the Company for an aggregate fee of ₱1.15M for the following services:

i. Updates on Philippine Reporting Standards for the entire group of companies
ii. Enterprise-Wide Risk Management Study

In 2010, SGV & Co. billed the Company for an aggregate fee of ₱3.52M for the following services:

i. Due diligence review for a potential acquisition
ii. Financial review of operations of a foreign subsidiary

The Company's Audit and Risk Committee (composed of Mr. Loinaz, an independent director, as Chairman, Mr. del Rosario, Jr., an independent director, as member, and Nobuya Ichiki, a non-executive director as member) recommended to the Board the appointment of SGV & Co. as its external auditor and the fixing of the audit fees. Likewise, the other services rendered by SGV & Co. were approved by the Board upon the recommendation of the Audit and Risk Committee. The stockholders further ratified the resolution of the Board.

The Audit Committee has an existing policy which prohibits the Company from engaging the independent auditors to provide services that may adversely impact their independence, including those expressly prohibited by SEC regulations. In addition, the Audit Committee pre-approves all audit and permitted non-audit services provided by the external auditors. It is expected that the external auditors will continue to provide certain non-audit services including tax-related services to the Company and its subsidiaries.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

The following persons have been nominated to the Board for election at the annual stockholders' meeting and have accepted their nomination:

JAIME AUGUSTO ZOBEL DE AYALA	FERNANDO ZOBEL DE AYALA
YOSHIO AMANO	XAVIER P. LOINAZ
RAMON R. DEL ROSARIO, JR.	ANTONIO JOSE U. PERIQUET
DELFIN L. LAZARO	

The nominees were formally nominated to the Nomination Committee of the Board (composed of Ramon R. Del Rosario, Jr., an independent director, as Chairman, and Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala as members) by a shareholder of the Company, Mr. Gabino Ramon G. Mejia. Messrs. del Rosario, Jr., Xavier P. Loinaz and Antonio Jose U. Periquet, all incumbent directors, are being nominated as independent directors. Mr. Mejia is not related to any of the nominees including Messrs. Loinaz, del Rosario, and Periquet. Please refer to Annex "A" for the summary of the qualifications of the nominees.

Messrs. Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Lazaro and Loinaz have served as directors of the Company for more than five years. On the other hand, Messrs. del Rosario and Periquet have served as directors of the Company for less than five years. Mr. Amano is being nominated to the Board for the first time,

The nominees are expected to attend the scheduled annual stockholders' meeting.

On May 18, 2009, the Securities and Exchange Commission (SEC) approved the amendment of the Bylaws for the adoption of SRC Rule 38 (Requirements on Nomination and Election of Independent Directors). The Company abides by SRC Rule 38 on the required number of independent directors.

The write-ups below include positions currently held by the directors and executive officers, as well as positions held during the past five years.

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
Fernando Zobel de Ayala	President and Chief Operating Officer
Ramon R. del Rosario, Jr.	Independent Director
Nobuya Ichiki	Director
Delfin L. Lazaro	Director
Xavier P. Loinaz	Independent Director
Antonio Jose U. Periquet	Independent Director

Jaime Augusto Zobel de Ayala, , Filipino, 52, director of Ayala Corporation since 1987. He is the Chairman and CEO of Ayala Corporation, Chairman of Globe Telecom, Inc., Bank of the Philippine Islands, and Integrated Micro-Electronics, Inc.; Vice Chairman of Ayala Land, Inc, Co-Vice Chairman of Mermac, Inc., and the Ayala Foundation, Inc.; director of Manila Water Co., Inc., BPI PHILAM Life Assurance Corp., Alabang Commercial Corporation, and Ayala International Pte Ltd.; Chairman of Harvard Business School Asia-Pacific Advisory Board, World Wildlife Fund Philippine Advisory Council and Children's Hour Philippines, Inc.; Vice Chairman of the Asia Business Council; Co-Vice Chair of the Makati Business Club Member of Harvard University Asia Center Advisory Committee; member of the Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, The Asia Society, International Business Council of the World Economic Forum, Pacific Basin Economic Council, Philippine Economic Society and Toshiba International Advisory Group; and member of the Board of Trustees of the Eisenhower Fellowships, and the Singapore Management University.

Fernando Zobel de Ayala, Filipino, 51, director of Ayala Corporation since 1994. He is the President and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land, Inc., Manila Water Company, Inc., Alabang Commercial Corp., Ayala DBS Holdings, Inc., AC International Finance Limited and Ayala International Pte, Ltd.; Co-Vice Chairman of Ayala Foundation, Inc. and Mermac, Inc.; board member of Integrated Micro-Electronics, Inc., Globe Telecom, Inc., Bank of the Philippine Islands, Asiacom Philippines, Inc.; member of The Asia Society, World Economic Forum, INSEAD East Asia Council and

World Presidents' Organization; Vice Chairman of Habitat for Humanity International and the Chairman of the steering committee of Habitat for Humanity's Asia Pacific Capital Campaign; a member of the Board of Directors of Caritas Manila, Kapit Bisig para sa Ilog Pasig Advisory Board, Pilipinas Shell Corporation and Pilipinas Shell Foundation.

Ramon R. del Rosario, Jr., Filipino 67, independent director of Ayala Corporation since April 2010. He is the President and Chief Executive Officer of Philippine Investment Management (PHINMA), Inc.; President, Chief Executive Officer and Vice-Chairman PHINMA Corp.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, AB Capital and Investment Corporation, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., Microtel Development Corp., Trans-Asia Oil & Energy Development Corporation, CIP II Power Corp, PHINMA A&E Outsource Corp., PHINMA F&A Outsource Corp., Toon City Animation, Inc.; Vice-President of Trans-Asia Oil & Energy Development Corporation, PHINMA Property Holdings Corp., PHINMA Foundation; director of Holcim (Philippines), Inc., Trans-Asia Power Generation Corp., Roxas Holdings, Inc., Union Galvasteel Corp.; and Atlas Holdings Corp. He is the Management Association of the Philippines' Management Man of the year for 2010.

Nobuya Ichiki, Japanese, 55, director of Ayala Corporation since June 2009. He is the General Manager of Mitsubishi Corporation - Manila Branch; Chairman of International Elevator & Equipment, Inc.; Chairman and President of MCPL (Philippines) Inc.; President of Japanese Chamber of Commerce & Industry of the Philippines, Inc.; director of The Japanese Association Manila, Inc., Isuzu Philippines Corporation, Imasen Philippines Manufacturing Corp., Kepco Ilijan Corporation, Team Diamond Holdings, UniCharm Philippines Inc., Robinsons Convenience Stores, Inc., Trans World Agro-Products Corp., West of Laguna Development Corporation and Seneca Holdings, Inc.

Delfin L. Lazaro, Filipino, 65, has served as member of the Board of Ayala Corporation since January 2007. He is a member of the Management Committee of Company since 1996. He also holds the following positions: Chairman of Philwater Holdings Co., Inc., Atlas Fertilizer & Chemicals, Inc. and AYC Holdings, Ltd.; Chairman and President of Purefoods International, Ltd., and A.C.S.T. Business Holdings, Inc.; director of Ayala Land, Inc., Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Manila Water Co., Inc., AI North America, Inc., Ayala DBS Holdings, Inc., Probe Productions, Inc. and Empire Insurance Company.

Xavier P. Loinaz, Filipino, 68, independent director of Ayala Corporation since April 2009 and a regular director from April 2006 to April 2009. He is an independent director of Bank of the Philippine Islands, BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation and Globe Telecom, Inc.; trustee of PETA, BPI Foundation, Inc. and E. Zobel Foundation; and Chairman of the Alay Kapwa Kilusan Pangkalusugan.

Antonio Jose U. Periquet, Filipino, 50, independent director of Ayala Corporation since September 2010. He is the Chairman of Pacific Main Holdings, Inc.; director of the Development Bank of the Philippines, DBP Leasing Corporation, DBP Insurance Brokerage, Inc., Metro Rail Transit Corporation, Capstone Technologies Inc. and the Straits Wine Company, Inc.; independent director of BPI Capital Corporation, DMCI Holdings, Inc., and Philippine Seven Corp Trustee of Lyceum of the Philippines University, Inc.

Nominees to the Board of Directors for election at the stockholders' meeting:

All the above incumbent directors,. except Mr. Nobuya Ichiki

Yoshio Amano**,** Japanese, 53, is the General Manager of Asia and Oceania Business Unit, New Energy and Power Generation Division of Mitsubishi Corporation. Prior to his current position in Mitsubishi Corporation, he was assigned to various units of the Company all over Asia such as New Energy Business Unit, Machinery Group, and Environmental Systems & Project Development Department.

Ayala Group Management Committee Members / Senior Leadership Team

*	Jaime Augusto Zobel de Ayala	Chairman & Chief Executive Officer
*	Fernando Zobel de Ayala	President & Chief Operating Officer
***	Mercedita S. Nolledo	Senior Counsel
**	Gerardo C. Ablaza, Jr.	Senior Managing Director, President of Manila Water Company, Inc.
**	Antonino T. Aquino	Senior Managing Director, President of Ayala Land, Inc.
**	Rufino Luis T. Manotok	Senior Managing Director, Chairman of Ayala Automotive Holdings Corporation
**	Arthur R. Tan	Senior Managing Director, President of Integrated Micro-

		Electronics, Inc.
**	Ernest Lawrence L. Cu	President, Globe Telecom, Inc.
**	Aurelio R. Montinola III	President, Bank of the Philippine Islands
**	Alfredo I. Ayala	Managing Director, Chief Executive Officer of LiveIt Investments, Ltd.
****	Maria Lourdes Heras-De Leon	Managing Director , Executive Vice President, Ayala Foundation, Inc.
**	John Eric T. Francia	Managing Director, Group Head of Corporate Strategy and Development
/ *	Victoria P. Garchitorena	Managing Director, President of Ayala Foundation, Inc.
**	Delfin C. Gonzalez, Jr.	Managing Director & Chief Finance Officer
**	Solomon M. Hermosura	Managing Director, General Counsel, Corporate Secretary & Group Head of Legal and Compliance
	Rufino F. Melo III	Managing Director, Controller
	Ramon G. Opulencia	Managing Director & Treasurer
**	John Philip S. Orbeta	Managing Director, Group Head of Corporate Resources
	Ginaflor C. Oris	Managing Director
	Sheila Marie U. Tan	Assistant Corporate Secretary

** Members of the Board of Directors.*
*** Management Committee members.*
**** Until December 31, 2011.*
***** Effective October 3, 2011. Ms. de Leon was elected as President of Ayala Foundation Inc. effective January 1, 2012.*

Mercedita S. Nolledo, Filipino, 70, was the Senior Counsel of the Ayala Group of Companies. She holds the following positions: Chairman of BPI Investment Management, Inc. and AG Counselors Corporation; director of Ayala Land, Inc., Anvaya Cove Beach and Nature Club, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corporation, Bank of the Philippine Islands, BPI Capital Corporation, and BPI Family Savings Bank; member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc.; and President of Sonoma Properties, Inc. She also served as director of Ayala Corporation from 2004 to September 2010.

Gerardo C. Ablaza, Jr., Filipino, 58 has served as member of the Management Committee of Ayala Corporation (Ayala Group) since 1998. He also holds the following positions: Senior Managing Director of Ayala Corporation; Co-Vice Chairman of Globe Telecom, Inc.; President of Manila Water Company, Inc.; director of Bank of the Philippine Islands, BPI Family Savings Bank, Inc., BPI Card Finance Corporation, Asiacom Philippines, Inc., Manila Water Company, Inc. He was appointed Chief Executive Officer of AC Capital from January 1 to June 30, 2010 with directorship positions in HRMall Holdings Limited, LiveIt Investments Limited, Integreon, Inc., Affinity Express Holdings Limited, NewBridge International Investments Ltd., Stream Global Services. and Renewable Energy Test Center. He was the President and Chief Executive Officer of Globe Telecom, Inc. from 1998 to April 2009. He was previously Vice President and Country Business Manager for the Philippines and Guam of Citibank, N.A. for its Global Consumer Banking business. Prior to this position, he was Vice President of Citibank, N.A. Singapore for Consumer Banking. Attendant to his last position in Citibank, N.A., he was the bank's representative to the Board of Directors of CityTrust Banking Corporation and its various subsidiaries. In 2004, he was recognized by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. In the same year, he was awarded by Telecom Asia as the Best Asian Telecom CEO.

Antonino T. Aquino, Filipino, 64, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since August 1998. He also holds the following positions: Chairman of Alveo Land Corp., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Ayala Hotels, Inc., Makati Development Corp., Ayala Property Management Corp., North Triangle Depot Commercial Corp. and Station Square East Commercial Corp.; President and director of Ayala Land, Inc., Fort Bonifacio Development Corp., Alabang Commercial Corp., Accendo Commercial Corp., Aurora Properties, Inc., Ceci Realty, Inc. and Vesta Property Holdings, Inc.; director of Manila Water Company, Inc.; and President of Hero Foundation and Bonifacio Arts Foundation, Inc. He also serves as a member of the board of various corporate social responsibility foundations such as Ayala Foundation, Inc., Manila Water Foundation, Inc., Makati Commercial Estate Association, Inc. and Makati Environment Foundation. He also served as President of Manila Water Company, Inc., and Ayala Property Management Corporation and a Business Unit Manager in IBM Philippines, Inc. He was named "Co-Management Man of the Year 2009" by the Management Association of the Philippines for his leadership role in a very successful waterworks privatization and public-private sector partnership.

Rufino Luis T. Manotok, Filipino, 61, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since 1999. He also holds the following positions: Senior Managing Director of

Ayala Corporation; President and Chairman of Ayala Automotive Holdings Corp., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Iloilo Corp., and Prime Initiatives, Inc.; Chairman of Honda Cars Cebu, Inc. and Isuzu Cebu, Inc.; director of Philwater Holdings Company, Purefoods International Limited, BPI Family Savings Bank, Inc., Bestfull Holdings Limited, Fine State Group Limited and Fidelis Holdings Limited. He was the Chief Finance Officer and Corporate Information Officers of Ayala Corporation; director of Water Capital Works, AC International Finance Ltd., AG Holdings Limited, AI North America, Inc., Asiacom Philippines, Inc., AYC Holdings Ltd., Azalea International Venture Partners Ltd., Ayala Systems Technology, Inc., IMA Landholdings, Inc, and Michigan Holdings, Inc.

***Arthur R. Tan*,** Filipino, 52, has been a member of the Management Committee of Ayala Corporation (Ayala Group) since 2002. He is a Senior Managing Director of the Company since 2007. He has been the President and Chief Executive Officer of Integrated Micro-Electronics, Inc. since April 2002. Concurrently, he is the President and Chief Executive Officer of PSi Technologies Inc., President of Speedy-Tech Electronics Ltd., and Chairman of the Board of Speedy-Tech Philippines, Inc.

Ernest Lawrence L. Cu, Filipino, 51, has been a member of the Management Committee of Ayala Corporation (Ayala Group) since January 2009. He is the President and Chief Executive Officer of Globe Telecom, Inc. In 2010, he was adjudged as the Best CEO by Finance Asia. He was moreover conferred the International Association of Business Communicators' (IABC) CEO EXCEL award for communication excellence in telecoms and IT. He was also voted as one of the Most Trusted Filipinos in a poll conducted by Readers Digest. In 2003, he was awarded the Ernst & Young ICT Entrepreneur of the Year. He is a trustee of Ayala Foundation, Inc., Hero Foundation and De La Salle College of St. Benilde. He is also a director of BPI Globe BanKo,Inc., Systems Technology Institute, Inc., Prople BPO, Inc., ATR KimEng Capital Partners, Inc., and ATR KimEng Financial Corporation. Prior to joining Globe, he was the President and CEO of SPI Technologies, Inc.

Aurelio R. Montinola, ***III***, Filipino, 60, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since 2005. He is the President and CEO of Bank of the Philippine Islands. His other affiliations, among others, include: Chairman of BPI Direct Savings Bank, Inc., BPI Computer Systems, Inc., BPI/MS Insurance Corp., BPI-Philam Life Assurance Corp., BPI Europe Plc., Amon Trading Corporation; Vice Chairman and President of the BPI Foundation, Inc.; Vice Chairman of the Asia/Pacific Regional Advisory Board of Mastercard Incorporated, Republic Cement Corp., LGU Guarantee Corp., Far Eastern University and Philippine Business for Education, Inc.; director of Ayala Land, Inc., BPI Capital Corporation, BPI Family Savings Bank, Inc.; member of the Management Association of the Philippines; and trustee of the Makati Business Club, and Ayala Foundation, Inc.

Alfredo I. Ayala, Filipino, 50, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) and a Managing Director of Ayala Corporation since June 2006. He is the Chief Executive Officer of LiveIt Investments, Ltd., the holding company of Ayala Corporation for its investments in the BPO sector. Currently, he holds the following positions: Chairman of the Business Processing Association of the Philippines (BPA/P) and Integreon Managed Solutions (Philippines), Inc.; Vice Chairman of Stream Global Solutions, Inc.; and director of NewBridge International Investment Limited, Affinity Express Holdings Limited and HRMall Holdings Limited.

Maria Lourdes Heras-De Leon, Filipino, 57, is a Managing Director of Ayala Corporation and the Executive Vice President of Ayala Foundation, Inc. since October 3, 2011. She was formerly with Chevron Corporation as Vice President for Policy, Government and Public Affairs. She was expatriated to the Philippines as a member of the Senior Leadership Team to lead Chevron Geothermal's and Chevron Malampaya's government affairs, policy advocacy and public affairs. She also led the company's community engagement and corporate social responsibility programs refocusing its community development projects from traditional corporate donations into a sustainable, public-private partnership process.

John Eric T. Francia, Filipino, 40, is a Managing Director and a member of the Ayala Corporation Management Committee and the Group Management Committee since January 2009. He is the head of Ayala's Corporate Strategy and Development Group, which is responsible for overseeing Ayala's portfolio strategy and new business development. He is also holds the following positions: President of AC Energy Holdings, Inc., which is Ayala's holding company for its investments in the power sector; director of Manila Water Company, Integrated Micro-Electronics, Inc., LiveIt Investments Ltd., Integreon Managed Solutions (Philippines), Inc., and AC Energy Holdings, Inc. Prior to joining Ayala, Mr. Francia was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA. Prior to consulting, he spent a few years in the field of academe and media.

Victoria P. Garchitorena, Filipino, 67, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since 2006. She has been a Managing Director of Ayala Corporation since 1996. Her other significant positions include: trustee of the Asian Institute of Management, Pinoy Me Foundation, Gifts and Graces, Justice Muñoz Palma Foundation and MLAC Foundation; member of the Asia Pacific Advisory Council Against Corruption-World Bank, World Bank Social Protection Advisory Board, League of Corporate Foundations, Makati Business Club, National Committee of Bishops-Businessmen's Council for Human Development, Center for Innovation, Excellence and Transformation in Governance, Management Association of the Philippines, Corporate Committee, Council on Foundation (USA). Previously, she was the President of Ayala Foundation, Inc. and Philippine Development Foundation (formerly Ayala Foundation USA).

Delfin C. Gonzalez, Jr., Filipino, 62, is the Chief Financial Officer of Ayala Corporation and is also a member of its Management Committee (Holding Company) and Finance Committee. He joined Ayala Corporation in late 2000, assigned as Chief Finance Officer for its subsidiary, Globe Telecom, Inc. until early 2010. He also holds the following positions in various companies of the Ayala Group: Chairman and President of Water Capital Works, Inc., and Azalea Technology Investments, Inc.; Chairman of Darong Agricultural Development Corporation and AYC Finance Ltd.; and director of Integrated Micro-Electronics, Inc., A.C.S.T. Business Holdings, Inc., AC International Finance, Ltd., Asiacom Philippines, Inc., Ayala Aviation Corporation, AYC Holdings Ltd., Michigan Holdings, Inc., AC Energy Holdings, Inc., MPM Noodles Corporation, LiveIt Investments, Ltd., Azalea International Venture Partners Ltd., Ayala Automotive Holdings Corp., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., and various Ayala international companies.

Solomon M. Hermosura, Filipino, 49, is a Managing Director of Ayala Corporation and a member of the Ayala Corporation Management Committee and the Group Management Committee. He is also the General Counsel, Compliance Officer, and Corporate Secretary of the Company. He is the President of AG Counselors Corporation. He serves as Corporate Secretary of Ayala Land, Inc., Globe Telecom, Inc., Manila Water Company, Inc., and Ayala Foundation, Inc.; and a member of the Board of Directors of a number of companies in the Ayala group. He was Corporate Secretary of Integrated Micro-Electronics, Inc. until June 7, 2011.

Rufino F. Melo III, Filipino, 58*,* has served as a Managing Director of Ayala Corporation since 2006 and is the Controller of Ayala Corporation. He is a Director of Darong Agricultural Corporation, Pameka Holdings, Inc, and Water Capital Works, Inc. He is also the Chief Finance Officer of AG Counselors Corporation. Prior to joining Ayala, he was the Group Financial Comptroller of Jardine Davies, Inc.

Ramon G. Opulencia*,* Filipino, 55, is a Managing Director of Ayala Corporation and has served as Treasurer of Ayala Corporation since September 2005. He is currently a member of the Board of Directors of BPI Family Savings Bank, Inc., AYC Holdings Limited and AYC Finance Limited. Prior to joining Ayala Corporation, he was a Senior Manager of the Bank of the Philippine Islands' Treasury Group.

John Philip S. Orbeta, Filipino, 50, has served as a member of the Ayala Corporation Management Committee since 2005 and the Group Management Committee since 2009. He is currently the Managing Director and Group Head for Corporate Resources, covering Strategic Human Resources, Corporate Communications and Information & Communications Technology at Ayala Corporation. He is the Chairman of Ayala Aviation Corporation and Wenphil Corporation; President of HRMall, Inc., HRMall Holdings Limited, J&E Prime Overseas Property Holdings, Inc., Asian Holdings Corp., and Downtown Properties, Inc.; Vice President of Casa Catalina Corp.; director of AG Counselors Corporation and DAJ Property Holdings Corp. He is concurrently the Chairman of the following councils at the Ayala Group: Human Resources Council, Corporate Security Council, the Ayala Business Clubs and is the Program Director of the Ayala Young Leaders Congress. Prior to joining Ayala Corporation, he was the Vice President and Global Practice Director for the firm's Human Capital Consulting Group at Watson Wyatt Worldwide, overseeing the firm's practices in executive compensation, strategic rewards, data services and organization effectiveness around the world. He was also a member of Watson Wyatt's Board of Directors.

Ginaflor C. Oris, Filipino, 44, has served as Managing Director of Ayala Corporation since 2010. She is also the head of Corporate Finance and Asset Management team of the Company. She also holds the following positions: Chairman of Pameka Holdings, Inc; director, CFO and Treasurer of Azalea Technology Investments, Inc., Azalea International Venture Partners, Ltd., and Michigan Holdings Inc., HRMall Holdings, Ltd., Purefoods International Limited, MPM Noodles Corporation, Affinity Express Holdings, Ltd., LiveIt Solutions, Inc and MyRegalo.com, Inc.; director of IQB BackOffice, Inc., ASTICOM Technology, Inc., Globalbridge Resources Corp., Darong Agricultural & Development Corporation, PPI

Prime Venture, Inc., PhilNewEnergy, Water Capital Works, Renewable Energy Test Center, Milestone Group and FineState.

Sheila Marie U. Tan, Filipino, 44, is the Assistant Corporate Secretary of Ayala Corporation. Currently, she also holds the position of Corporate Secretary of Integrated Micro-Electronics, Inc., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Ayala Theatres Management, Inc. Avida Land Corporation, Alabang Commercial Corporation, North Triangle Depot Commercial Corporation, Laguna Technopark, Inc., Makati Development Corporation and Ayala Property Management Corporation. She is also the Assistant Corporate Secretary of Ayala Land, Inc. She is the Chief Operating Officer of AG Counselors Corporation. She was the former head of the Legal Department of Ayala Land, Inc. before she transferred to Ayala Corporation as Associate Director effective January 1, 2009.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Pursuant to the Company's By-Laws, each Director has a term of office of one year from date of election or until his successor shall have been named, qualified and elected. Each Executive Officer are covered by Letters of Appointment with the Company stating therein their respective job functionalities, among others, the terms and conditions of which are in accordance with existing laws.

The Executive Officers are entitled to receive retirement benefits in accordance with the terms and conditions of the Company's BIR-registered employees' retirement plan. There is no plan or arrangement by which the Executive Officers will receive from the Company any form of compensation in case of a change-in-control of the Company or a change in the Officers' responsibilities following such change-in-control.

Significant Employees

The Company considers all its employees together as one work force as significant. Everyone is expected to work as part of a team sharing and pursuing the Company's goals and objectives.

Family Relationship

Jaime Augusto Zobel de Ayala, Chairman/Chief Executive Officer, and Fernando Zobel de Ayala, President/Chief Operating Officer, are brothers.

There are no known family relationships between the current members of the Board and key officers other than the above.

Parent Company

Mermac, Inc. owns 59.60% of the outstanding voting shares of the Company. Mermac, Inc. owns (i) common shares representing 52.61% of the total outstanding common shares, and (ii) voting preferred shares comprising 79.79% of outstanding voting preferred shares. The Company has no material and unusual receivable/payable from/to Mermac, Inc.

Involvement in Certain Legal Proceedings

Except as disclosed herein or in the Information Statements of the Company's subsidiaries or affiliates which are themselves public companies or as has been otherwise publicly disclosed, there are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a Securities or Commodities Law for the past five years and the preceding years until March 23, 2012 to which the Company or any of its subsidiaries or affiliates or its Directors or executive officers is a party or of which any of its material properties is subject in any court or administrative government agency.

Resignation of Directors/Management Committee members/Key Officers

To date, no director has resigned from, or declined to stand for re-election to the Board of Directors since the date of the 2011 annual meeting of stockholders due to any disagreement with the Company relative to its operations, policies and practices.

Item 10. Executive Compensation

Name and principal position	Year	Salary	Other income
Jaime Augusto Zobel de Ayala Chairman and CEO			
Fernando Zobel de Ayala			

President and COO			
Rufino Luis T. Manotok Senior Managing Director			
Maria Lourdes Heras-De Leon Managing Director*			
John Eric T. Francia Managing Director			
Victoria P. Garchitorena Managing Director**			
Delfin C. Gonzalez, Jr. Managing Director & Chief Finance Officer			
Solomon M. Hermosura Managing Director, General Counsel & Corporate Secretary			
Rufino F. Melo III Managing Director			
Ramon G. Opulencia Managing Director & Treasurer			
John Philip S. Orbeta Managing Director			
Ginaflor C. Oris Managing Director			
CEO & most highly compensated executive officers	Actual 2010	₱221M	₱120M
	Actual 2011	₱227M	₱122M
	Projected 2012	₱250M	₱109M
All other officers*** as a group unnamed	Actual 2010 (restated)	₱326M	₱177M
	Actual 2011	₱330M	₱162M
	Projected 2012	₱349M	₱153M

** Appointed effective October 3, 2011.*
*** Retired on December 31, 2011.*
**** Managers and up (including all above-named officers).*

The total annual compensation includes basic pay and other taxable income (guaranteed bonus, performance-based incentive and exercise of stock options).

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

Options Outstanding

Since 1995, the Company has offered its officers options to acquire common shares under its Executive Stock Option Plan (ESOP). Of the above named officers, there were options covering 56,010 shares exercised in 2011 by the following officers, to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Gonzalez, Delfin C., Jr.		Various	Various	Various
Oris, Ginaflor C.		Various	Various	Various
All above-named Officers as a group	56,010		150.35	278.47*

** Average prices on the dates of grant.*

The Company has adjusted the exercise price and market price of the options awarded to the above named officers due to the stock dividend declared by the Company in May 2004, June 2007, May 2008 and July 2011 and to the reverse stock split in May 2005.

Compensation of Directors

Article IV, Section 21, of the By-Laws provides:

Section 21 - Each director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.

The compensation and remuneration committee of the Board of Directors shall have the responsibility of recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the committee shall be guided by the objective of ensuring that the level of compensation should fairly pay directors for work required in a company of the Corporation's size and scope. (As amended on 18 April 2011)

i. **Standard arrangement**

During the 2011 annual stockholders' meeting, the stockholders ratified the resolution increasing the remuneration of non-executive directors as follows:

	From	To
Retainer Fee:	₱ 500,000.00	₱ 1,200,000.00
Board Meeting Fee per meeting attended:	₱ 100,000.00	₱ 200,000.00
Audit Committee Meeting Fee per meeting attended	₱ 20,000.00	₱ 100,000.00
Other Committee Meeting Fee per meeting attended:	₱ 20,000.00	P 50,000.00

Directors who hold executive or management positions do not receive directors' fees. The compensation of executive directors is included in the compensation table in Item 6(a) above.

ii. **Other arrangement**

None of the directors who are paid fees as set forth above (Standard arrangement) is contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

The Company's Personnel and Compensation Committee is chaired by Mr. del Rosario, an independent director, with Messrs. Lazaro and Ichiki as members.

The above named executive officers are covered by letters of appointment stating their respective job functionalities, among others.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain record and beneficial owners (of more than 5%) as of January 31, 2012.

Title of class of voting shares	Name and address of record owner and relationship with Issuer	Name of beneficial owner and relationship with record owner	Citizenship	No. of shares held	Percent of outstanding voting shares
Common	Mermac, Inc.[2] 35/F Tower One, Ayala Triangle, Ayala Ave., Makati City Stockholder	Mermac, Inc.[3]	Filipino	303,689,196	39.0719%
Voting Preferred				159,577,460	20.5308%
Common	PCD Nominee Corporation (Non-Filipino)[4]	PCD participants acting for	Various	134,401,712	17.2918%

[2] The Co-Vice Chairmen of Mermac, Inc. ("Mermac"), Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala, are the Chairman/CEO and President/COO of the Company, respectively.
[3] The Board of Directors of Mermac has the power to decide how Mermac shares in Ayala are to be voted.

	G/F MSE Bldg. Ayala Ave., Makati City	themselves or for their customers5			
Common	Mitsubishi Corporation6 14/F L.V. Locsin Bldg. 6752 Ayala Ave. cor. Makati Ave., Makati City	Mitsubishi Corporation7	Japanese	63,077,540	8.1154%
Voting Preferred				32,640,492	4.1994%

Security ownership of directors and management as of January 31, 2012.

Title of class of voting shares	Name of beneficial owner	Amount and nature of beneficial ownership		Citizenship	Percent of total outstanding shares
Directors					
Common	Jaime Augusto Zobel de Ayala	747,351	(direct & indirect)	Filipino	0.0947%
Voting Preferred		543,802	(direct)		0.0689%
Common	Fernando Zobel de Ayala	800,666	(direct & indirect)	Filipino	0.1014%
Voting Preferred		554,983	(direct)		0.0703%
Common	Delfin L. Lazaro	371,299	(direct & indirect)	Filipino	0.0470%
Voting Preferred		258,297	(direct)		0.0327%
Common	Nobuya Ichiki	1	(direct)	Japanese	0.0000%
Common	Xavier P. Loinaz	126,614	(direct)	Filipino	0.0160%
Voting Preferred		65,517	(direct)		0.0083%
Common	Antonio Jose U. Periquet	1,200	(direct)	Filipino	0.0002%
Common	Ramon R. Del Rosario, Jr.	1	(direct)	Filipino	0.0000%
New Nominee to the Board of Directors					
Common	Yoshio Amano	1*	(direct)	Japanese	0.0000%
CEO and most highly compensated officers					
Common	Jaime Augusto Zobel de Ayala	747,351	(direct & indirect)	Filipino	0.0947%
Voting Preferred		543,802	(direct)		0.0689%
Common	Fernando Zobel de Ayala	800,666	(direct & indirect)	Filipino	0.1014%
Voting Preferred		554,983	(direct)		0.0703%
Common	Rufino Luis T. Manotok	290,339	(direct & indirect)	Filipino	0.0368%
Preferred "A"		8,030	(indirect)		0.0010%
Common	John Eric T. Francia	36,640	(indirect)	Filipino	0.0046%
Common	Victoria P. Garchitorena	135,181	(direct & indirect)	Filipino	0.0171%
Voting Preferred		45,383	(direct)		0.0058%
Common	Delfin C. Gonzalez, Jr.	80,414	(direct)	Filipino	0.0102%
Common	Maria Lourdes Heras-De Leon	0		Filipino	0.0000%
Common	Solomon M. Hermosura	126,468	(direct & indirect)	Filipino	0.0160%
Voting Preferred		53,583	(direct)		0.0068%
Common	Rufino F. Melo III	60,355	(direct & indirect)	Filipino	0.0076%
Preferred "A"		12,000	(indirect)		0.0015%
Common	Ramon G. Opulencia	228,973	(direct & indirect)	Filipino	0.0290%
Common	John Philip S. Orbeta	304,879	(direct & indirect)	Filipino	0.0386%
Common	Ginaflor C. Oris	59,071	(direct & indirect)	Filipino	0.0075%
Preferred "A"		2,000	(indirect)		0.0003%
Voting Preferred		19,226	(direct)		0.0024%
Other executive officers (Ayala group ManCom members/Senior Leadership Team)					

[4] The PCD is not related to the Company.
[5] Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. Out of the 134,401,712 common shares registered in the name of PCD Nominee Corporation (Non-Filipino), 78,116,146 (10.0502% of voting stock) are for the account of The Hongkong and Shanghai Banking Corporation ("HSBC") and 45,432,660 (5.8453% of voting stock) are for Deutsche Bank ("DB"). The Company has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of HSBC, DB or any of their customers beneficially owns more than 5% of the Company's common shares.
[6] Mitsubishi Corporation ("Mitsubishi") is not related to the Company.
[7] The Board of Directors of Mitsubishi has the power to decide how Mitsubishi's shares in Ayala are to be voted.

Common	Gerardo C. Ablaza, Jr.	326,349	(direct & indirect)	Filipino	0.0413%
Preferred "A"		4,000	(direct)		0.0005%
Common	Antonino T. Aquino	197,189	(direct & indirect)	Filipino	0.0250%
Preferred "A"		24,200	(direct)		0.0031%
Common	Arthur R. Tan	243,360	(direct & indirect)	Filipino	0.0308%
Common	Ernest Lawrence L. Cu	0		Filipino	0.0000%
Preferred "A"	Aurelio R. Montinola III	2,000	(indirect)	Filipino	0.0003%
Common	Alfredo I. Ayala	109,560	(direct & indirect)	Filipino	0.0139%
Common	Sheila Marie U. Tan	7,404	(direct & indirect)	Filipino	0.0009%
Voting Preferred		2,485	(direct)		0.0003%
All Directors and Officers as a group		**6,029,385**			**0.7639%**

**Nominee share was issued on March 6, 2012.*

None of the Company's directors and officers owns 2.0% or more of the outstanding capital stock of the Company.

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 12. Certain Relationships and Related Transactions

The Ayala Group of Companies, in their regular conduct of business, have entered into transactions with associates, jointly controlled entities and other related parties principally consisting of advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at normal market prices.

No other transaction was undertaken by the Company in which any Director or Executive Officer was involved or had a direct or indirect material interest.

To date, there are no complaints received by the Company regarding related-party transactions.

Transactions with Promoters

There are no transactions with promoters within the past five (5) years.

Events after the Reporting Period

a. On January 4, 2012, MWC received a letter from JMWD stating that JMWD requires infusion of additional funding of INR5 million for meeting its existing liabilities. It was agreed that the further funding requirement shall be met through infusion of additional equity of Php 2.5 million each by MWC and JITF Water. On January 6 and 18, 2012, MWC infused additional equity to JMWD amounting to ₱2.04 million and ₱0.98 million, respectively.

b. On February 3, 2012, the Provincial Government of Cebu has awarded to Manila Consortium (composed of MWC, Vicsal Development Corporation and Stateland, Inc.) the development, operation, and maintenance of a bulk water system ("Project") in the Province of Cebu.

   With the issuance of the award, the Provincial Government of Cebu and Manila Water Consortium shall negotiate and execute a joint investment agreement with 49% - 51% equity participation, respectively. The Project shall supply 35 million liters per day of potable bulk water sourced from the Luyang River in the Municipality of Carmen. The Project will partly provide for the water demands in the northern and central portions of the province.
   The Project is not more than 10% of the total assets of the MWC.

c. On February 20, 2012, the ALI's BOD approved the following restructuring exercise in order to comply with the regulatory requirement on Filipino-ownership following the Supreme Court's ruling that nonvoting shares do not count as equity when computing for a company's Filipino-ownership level:

   i. Redemption and retirement of the 13.0 billion outstanding preferred shares.

ii. Reclassification of the 1.97 billion unissued preferred shares to voting preferred shares through an amendment of Article Seventh of the Articles of Incorporation.
iii. Increase in unauthorized capital stock by ₱1.3 billion through additional voting preferred shares and stock rights offer of 13.0 billion voting preferred share from the increase in the authorized capital stock.

ALI's BOD also approved the issuance of bonds in the amount of up to ₱15.0 billion which are to be registered with SEC. It will have tenors of seven and ten years. Net proceeds will be used to partially finance the Group's planned capital expenditure for 2012.

d. On March 14, 2012, the Company's BOD approved the offer and issuance of Fixed Rate Bonds with the principal amount of ₱8.0 billion up to ₱10.0 billion subject to the registration requirements of the SEC.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Good corporate governance is the cornerstone of Ayala's sustained success over the past 174 years. Ayala is committed to the highest level of good governance throughout the organization as well as to fostering a culture of integrity and empowering leadership.

Ayala's governance is anchored on the belief that there is a strong link between high quality governance and the creation of shareholder value and long-term growth.

a. The evaluation system which was established to measure or determine the level of compliance of the Board of Directors and top level management with its Revised Manual of Corporate Governance consists of a Board Performance Assessment which is accomplished by the Board of Directors indicating the compliance ratings. The above is submitted to the Compliance Officer who issues the required certificate of compliance with the Company's Revised Manual of Corporate Governance to the Securities and Exchange Commission.

b. To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

c. There were no deviations from the Company's Revised Manual of Corporate Governance. The Company has adopted in the Revised Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Revised Manual.

d. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

BOARD STRUCTURE AND PROCESS

Key Role and Responsibilities

Ayala Corporation is led by its Board of Directors consisting of seven directors. The Board represents the Company and the shareholders and is accountable to them for creating and delivering value through effective and good governance. The Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the adequacy of internal control mechanisms for good governance.

Composition

The directors are elected annually by the stockholders. The Board represents a mix of business, finance and legal competencies, with each director capable of adding value and exercising independent judgment. Decision-making at the board level adheres to a process that fosters the independence and integrity of judgment of each director. All the directors have participated in training on corporate governance. The name and profile of each director are found in the Board of Directors section of this Annual Report. None of the members of the Board and management owns 2.0% or more of the outstanding capital stock of the

Company. The board structure provides a clear division of responsibilities between the Board and management.

Independent Directors

In carrying out their fiduciary duties, the directors must act judiciously and exercise independent judgment. Ayala Corporation also conforms to the requirement to have independent directors, as defined by law, constituting at least twenty percent (20%) of the Board. Of the seven directors, Mssrs. Ramon R. del Rosario, Jr. Xavier p. Loinaz and Antonio U. Periquet sit as the independent directors.

The Company complies with the rules of the Securities & Exchange Commission (SEC) on the qualifications, nomination and election of independent directors. For this purpose, the Company defines an independent director as one having no interest or relationship with the Company that may hinder his independence from the Company or Management or interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Chairman and Chief Executive Officer

The Chairman of the Board and Chief Executive Officer (CEO) is Jaime Augusto Zobel de Ayala who assumed the position in 2006. Fernando Zobel de Ayala holds the position of President and Chief Operating Officer (COO). The respective roles of the Chairman/CEO and the President/ COO are complimentary and ensure an appropriate balance of power and increased accountability and further provide a greater capacity of the Board for independent decision making. The Chairman/CEO and the President/COO attend the annual meetings of the shareholders.

Board Performance

Board meetings are held at least once a quarter or as often as necessary. The Board has separate and independent access to the Corporate Secretary who oversees the adequate flow of information to the Board prior to meetings and serves as an adviser to the directors on their responsibilities and obligations.

Board Committees

The Board has established committees to assist in exercising its authority including monitoring the performance of the business. Four committees support the Board in the performance of specific functions and to aid in good governance. The committees are the Executive Committee, the Compensation Committee, the Nomination Committee and the Audit and Risk Committee.

Executive Committee (ExCom). The ExCom, during the periods between board meetings, exercises the Board's powers and attributes except with respect to any action for which shareholders' approval is required, distribution of cash dividends, filling of vacancies in the Board or in the ExCom, amendment or repeal of By-Laws or the adoption of new By-Laws, amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable, and the exercise of powers delegated by the

Compensation Committee. The Compensation Committee establishes a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration of officers and directors. It provides oversight over remuneration of senior management and other key personnel.

Nomination Committee. The Nomination Committee's main function is to maintain a process to ensure that all nominees to the Board have all the qualifications and none of the disqualifications for directors stated in the By-Laws, the Manual of Corporate Governance of the Company and the pertinent rules of the SEC. Also, the Committee reviews the qualifications of all persons nominated to positions requiring appointment by the Board.
Audit and Risk Committee. The Audit and Risk Committee oversees Ayala Corporation's internal control, financial reporting and risk management processes on behalf of the Board of Directors. During these meetings, the Committee reviewed and approved the 2011 Consolidated Audited Financial Statements of the Company as audited by the external auditors Sycip Gorres Velayo & Co. (SGV & Co.), as well as the unaudited financial statements of the Company for the 1st to the 3rd quarters of 2011. The activities of the Audit and Risk Committee are further discussed in the section on Accountability and Audit.

Director and Senior Executive Compensation
Non-executive directors are members of the Board of Directors who are not officers or consultants of the Company, and who receive remuneration consisting of a retainer fee of P1,200,000.00 and per diem of P200,000.00 for each board meeting attended and P100,000.00 per board committee meeting attended. The remuneration of nonexecutive directors was ratified during the 2011 annual stockholders' meeting.

None of the directors has been contracted and compensated by the Company for services other than services provided as a director.

The Company adopts a performance-based compensation scheme for its senior executives as incentive. As additional incentive to top management, the Board approved stock option plans for key officers covering 3% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three year period.

The total compensation paid to non-executive directors and officers is disclosed annually in the Definitive Information Statement sent to shareholders 15 business days prior to the annual stockholders' meeting. The total annual compensation includes the basic salary and other variable pay (i.e. guaranteed bonus, performance-based incentive and exercise of Stock Option Plan).

MANAGEMENT

Management is accountable to the Board of Directors for the operations of the Company. It puts the Company's targets in concrete terms and formulates the basic strategies for achieving the targets. Governance is not just a matter for the Board. A culture of good governance must be fostered throughout the organization. Management is equally responsible for ensuring that the mechanisms and structure are in place.

Enterprise Risk Management

In line with its corporate governance infrastructure, the Company has adopted a group-wide enterprise risk management framework in 2002. An Enterprise Risk Management Policy was approved by the Audit Committee in 2003, and was subsequently revised and approved on February 14, 2008. The policy was designed to enhance the risk management process and institutionalize a focused and disciplined approach to managing the Company's business risks.

The risk management framework encompasses the following:
1) identification and assessment of business risks,
2) development of risk management strategies,
3) assessment/design/implementation of risk management capabilities,
4) monitoring and evaluating the effectiveness of risk mitigation strategies and management performance, and
5) identification of areas and opportunities for improvement in the risk management process.

A Chief Risk Officer (CRO) is the champion of enterprise risk management at Ayala and oversees the entire risk management function. On the other hand, the Risk Management Unit provides support to the CRO and is responsible for overall continuity. Beginning 2008, under an expanded charter, the Audit and Risk Committee will provide a more focused oversight of the risk management function. A quarterly report on the risk portfolio of the Ayala group of companies and the related risk mitigation efforts and initiatives are provided to the Committee. The Company's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala Group.
For 2010, the Company engaged the services of an outside consultant to assist the Company in the rollout of a more focused enterprise risk management framework. The rollout included a formal risk awareness session and self-assessment workshops with all the functional units of the Company. The Audit and Risk Committee has initiated the institutionalization of an enterprise risk management function across all the subsidiaries and affiliates. In 2011, the Company, with the assistance of external consultants, revisited or reviewed the assessment done in 2008 as regards policy, procedures and processes that may need further enhancements. At present, this review work is in progress and the Company shall continue to engage technical support as it deems necessary to strengthen its Enterprise Risk Management expertise and capabilities.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee exercises oversight of the performance of external and internal auditors. The role and responsibilities of the Committee are defined in the expanded Audit and Risk Committee Charter. The internal audit function is governed by a separate Internal Audit Charter.

Audit Charter.

Independent Public Accountants
The external auditors of the Company is the accounting firm of Sycip, Gorres, Velayo & Company (SGV & Co.). Ms. Lucy L. Chan is the Partner in-charge beginning 2007. The Audit and Risk Committee reviews

the Company's financial reporting to ensure its integrity and oversees the work of the external auditor. It also recommends to the Board and stockholders the appointment of the external auditors and appropriate audit fees.

Internal Audit
The Internal Audit Unit independent ly reviews the Company's organizational and operational controls and risk management policies, and compliance. The Audit Team, consisting of Certified Public Accountants and a Certified Internal Auditor, reports to the Audit and Risk Committee. Business and support units are regularly audited according to an annual audit program approved by the Audit and Risk Committee. Special audits are also undertaken when necessary.

Compliance Officer

The Compliance Officer ensures that Ayala adheres to sound corporate governance and best practices. Mr. Solomon M. Hermosura, a Managing Director and the general counsel, is the Compliance Officer. The Compliance Officer identifies and manages compliance risks, implements, and monitors compliance with the Manual of Corporate Governance; and certifies yearly the extent of Ayala's compliance with the Manual.

In 2010, the Compliance Officer led the Ayala group's regulatory council in a voter's registration campaign among employees across the companies. This is part of the council's efforts to promote responsible citizenship and conscientiousness in the performance of legal duties.

DISCLOSURE AND TRANSPARENCY

Ayala Corporation is committed to high standards of disclosure and transparency to give the investing community a true picture of the company"s financial condition and the quality of its corporate governance.

Ownership Structure

Ayala has a transparent ownership structure. It discloses quarterly the top 100 shareholders of the Company. The Definitive Information Statement sent to shareholders discloses the stock ownership of directors and management, as well as of record and beneficial owners of more than 5%.

As of December 31, 2011, Mermac, Inc. owned 52.61% and Mitsubishi Corporation owned 10.93% of the total outstanding common shares.

There were no cross or pyramid shareholdings.

Content and Timing of Disclosures

Ayala updates the investing public with strategic, operating and financial information through adequate and timely disclosures filed with the SEC and PSE which are readily available on the company's website. Aside from compliance with periodic reportorial requirements, Ayala punctually discloses major and market-sensitive information such as dividend declarations, joint ventures and acquisitions, sale and disposition of significant assets, as well as other material information that may affect the decision of the investing public.
Consolidated audited financial statements for the latest financial year were submitted to the SEC by April 15 deadline, while the audited annual report is submitted at least 15 working days before the annual stockholders' meeting. In 2011, the audited financial statements as contained in the Definitive Information Statement was submitted to the SEC on March 23, 2012 and to the PSE three days later, more than three weeks before the April 20, 2012 annual stockholders' meeting. Interim or quarterly financial statements were released between 30 to 45 days from the end of the financial period. The results are disclosed to the regulators within 24 hours from the time the Board meets to accept the results.The results were also sent to financial and stock market analysts via a live analysts' briefing where members of senior management presented the results personally as well as through the company Website as soon as the SEC received the statements.

Financial Reporting

Ayala's financial statements comply with Philippine Financial Reporting Standards. The annual consolidated financial statements break down total assets, total liabilities and equity, revenues, costs and expenses, income before income tax, net income attributable to equity holders of Ayala Corporation and noncontrolling interests and earnings per share. A more comprehensive disclosure of segment results is provided to help shareholders appreciate the various businesses and their impact on overall value enhancement. The following are disclosed in the note on Business Segments:a. total revenue b. operating

profit c. net income d. segment assets e. investments in associates and jointly controlled entities f. segment liabilities, and g. depreciation and amortization

A section on Geographical Segments includes the following: a. Revenue b. Segment Assets, and c. Investment Properties

Transactions entered into with associates and other related parties are on an arm's length basis. Sales and purchases of goods and services to and from related parties are in accordance with normal market prices. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements.

Information on Ayala's financial instruments is guided by the Company's risk management objectives and policies to allow for a better assessment of financial performance and cash flows. Significant accounting judgments and estimates are also disclosed.

DEALINGS IN SECURITIES

Ayala has adopted a policy on stock transactions to ensure compliance with the government regulations against insider trading.

Reporting of Transactions

Ayala complies with the requirement for directors and principal officers to report to the SEC and the PSE, within five trading days any acquisition, disposal or change in their shareholdings in the Company. The Company has expanded coverage of this requirement to include members of the Management Committee and all the Managing Directors. All other officers must submit a quarterly report on their trades of Company's shares to the Compliance Officer.

Trading Blackouts

The Company has adopted a policy on insider trading, which covers directors, officers and employees, consultants, members of key officers' immediate families and all other employees who are made aware of the undisclosed material information. Covered persons are prohibited from buying or selling the company's securities during trading blackouts. These employees may include those who have knowledge of material facts or changes in the affairs of Ayala which have not been disclosed to the public, including any information likely to affect the market price of Ayala's stocks. The policy covers the company's shares of stocks, options to purchase stocks, bonds, and other evidence of indebtedness.

During the year, notices of trading blackouts for structured disclosures were issued for a period covering ten (10) trading days before and three (3) trading days after the disclosure of quarterly and annual financial results. The company strictly enforces compliance with these trading blackout periods and there have been no violations of the Company's Policy on Insider Trading.

STAKEHOLDER RELATIONS

Ayala adheres to a high level of moral standards and fairness in dealing with all its shareholders, customers, employees and business partners to lay down the foundation for long-term, beneficial relationships.

Shareholder Meeting & Voting Procedures

Stockholders are informed at least fifteen (15) business days in advance of the scheduled date of their meetings. The regular or special meetings contains the agenda and sets the date, time and place for validating proxies, which must be done at least five business days prior to the annual stockholders' meeting. Each outstanding common share of stock entitles the registered holder to one vote.

Shareholder and Investor Relations

Ayala believes that open and transparent communications are needed to sustain growth and build investor confidence. Our investor communications program promotes greater understanding of the Company's long-term proposition to create value. The Company, through its Investor Relations Unit under Strategic Planning, addresses the various information requirements of the investing public and minority shareholders by fully disclosing these, in a timely manner, to the local bourse, as well as via quarterly briefings, annual shareholders' meetings, one-on-one meetings, conference calls, road shows and investor conferences, Web site and emails or telephone calls.

The Company has updated the Investor Relations section of its Web site to include the organizational structure, performance, ownership and governance of the Company. The section is updated promptly as disclosures to the regulators are made, while presentations are immediately made available on the web.

Employee Relations

Ayala is committed to promoting the safety and welfare of its employees. It believes in inspiring its employees, developing their talents, and recognizing their needs as business partners. Strong and open lines of communication are maintained to relay the Company's concern for their welfare and safety, and deepen their understanding of the Company's business directions.

CODE OF ETHICAL BEHAVIOR

Ayala strongly believes in, and adopts as part of its basic operating principles, the primacy of the person, shared values and the empowerment of people. The Company and its employees commit to live out the following values: Integrity, Long-term Vision, Empowering Leadership, and Commitment to National Development. These values are captured in the new Code of Ethical Behavior , which outlines the general expectations of, and sets standards for, employee behavior, and ethical conduct. It is in conjunction with the Company's Human Resources Policies, which includes the Code of Conduct governing acceptable behavior to ensure orderly company operations and protect the rights, safety, and work for the benefit of the employee force. Company employees are required to disclose any business- and family-related transactions yearly to ensure that potential conflicts of interest are brought to management attention.

OTHERS
Anti-Money Laundering. As a holding company, Ayala does not face issues on anti-money laundering. The Company strictly complies with the provisions of the Anti-Money Laundering law.

WEB SITE
Additional information on the Company's corporate governance initiatives may be viewed at www.ayala.com.ph.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits - See accompanying Index to Exhibits

(b) Reports on SEC Form 17-C

Reports on SEC Form 17-C were filed during the last six month period covered by this report and are listed below:

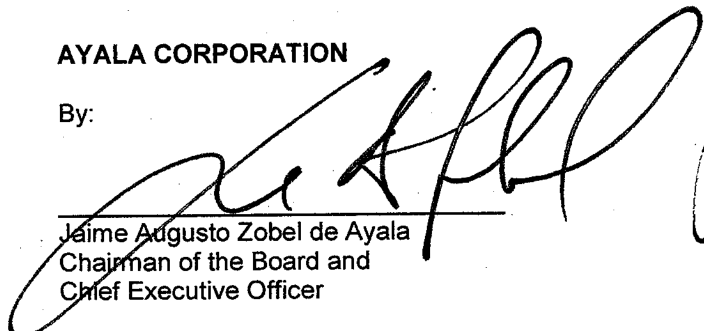
Date	Particulars
6-29-2011	Ayala Corporation's 100% owned subsidiary, AC Energy Holdings Inc. signed a Joint Venture Agreement with Trans-Asia Oil and Energy Development Corporation for the construction and operation of a 135-MW circulating fluidized bed (CFB) power plant in Calaca, Batangas. The joint venture company, to be named South Luzon Thermal Energy Corporation, will be owned 50% by AC Energy and 50% by Trans-Asia.
10-28-2011	Ayala Corporation's subsidiary, AC Energy Holdings, Inc. established a joint venture company, South Luzon Thermal Energy Corp. (SLTEC), and trans-Asia Oil and Energy Development Corp. signed a loan Php9 billion project loan facility with lenders Banco de Oro Unibank, Inc,, Security Bank Corporation and Rizal Commercial Banking Corporation.
11-11-2011	Ayala Corporation's first nine months' net income of Php 7.3 billion, 7% higher than earnings in the same period last year.
11-22-2011	Ayala Corporation confirmed the full payment on November 22, 2011of the early redemption of the P6 Billion 6.825% Fixed Rate Bonds due 2012.
12-06-2011	Ayala Corporation reported several purchases of common shares pursuant to the share buyback program approved by the Board of Directors on 10 September 2007, 02 June 2010 and 10 December 2010.
12-09-2011	Ayala Corporation's Board of Directors approved at its regular meeting the declaration of cash dividend of P2.00 per share to the 2nd semester ending December 31, 2011, payable on January 24, 2012. The declaration of quarterly cash dividends on Preferred "A" shares, cash dividend on Voting Preferred shares were also approved. Setting of 2012 Annual stockholders' Meeting for April 20, 2012.
12-15-2011	Ayala Corporation announce that at the opening of financial bids for the Daang Hari/SLEX Road Project held December 15, 2011, it submitted the highest complying bid.

SIGNATURES

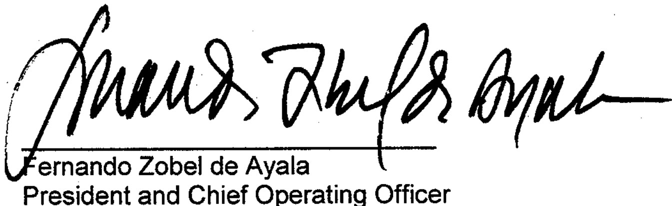
Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on April 13, 2012.

AYALA CORPORATION

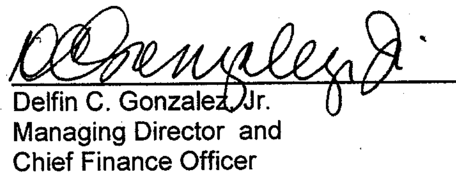
By:



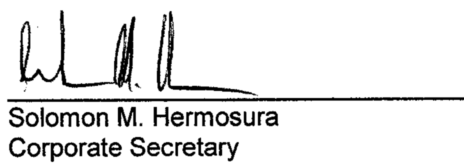
Jaime Augusto Zobel de Ayala
Chairman of the Board and
Chief Executive Officer



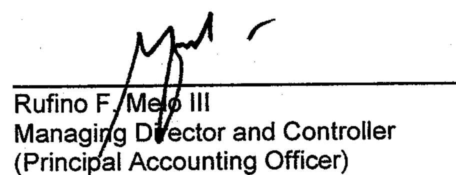
Fernando Zobel de Ayala
President and Chief Operating Officer



Delfin C. Gonzalez Jr.
Managing Director and
Chief Finance Officer



Solomon M. Hermosura
Corporate Secretary



Rufino F. Melo III
Managing Director and Controller
(Principal Accounting Officer)

SUBSCRIBED AND SWORN to before me this APR 1 2 2012 day of April 2012 affiants exhibiting to me their respective passports/driver's license as follows:

	Passport No./ Driver's License No.	Date of Issue	Place of Issue
Jaime Augusto Zobel de Ayala	XX2623993	December 8, 2008	Manila City
Fernando Zobel de Ayala	EB0710083	August 6, 2010	Manila City
Solomon M. Hermosura	EB2913409	July 5, 2011	Manila City
Delfin C. Gonzalez, Jr.	XX1797758	August 11, 2008	Manila City
Rufino F. Melo III	NII82026412	September 16, 2010	Quezon City

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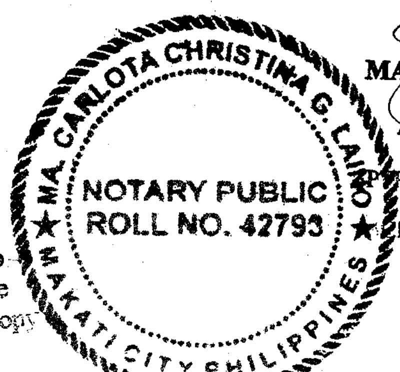
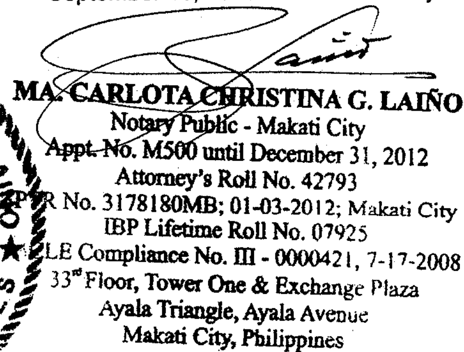
Page No. 49
Book No. IV
Series of 2012

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy





MA. CARLOTA CHRISTINA G. LAIÑO
Notary Public - Makati City
Appt. No. M500 until December 31, 2012
Attorney's Roll No. 42793
PTR No. 3178180MB; 01-03-2012; Makati City
IBP Lifetime Roll No. 07925
MCLE Compliance No. III - 0000421, 7-17-2008
33rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

2011 Audited Consolidated Financial Statements – Ayala Corporation and Subsidiaries

Statement of Management's Responsibility for Financial Statements
Report of Independent Public Accountants
Consolidated Statement of Financial Position as of December 31, 2011 and 2010
Consolidated Statements of Income for the Years Ended December 31,2011 and 2010
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2011 and 2010
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2011 and 2010
Consolidated Statements of Cash Flow for the Years Ended December 31, 2011and 2010
Notes to Consolidated Financial Statements

Index to the Consolidated Financial Statements and Supplementary Schedules

Report of Independent Public Accountants on Supplementary Schedules

A. Financial Assets
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
C-a. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
C-b. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D. Intangible Assets
E. Long-term Debt
F. Indebtedness to Related Parties
G. Guarantees of Securities of Other Issuers
H. Capital Stock
I. Reconciliation of Retained Earnings Available for Dividend Declaration
J. Map of the Relationships of the Companies within the Group
K. Schedule of All the Effective Standards and Interpretations as of December 31, 2011
L. Financial Ratios
M. Non-Current Investments
N. Indebtedness of Unconsolidated Subsidiaries

2011 Audited Financial Statements

Bank of the Philippine Islands
Globe Telecom, Inc. and Subsidiaries

Ayala Corporation
34F Tower One Ayala Triangle
Ayala Avenue Makati City 1226 Philippines

Tel (632) 848 5643
Fax (632) 848 5768
www.ayala.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Ayala Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 of the Company

SyCip Gorres Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, has examined the consolidated financial statements of the Company and its subsidiaries 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.

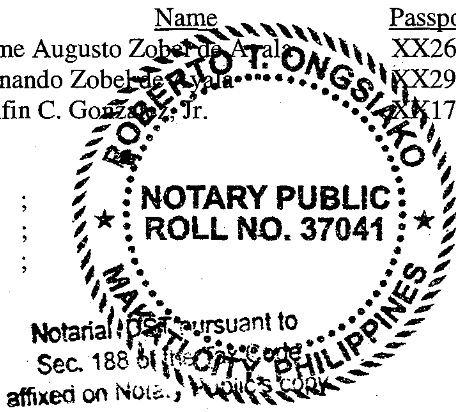
JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President & Chief Operating Officer

DELFIN C. GONZALEZ, JR.
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAR 1 4 2012 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	XX2623993	February 8, 2008 – Manila
Fernando Zobel de Ayala	XX2935162	February 4, 2009 – Manila
Delfin C. Gonzalez, Jr.	XX1797758	August 11, 2008 – Manila



Doc. No. 341 ;
Page No. 70 ;
Book No. 111 ;
Series of 2012.

ROBERTO T. ONGSIAKO
Notary Public Makati City
Appt. No. 458 until December 31, 2012
Attorney's Roll No. 37041
PTR No. 3178174MB; 1-3-2012; Makati City
IBP Lifetime Roll No. 02163
MCLE Compliance No. III - 0003691, 3-29-2010
33rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

COVER SHEET

3 4 2 1 8

SEC Registration Number

A Y A L A C O R P O R A T I O N A N D S U B S I D I A R I E S

(Company's Full Name)

T o w e r O n e , A y a l a T r i a n g l e , A y a l a A v e n u e , M a k a t i C i t y

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

Delfin C. Gonzalez, Jr.

(Contact Person)

908-3353

(Company Telephone Number)

1 2 3 1

Month *Day*

(Fiscal Year)

A A F S

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

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

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

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Ayala Corporation
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying consolidated financial statements of Ayala Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. In the consolidated financial statements, the Group's equity in the net income of Bank of the Philippine Islands and Subsidiaries is stated at ₱2,707 million in 2009. The consolidated financial statements of Bank of the Philippine Islands and Subsidiaries as at December 31, 2009, in which the Group has a 33.5% effective interest, were audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar, as it relates to the amounts included for Bank of the Philippine Islands and Subsidiaries, is based solely on the report of the other auditors.

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 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 and the report of other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Corporation and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174587, January 2, 2012, Makati City

March 14, 2012

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 30 and 31)	**₱53,577,252**	₱53,142,777
Short-term investments (Notes 5, 30 and 31)	**1,613,058**	3,993,533
Accounts and notes receivable - net (Notes 6, 30 and 31)	**31,319,696**	25,934,922
Inventories (Note 7)	**27,765,842**	18,374,656
Other current assets (Notes 8 and 31)	**9,288,682**	6,911,634
Total Current Assets	**123,564,530**	108,357,522
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 31)	**8,251,363**	4,793,315
Investments in bonds and other securities (Notes 9, 30 and 31)	**3,745,168**	4,854,337
Land and improvements (Note 10)	**18,530,915**	16,433,698
Investments in associates and jointly controlled entities - net (Note 11)	**79,659,081**	72,004,879
Investment properties - net (Note 12)	**33,134,958**	29,488,275
Property, plant and equipment - net (Note 13)	**13,850,956**	11,698,923
Service concession assets - net (Note 14)	**66,247,192**	59,097,769
Intangible assets - net (Note 15)	**4,312,163**	3,113,938
Pension assets (Note 26)	**189,287**	190,658
Deferred tax assets - net (Note 24)	**3,080,584**	2,749,148
Other noncurrent assets (Note 16)	**3,060,399**	2,587,254
Total Noncurrent Assets	**234,062,066**	207,012,194
Total Assets	**₱357,626,596**	₱315,369,716

	2011	2010
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 17, 30 and 31)	**₱51,013,700**	₱37,712,638
Short-term debt (Notes 19, 30 and 31)	**6,665,841**	4,519,287
Income tax payable	**483,265**	440,834
Current portion of:		
Long-term debt (Notes 19, 30 and 31)	**7,459,658**	11,237,343
Service concession obligation (Notes 14 and 31)	**980,620**	794,473
Other current liabilities (Notes 18 and 31)	**2,704,718**	2,631,344
Total Current Liabilities	**69,307,802**	57,335,919

(Forward)

	December 31	
	2011	2010
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 30 and 31)	**₱92,592,368**	₱67,079,948
Service concession obligation - net of current portion (Notes 14 and 31)	**6,916,998**	7,025,751
Deferred tax liabilities - net (Note 24)	**6,118,857**	5,893,442
Pension liabilities (Note 26)	**413,709**	340,903
Other noncurrent liabilities (Notes 20 and 31)	**11,038,827**	10,942,289
Total Noncurrent Liabilities	**117,080,759**	91,282,333
Total Liabilities	**186,388,561**	148,618,252
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 21)	**42,832,819**	37,855,466
Share-based payments (Note 27)	**553,743**	1,243,055
Net unrealized gain on available-for-sale financial assets (Note 9)	**1,725,394**	1,128,734
Cumulative translation adjustments	**(2,311,050)**	(1,763,471)
Equity reserve	**1,016,259**	148,302
Retained earnings (Note 21)	**75,885,784**	74,011,144
Parent Company preferred shares held by subsidiaries (Note 21)	**(250,000)**	(250,000)
Treasury stock (Note 21)	**(12,408,886)**	(4,832,262)
	107,044,063	107,540,968
Non-controlling interests	**64,193,972**	59,210,496
Total Equity	**171,238,035**	166,751,464
Total Liabilities and Equity	**₱357,626,596**	₱315,369,716

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2011	2010	2009
INCOME			
Sale of goods (Note 30)	**₱55,703,984**	₱46,531,033	₱44,582,238
Rendering of services (Notes 12 and 30)	**38,328,675**	35,548,883	18,654,551
Share of profit of associates and jointly controlled entities	**7,727,215**	6,124,137	7,361,015
Interest income (Note 30)	**3,281,596**	2,520,658	2,634,533
Other income (Note 22)	**2,490,926**	7,346,589	3,061,478
	107,532,396	98,071,300	76,293,815
COSTS AND EXPENSES			
Costs of sales (Notes 7 and 30)	**43,934,281**	36,956,810	34,152,062
Costs of rendering services (Notes 7, 22 and 30)	**26,142,564**	24,395,401	15,166,232
General and administrative (Notes 22, 26 and 30)	**10,874,972**	11,005,676	9,214,570
Interest expense and other financing charges (Notes 19, 22 and 30)	**6,175,343**	4,755,989	3,822,342
Other charges (Note 22)	**737,361**	2,071,909	1,435,038
	87,864,521	79,185,785	63,790,244
INCOME BEFORE INCOME TAX	**19,667,875**	18,885,515	12,503,571
PROVISION FOR INCOME TAX (Note 24)			
Current	**4,079,235**	3,057,133	2,010,214
Deferred	**(210,494)**	(157,543)	(311,530)
	3,868,741	2,899,590	1,698,684
NET INCOME	**₱15,799,134**	₱15,985,925	₱10,804,887
Net Income Attributable to:			
Owners of the parent (Note 25)	**₱9,394,887**	₱11,161,092	₱8,154,345
Non-controlling interests	**6,404,247**	4,824,833	2,650,542
	₱15,799,134	₱15,985,925	₱10,804,887
EARNINGS PER SHARE (Note 25)			
Basic	**₱14.53**	₱17.13*	₱11.86*
Diluted	**₱14.43**	₱17.01*	₱11.77*

See accompanying Notes to Consolidated Financial Statements.

**As restated due to the declaration of stock dividends.*

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱15,799,134**	₱15,985,925	₱10,804,887
OTHER COMPREHENSIVE INCOME (LOSS)			
Exchange differences arising from translations of foreign investments	**(611,877)**	(443,925)	(260,419)
Changes in fair values of available-for-sale financial assets	**(34,375)**	292,075	431,329
	(646,252)	(151,850)	170,910
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES			
Exchange differences arising from translations of foreign investments	**(12,638)**	(100,530)	(226,115)
Changes in fair values of available-for-sale financial assets	**574,930**	800,644	322,448
	562,292	700,114	96,333
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(83,960)**	548,264	267,243
TOTAL COMPREHENSIVE INCOME	**₱15,715,174**	₱16,534,189	₱11,072,130
Total Comprehensive Income Attributable to:			
Owners of the parent	**₱9,443,968**	₱11,753,773	₱8,526,832
Non-controlling interests	**6,271,206**	4,780,416	2,545,298
	₱15,715,174	₱16,534,189	₱11,072,130

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	EQUITY ATTRRIBUTABLE TO OWNERS OF THE PARENT											
								Treasury Stock (Note 21)				
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 9)	Cumulative Translation Adjustments	Equity Reserve	Retained Earnings (Note 21)	Parent Company Preferred Shares Held by Subsidiaries (Note 21)	Common Stock	Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2011											
At January 1, 2011	**₱37,855,466**	**₱1,243,055**	**₱1,128,734**	**(₱1,763,471)**	**₱148,302**	**₱74,011,144**	**(₱250,000)**	**(₱4,832,262)**	**₱–**	**₱107,540,968**	**₱59,210,496**	**₱166,751,464**
Net income	–	–	–	–	–	**9,394,887**	–	–	–	**9,394,887**	**6,404,247**	**15,799,134**
Other comprehensive income (loss)	–	–	**596,660**	**(547,579)**	–	–	–	–	–	**49,081**	**(133,041)**	**(83,960)**
Total comprehensive income (loss)	–	–	**596,660**	**(547,579)**	–	**9,394,887**	–	–	–	**9,443,968**	**6,271,206**	**15,715,174**
Exercise of ESOP/ESOWN	**135,036**	–	–	–	–	–	–	–	–	**135,036**	–	**135,036**
Cost of share-based payments	–	**178,733**	–	–	–	–	–	–	–	**178,733**	**143,555**	**322,288**
Redemption of preferred B shares	–	–	–	–	–	–	–	–	**(5,800,000)**	**(5,800,000)**	–	**(5,800,000)**
Acquisition of treasury stock	–	–	–	–	–	–	–	**(1,776,624)**	–	**(1,776,624)**	–	**(1,776,624)**
Cash dividends	–	–	–	–	–	**(2,677,930)**	–	–	–	**(2,677,930)**	**(2,231,826)**	**(4,909,756)**
Stock dividends	**4,842,317**	–	–	–	–	**(4,842,317)**	–	–	–	–	–	–
Change in non-controlling interests	–	**(868,045)**	–	–	**867,957**	–	–	–	–	**(88)**	**800,541**	**800,453**
At December 31, 2011	**₱42,832,819**	**₱553,743**	**₱1,725,394**	**(₱2,311,050)**	**₱1,016,259**	**₱75,885,784**	**(₱250,000)**	**(₱6,608,886)**	**(₱5,800,000)**	**₱107,044,063**	**₱64,193,972**	**₱171,238,035**

	EQUITY ATTRRIBUTABLE TO OWNERS OF THE PARENT										
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 9)	Cumulative Translation Adjustments	Equity Reserve	Retained Earnings (Note 21)	Parent Company Preferred Shares Held by Subsidiaries (Note 21)	Treasury Stock (Note 21)	Total	Non-controlling Interests	Total Equity
					For the year ended December 31, 2010						
At January 1, 2010	₱37,477,875	₱1,059,588	₱123,916	(₱1,351,334)	₱–	₱65,739,096	(₱100,000)	(₱688,714)	₱102,260,427	₱33,157,723	₱135,418,150
Net income	–	–	–		–	11,161,092	–	–	11,161,092	4,824,833	15,985,925
Other comprehensive income (loss)	–	–	1,004,818	(412,137)	–		–	–	592,681	(44,417)	548,264
Total comprehensive income (loss)	–	–	1,004,818	(412,137)	–	11,161,092	–	–	11,753,773	4,780,416	16,534,189
Exercise/Cancellation of ESOP/ESOWN	178,591	–	–	–	–	–	–	–	178,591	–	178,591
Issuance of shares	199,000	–	–	–	–	–	–	–	199,000	–	199,000
Cost of share-based payments	–	183,467	–	–	–	–	–	–	183,467	58,190	241,657
Parent Company preferred shares held by a subsidiary	–	–	–	–	–	–	(150,000)	–	(150,000)	–	(150,000)
Acquisition of treasury stock	–	–	–	–	–	–	–	(4,143,548)	(4,143,548)	–	(4,143,548)
Cash dividends	–	–	–	–	–	(2,889,044)	–	–	(2,889,044)	(1,641,817)	(4,530,861)
Increase in non-controlling interests	–	–	–	–	–	–	–	–	–	22,519,111	22,519,111
Effect of changes in ownership interests in subsidiaries	–	–	–	–	148,302	–	–	–	148,302	336,873	485,175
At December 31, 2010	₱37,855,466	₱1,243,055	₱1,128,734	(₱1,763,471)	₱148,302	₱74,011,144	(₱250,000)	(₱4,832,262)	₱107,540,968	₱59,210,496	₱166,751,464

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT									
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 9)	Cumulative Translation Adjustments	Retained Earnings (Note 21)	Parent Company Preferred Shares Held by a Subsidiary (Note 21)	Treasury Stock (Note 21)	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2009									
At January 1, 2009	₱37,251,714	₱705,457	(₱631,127)	(₱968,778)	₱61,604,466	(₱100,000)	(₱550,540)	₱97,311,192	₱30,876,103	₱128,187,295
Net income	–	–	–	–	8,154,345	–	–	8,154,345	2,650,542	10,804,887
Other comprehensive income (loss)	–	–	755,043	(382,556)	–	–	–	372,487	(105,244)	267,243
Total comprehensive income (loss)	–	–	755,043	(382,556)	8,154,345	–	–	8,526,832	2,545,298	11,072,130
Exercise of ESOP/ESOWN	226,161	(1,708)	–	–	–	–	–	224,453	–	224,453
Cost of share-based payments	–	355,839	–	–	–	–	–	355,839	63,398	419,237
Acquisition of treasury stock	–	–	–	–	–	–	(138,174)	(138,174)	–	(138,174)
Cash dividends	–	–	–	–	(4,019,715)	–	–	(4,019,715)	(537,017)	(4,556,732)
Increase in non-controlling interests	–	–	–	–	–	–	–	–	209,941	209,941
At December 31, 2009	₱37,477,875	₱1,059,588	₱123,916	(₱1,351,334)	₱65,739,096	(₱100,000)	(₱688,714)	₱102,260,427	₱33,157,723	₱135,418,150

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱19,667,875**	₱18,885,515	₱12,503,571
Adjustments for:			
Depreciation and amortization (Note 22)	**6,600,259**	5,228,394	3,345,985
Interest and other financing charges - net of amount capitalized (Note 22)	**6,175,343**	4,755,989	3,822,342
Cost of share-based payments (Note 27)	**447,557**	374,956	471,572
Loss on derecognition of derivative asset (Note 22)	**229,613**	–	–
Provision for impairment loss on available-for-sale financial assets (Note 22)	**157,314**	235,114	–
Provision for impairment loss on land and improvements (Note 22)	**–**	–	568,672
Impairment loss on goodwill (Note 22)	**139,170**	914,118	–
Share of profit of associates and jointly controlled entities	**(7,727,215)**	(6,124,137)	(7,361,015)
Interest income	**(3,281,596)**	(2,520,658)	(2,634,533)
Other investment income (Note 22)	**(572,012)**	(306,601)	(218,649)
Bargain purchase gain (Note 22)	**(558,233)**	(53,327)	(235,851)
Gain on sale of investments (Note 22)	**(539,713)**	(13,972)	(1,698,820)
Gain on sale of other assets (Note 22)	**(131,078)**	(162,156)	(168,063)
Remeasurement gain arising from business combinations - net (Notes 22 and 23)	**–**	(3,790,864)	–
Gain on deemed disposal of a subsidiary (Notes 11and 22)	**–**	(2,110,272)	–
Operating income before changes in working capital	**20,607,284**	15,312,099	8,395,211
Decrease (increase) in:			
Accounts and notes receivable	**(7,030,863)**	(410,947)	559,916
Inventories	**(5,854,738)**	(499,974)	(785,693)
Other current assets	**(2,085,742)**	(499,632)	386,375
Increase (decrease) in:			
Accounts payable and accrued expenses	**12,295,612**	4,494,042	(297,145)
Net pension liabilities	**62,838**	(161,471)	(277,463)
Other current liabilities	**24,811**	(1,068,210)	977,354
Cash generated from operations	**18,019,202**	17,165,907	8,958,555
Interest received	**3,336,277**	2,348,631	2,500,661
Interest paid	**(5,070,594)**	(4,585,346)	(3,921,315)
Income tax paid	**(3,689,225)**	(3,122,413)	(1,407,267)
Net cash provided by operating activities	**12,595,660**	11,806,779	6,130,634
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of available-for-sale financial assets	**1,591,464**	1,114,293	1,563,631
Sale/maturities of financial assets at fair value through profit or loss	**560,973**	1,159,812	1,326,145
Sale/redemptions of investments in associates and jointly controlled entities	**454,717**	15,847	1,456,765

(Forward)

	Years Ended December 31		
	2011	2010	2009
Disposals of:			
Property, plant and equipment (Note 13)	**₱447,862**	₱289,942	₱685,882
Investment properties (Note 12)	**–**	3,685	665,475
Land and improvements (Note 10)	**–**	4,756	–
Maturities of (additions to) short-term investments	**2,380,475**	2,445,576	(3,552,052)
Additions to:			
Service concession asset (Note 14)	**(8,419,716)**	(7,056,261)	–
Investments in associates and jointly controlled entities	**(5,014,773)**	(4,013,923)	(1,155,816)
Property, plant and equipment (Note 13)	**(3,741,068)**	(3,534,412)	(2,489,030)
Investment properties (Note 12)	**(6,625,977)**	(2,909,517)	(3,512,459)
Land and improvements (Note 10)	**(3,959,279)**	(2,372,740)	(3,396,777)
Financial assets at fair value through profit or loss	**(870,240)**	(872,360)	(716,750)
Available-for-sale financial assets	**(848,217)**	(485,869)	(926,982)
Intangible assets (Note 15)	**(86,250)**	(33,394)	(241,653)
Dividends received from associates, jointly controlled entities and available-for-sale financial assets	**4,484,010**	6,703,464	7,679,136
Acquisitions through business combinations - net of cash acquired (Note 23)	**(2,023,820)**	2,041,011	(800,312)
Increase in other noncurrent assets	**13,258**	414,621	583,436
Net cash used in investing activities	**(21,656,581)**	(7,085,469)	(2,831,361)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	**49,279,908**	18,107,926	13,303,049
Issuance of preferred shares	**–**	199,000	–
Collections of (additions to) subscriptions receivable	**100,928**	67,156	31,198
Payments of short-term and long-term debt	**(27,804,022)**	(8,312,516)	(11,826,486)
Redemption of preferred shares (Note 21)	**(5,800,000)**	–	–
Dividends paid	**(5,304,555)**	(4,569,050)	(3,626,165)
Acquisition of treasury shares (Note 21)	**(1,776,624)**	(4,143,548)	(138,173)
Service concession obligation paid (Note 14)	**(305,597)**	(186,213)	–
Increase (decrease) in:			
Other noncurrent liabilities	**(225,434)**	630,993	1,518,460
Non-controlling interests in consolidated subsidiaries	**1,330,792**	970,830	209,941
Net cash provided by (used in) financing activities	**9,495,396**	2,764,578	(528,176)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**434,475**	7,485,888	2,771,097
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**53,142,777**	45,656,889	42,885,792
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱53,577,252**	₱53,142,777	₱45,656,889

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Ayala Corporation (the Company or the Parent) is incorporated in the Republic of the Philippines on January 23, 1968. The Company's registered office address and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company is a publicly listed company which is 52.61% owned by Mermac, Inc., 10.93% owned by Mitsubishi Corporation and the rest by the public.

The Company is the holding company of the Ayala Group of Companies, with principal business interests in real estate and hotels, financial services and bancassurance, telecommunications, electronics, information technology and business process outsourcing services, utilities, automotives, international and others.

The consolidated financial statements comprise the financial statements of the Company and the following wholly- and majority-owned domestic and foreign subsidiaries:

	Effective Percentages of Ownership	
	2011	2010
Real Estate and Hotels:		
Ayala Land, Inc. (ALI) and subsidiaries (ALI Group)	**53.2***	53.2*
Ayala Hotels, Inc. (AHI) and subsidiaries	**76.6**	76.6
Technopark Land, Inc.	**78.8**	78.8
Electronics Manufacturing:		
Integrated Microelectronics, Inc. (IMI) and subsidiaries**	**67.4**	67.2
Information Technology and Business Process Outsourcing Services:		
Azalea International Venture Partners, Limited (AIVPL) (British Virgin Islands Company) and subsidiaries	**100.0**	100.0
Azalea Technology Investments, Inc. (Azalea Technology)	**100.0**	100.0
LiveIt Solutions, Inc. (LSI) and subsidiaries (BritishVirgin Islands Company)	**100.0**	100.0
Water Utilities:		
Manila Water Company, Inc. (MWC) and subsidiaries (MWC Group)*** (Note 23)	**43.1**	43.1
Philwater Holdings Company, Inc. (Philwater) (Note 23)	**100.0**	100.0
Water Capital Works, Inc. (WCW) (Note 23)	**100.0**	100.0

(Forward)

	Effective Percentages of Ownership	
	2011	2010
Automotive:		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries	**100.0**	100.0
Power:		
AC Energy Holdings, Inc. (ACEHI) (formerly Michigan Power, Inc.)	**100.0**	100.0
International and Others:		
Bestfull Holdings Limited (incorporated in Hong Kong) (BHL) and subsidiaries (BHL Group)	**100.0**	100.0
AC International Finance Limited (ACIFL) (Cayman Island Company) and a subsidiary	**100.0**	100.0
AYC Finance Ltd. (Cayman Island Company) (AYCFL)	**100.0**	100.0
Michigan Holdings, Inc. (MHI) and subsidiary	**100.0**	100.0
Ayala Aviation Corporation (AAC)	**100.0**	100.0
Darong Agricultural and Development Corporation	**100.0**	100.0
Purefoods International, Ltd. (PFIL) (British Virgin Islands Company)	**100.0**	100.0
AG Counselors Corporation	**100.0**	100.0
MPM Noodles Corporation	**100.0**	100.0

**The Company owns 75.20% and 75.25% of the total common and preferred shares of ALI as of December 31, 2011 and 2010, respectively.*
***A subsidiary of AYC Holdings, Ltd. which is a subsidiary of ACIFL.*
****The Company owns more than one-half of the voting power.*

On February 18, 2010, AIVPL and LiveIt Investments Ltd. (LIL), a wholly owned subsidiary of AIVPL, entered into a deed of return of deposits for future subscription wherein LIL returned the amount of US$21.6 million to AIVPL.

On February 19, 2010, AIVPL and the Company entered into a deed of return of deposits for future subscription wherein AIVPL returned the amount of US$17.4 million to the Company.

On March 2, 2010, Azalea Technology and AIVPL entered into a deed of return of deposits for future subscription wherein AIVPL returned the amount of ₱8.2 million to Azalea Technology.

On June 25, 2010, AIVPL repurchased all the shares held by Azalea Technology representing 2.22% ownership interest in AIVPL amounting to US$4.1 million. This resulted in AIVPL becoming a wholly-owned subsidiary of the Company.

On September 27, 2010, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 35.8 million shares of AIVPL and paid US$1 per share (equivalent to the par value) for a total of US$35.8 million. Consequently, AIVPL and LIL entered into a subscription agreement wherein AIVPL subscribed to 3.6 million shares of LIL and paid US$10 per share (equivalent to the par value) for a total of US$35.8 million. On the same date, LIL and NewBridge International Investments, Ltd. (NewBridge), a wholly owned subsidiary of LIL, entered into a subscription agreement wherein LIL subscribed to 3.6 million shares of NewBridge and paid US$10 per share (equivalent to the par value) for a total of US$35.8 million.

On December 22, 2010, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 1.0 million shares of AIVPL and paid US$1 per share (equivalent to par value) for a total of US$1.0 million which AIVPL used to invest in Preferred C units of Victoria 1522 Investments, LP (see Note 11).

On February 21, 2011, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 2,371,699 shares of AIVPL and paid US$1 per share (equivalent to par value) for a total of US$2.4 million.

Consequently, AIVPL and LIL entered into a subscription agreement wherein AIVPL subscribed to 237,169 shares of LIL and paid US$10 per share (equivalent to par value) for a total of US$2.4 million.

On the same date, AIVPL and the Company also entered into a deposit for future subscription wherein the Company deposited US$0.6 million to AIVPL.

On various dates from September to December 2011, the Company entered into subscription agreements with AIVPL wherein the Company subscribed to a total of 43.7 million shares of AIVPL by converting deposits for future stock subscription in AIVPL amounting to US$43.7 million.

On various dates in 2011, the Company provided additional capital in the form of deposit for future stock subscription to ACEHI amounting to ₱2.6 billion. The proceeds were used to finance the various renewable energy projects of ACEHI.

On November 11, 2011, the Company converted advances to BHL amounting to ₱2.0 billion by subscribing to 4.6 million redeemable preferred shares of BHL.

In December 2011, the Company converted advances to PFIL amounting to US$5.0 million by subscribing to 5.0 million common shares of PFIL.

On various dates in 2011, the Company infused additional capital to AAC amounting to ₱8.1 million.

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were endorsed for approval by the Audit and Risk Committee on March 8, 2012 and authorized for issue by the Board of Directors (BOD) on March 14, 2012.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011.

Basis of consolidation from January 1, 2010
Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests pertains to the equity in a subsidiary not attributable, directly or indirectly to the Company. Any equity instruments issued by a subsidiary that are not owned by the Company are non-controlling interests including preferred shares and options under share-based transactions.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Company.

If the Group 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.

Basis of consolidation prior to January 1, 2010
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 have not been restated.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2011. Except as otherwise stated, the adoption of these new and amended Standards and Philippine Interpretations did not have any impact on the consolidated financial statements.

Philippine Accounting Standard (PAS) 24 (Amendment), *Related Party Disclosures*
PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

PAS 32 (Amendment), *Financial Instruments: Presentation - Classification of Rights Issues*
The Amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The Amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
The Amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The Amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
The Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRS (issued 2010)
The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wordings. The amendments are effective for annual periods beginning January 1, 2011, except as otherwise stated. The adoption of the following amendments resulted in changes to accounting policies but did not have impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations*
  This Amendment clarifies that the Amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

  It also limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

  The Amendment also requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. It further specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their market- based measure; if unvested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expense.

- PFRS 7, *Financial Instruments: Disclosures*
  The Amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements*
  This Amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

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

- PAS 34, *Interim Financial Reporting*
  This Amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:
  a) The circumstances likely to affect fair values of financial instruments and their classification;
  b) Transfers of financial instruments between different levels of the fair value hierarchy;
  c) Changes in classification of financial assets; and
  d) Changes in contingent liabilities and assets.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Securities Regulation Code (SRC) Rule 68, as Amended (2011)
SRC Rule 68, as Amended, Annex 68-D, requires companies to present sale of goods and rendering of services and their corresponding costs as separate line items on the face of the statement of income. To comply with this requirement, the Company segregated the sale of goods from the sale of services and their respective costs in the 2011 consolidated statement of income. The Company restated the 2010 and 2009 consolidated statements of income to be consistent with current year presentation. Likewise, 2010 expenses amounting to ₱1.1 billion which was previously classified under general and administrative expenses was reclassified to cost of rendering services to be consistent with current year presentation. The restatement affected only the statement of income accounts and does not affect any other item within the 2009 statement of financial position and thus, is not considered material to the 2009 consolidated financial statements. Accordingly, the Company did not present a third statement of financial position in its 2011 consolidated financial statements.

Future Changes in Accounting Policies
The Group will adopt the following new and amended Standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

Effective 2012

PAS 12 (Amendment), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
This Amendment is effective for annual periods beginning on or after January 1, 2012. It clarified the determination of deferred tax on investment property measured at fair value. The Amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

PFRS 7 (Amendment), *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
This Amendment is effective for annual periods beginning on or after July 1, 2011. The Amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the entity's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the Amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Effective 2013

PAS 1 (Amendment), *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income*
This Amendment is effective for annual periods beginning on or after July 1, 2012. It changed the grouping of items presented in OCI. Items that could be reclassified (or'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will have no impact on the Group's financial position or performance.

PAS 19 (Amendments), *Employee Benefits*
The Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

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

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

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

The Amendments are to be applied retrospectively. The Amendments affect disclosures only and has no impact on the Group'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 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 Group is currently assessing the full impact that this Standard will have on the Group's financial position and performance.

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 (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the Group's financial position and performance.

Effective 2014

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

Effective 2015

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a more comprehensive picture.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission (SEC) and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the adoption of this Interpretation.

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

Short-term Investments
Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. In the case of derivatives, the Group follows the trade date accounting.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for securities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability 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 for financial instruments traded in active markets at the reporting date 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 methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option 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 from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income under "Interest income" or "Interest expense and other financing charges" unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets and financial liabilities at FVPL

Financial assets and financial liabilities at FVPL include derivatives, financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income or expense accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges". Interest earned or incurred is recorded in "Interest income" or "Interest expense and other financing charges" while dividend income is recorded in "Other income" when the right of payments has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) 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 (ii) the assets or 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 (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial assets and financial liabilities at FVPL pertain to government securities, other investment securities, derivatives not designated as accounting hedges and embedded derivative arising from the acquisition of PSi.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Where the Group sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. 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 rate. The amortization is included in "Interest income" in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of income under "Provision for impairment losses" account. HTM investments are included under "Other current assets" if the maturity falls within 12 months from reporting date.

As of December 31, 2011 and 2010, the Group has no outstanding HTM investments.

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 financial assets or financial asset at FVPL. This accounting policy relates to the statement of financial position captions "Cash and cash equivalents", "Short-term investments" and "Accounts and notes receivable" (except for Advances to contractors and suppliers).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. 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 rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in the "Interest income" account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under "Provision for doubtful accounts" in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent assets.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in other comprehensive income and are reported as "Net unrealized gain (loss) on available-for-sale financial assets" (net of tax where applicable) in equity. The Group's share in its associates'/jointly controlled entities' net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under "Other income" or "Other charges". Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under "Other income" in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under "Provision for impairment losses" in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group's AFS financial assets pertain to investments in debt and equity securities included under "Investments in bonds and other securities" in the consolidated statement of financial position. AFS financial assets are included under "Other current assets" if expected to be realized within 12 months from reporting date.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. 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. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and accrued expenses, and other current and noncurrent liabilities and obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Deposits and Retentions Payable
Deposits and retentions payable are initially measured at fair value. After initial recognition, deposits and retentions payable are subsequently measured at amortized cost using the effective interest rate method.

For deposits, the difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position) and amortized using the straight-line method with the amortization included under the "Rendering of services" account in the consolidated statement of income.

Customers' Guaranty and Other Deposits
Customers' guaranty and other deposits are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest rate method. Amortization of customers' guaranty and other deposits are included under "Interest expense and other financing charges" in the consolidated statement of income. The difference between the cash received and its fair value is recognized as "Deferred credits". Deferred credits are amortized over the remaining concession period using the effective interest rate method.

Financial guarantee contracts
Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized where:

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

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

Financial liability

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

Impairment of Financial Assets

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

Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

If there is objective evidence that an impairment loss 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 charged to the consolidated statement of income under "Provision for doubtful accounts". Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. 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 estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Financial assets carried at cost
If there is an objective evidence 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, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the 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 financial assets
In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income under "Other charges." Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories
Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and conditions are generally accounted for as follows:

Real estate inventories - cost includes land cost, amounts paid to contractors for construction, capitalized borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs. The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Club shares - cost is determined on the basis mainly of the actual development cost incurred plus the estimated development cost to complete the project based on the estimates as determined by the in-house engineers, adjusted with the actual costs incurred as the development progresses, including borrowing costs during the development stage. Club shares amounting to ₱342.2 million and ₱354.3 million as of December 31, 2011 and 2010 have been included under the "Subdivision land for sale" account.

Vehicles - purchase cost on specific identification basis.

Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis.

NRV for real estate inventories, vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of income.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for commissions, marketing fees, advertising and promotions, taxes and licenses, rentals and insurance.

Creditable Withholding Tax
This pertains to the tax withheld at source by the Group's customer and is creditable against the income tax liability of the Group.

Value-Added Tax (VAT)
The input value-added tax pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the local sale of goods or services by the Group.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Other current liabilities" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succedding months and included under "Other current asset" account.

Land and Improvements
Land and improvements consist of properties for future development and are carried at the lower of cost and NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes cost of purchase and those costs incurred for improvement of the properties.

Investments in Associates and Jointly Controlled Entities
Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

An investment in an associate or joint venture is accounted for using the equity method from the day it becomes an associate or joint venture. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. The Group's share in the investee's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the investee's other comprehensive income is

recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and to the extent that for unrealized losses, there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when its investment in an investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company subsequently reports profits, the Group resumes recognizing its share of the profits only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The Group recognizes gain or loss on partial disposals of interests in associates (including deemed disposals) without loss of significant influence. Likewise, the Group reclassifies to profit or loss the portion of its share in the associates' other comprehensive income which has been disposed of.

Beginning January 1, 2010, upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Interest in a Joint Venture
Makati Development Corporation (MDC), an ALI subsidiary, has an interest in a joint venture, whereby the venturers have a contractual arrangement that establishes joint control. MDC recognizes its interest in the joint venture using proportionate consolidation. MDC combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of MDC.

Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and the joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the NRV of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Investment Properties
Investment properties comprise completed property and property under construction or re-development that are held to earn rentals, and are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Construction-in-progress are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of buildings range from 20-40 years.

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

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Property, Plant and Equipment
Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use.

Construction-in-progress is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and computed on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	3-40 years
Machinery and equipment	3-10 years
Hotel property and equipment	20-50 years
Furniture, fixtures and equipment	2-10 years
Transportation equipment	3-5 years

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

When property, plant and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Assets and Obligations
MWC Group accounts for its concession arrangements with Metropolitan Waterworks and Sewerage System (MWSS), Province of Laguna (POL), Tourism Infrastructure and Enterprise Zone authority (TIEZA), and Clark Development Corporation (CDC) under the Intangible Asset model as it receives the right (license) to charge users of public service. Under these concession agreements, MWC Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall remain with MWSS, POL, TIEZA and CDC at the end of the concession period.

The "Service concession assets" (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group. The SCA are amortized using the straight-line method over the life of the concession.

In addition, MWC recognizes and measures revenue from rehabilitation works in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful lives of intangible assets follow:

Developed software	15 years
Customer relationships	2-5 years
Order backlog	6 months
Unpatented technology	5 years
Licenses	3 years
Technical service agreement	3 years

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Business Combinations and Goodwill
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 are expensed as incurred.

When the Group 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 and included under "Remeasurement gain/loss arising from business combination" in the consolidated statement of income.

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 as bargain purchase gain.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) 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 these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

Asset Acquisitions

If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business, the transaction is accounted for as an asset acquisition. The Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The

acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognises the difference as non-controlling interest.

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU'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. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Investments in associates and jointly controlled entities
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each reporting date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount as a reduction of the "Share of profit of associates and jointly controlled entities" account in the consolidated statement of income.

Impairment of goodwill
For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Equity

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and is presented as reduction from equity.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC), Q&A 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished, and the costs incurred or to be incurred can be measured reliably). Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included under “Other current liabilities” in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the “Other current liabilities” account in the liabilities section of the consolidated statement of financial position.

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

Revenue from construction contracts are recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

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

Rooms revenue from hotel and resort operations are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. A certain percentage of the water revenue are recognized as environmental charges as provided for in the concession agreement. Other customer related fees such as reconnection and disconnection fees are recognized when these services have been rendered.

Revenue from rehabilitation works is recognized and measured by MWC in accordance with PAS 11 and PAS 18 for the services it performs. Costs related to rehabilitation works is recorded as part of SCA.

When MWC group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. MWC group accounts for revenue and costs relating to operation services in accordance with PAS 18.

Revenue from sales of electronic products and vehicles and related parts and accessoriesare recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, returns, rebates and sales taxes.

Marketing fees, management fees from administrative and property management and revenue from vehicle repairs are recognized when services are rendered.

Revenue from business process outsourcing services is recognized when services are rendered. Revenue from digitizing and document creation services are recognized when the service is completed and electronically sent to the customer. Provision for discounts and other adjustments are provided for in the same period the related sales are recorded.

Interest income is recognized as it accrues using the effective interest method.

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

Gain/loss on sale of investments

Prior to January 1, 2010, gain or loss is recognized in the consolidated statement of income if the Group disposes some of its investment in a subsidiary, associate or jointly-controlled entities. Gain or loss is computed as the difference between the proceeds of the disposal and its carrying amount, including the carrying amount of goodwill, if any.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or 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 the 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) and at the date of renewal or extension period for scenario (b).

Group as lessee

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

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Group as lessor
Leases where the Group 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 income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

<u>Commission Expense</u>
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage-of-completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included under "Costs of sales and services" in the consolidated statement of income.

<u>Expenses</u>
Cost of services and general and administrative expenses, except for lease agreements, are recognized as expense as they are incurred.

<u>Borrowing Costs</u>
Borrowing costs directly attributable to the acquisition or construction 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 (included in "Real estate inventories", "Investment properties", "Property, plant and equipment" and "Service concession assets" accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowingcosts is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Cost

Defined benefit plans

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, recognized actuarial gains and losses and the effect of any curtailments or settlements.

The net pension liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

The net pension asset is the lower of the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in future periods, or the total of any 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.

Actuarial gains and losses are recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Defined contribution plans

Certain foreign subsidiaries participate in their respective country's pension schemes which are considered as defined contribution plans. A defined contribution plan is a pension plan under which the subsidiary pays fixed contributions. The subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefits relating to employee service in the current and prior periods. The required contributions to the national pension schemes are recognized as pension cost as accrued.

Income Tax

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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences, with certain exceptions, at the reporting date 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in jointly controlled entities. With respect to investments in foreign subsidiaries, associates and interests in jointly controlled entities, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all as 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 income will allow all as part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

Income tax relating to items recognized directly in equity is recognized in equity.

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

For periods where the income tax holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the subsidiary neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Foreign Currency Transactions

The functional and presentation currency of Ayala Corporation and its subsidiaries (except for PFIL, BHL, AIVPL and IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange

differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of PFIL, BHL, AIVPL and IMI is the US Dollar (US$). As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity as Cumulative Translation Adjustment. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

The Group's share in the associates' translation adjustments are likewise included under the Cumulative translation adjustments account in the consolidated statement of comprehensive income.

MWC
As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement, the following will be recovered through billings to customers:

a. Restatement of foreign currency-denominated loans;

b. Excess of actual Concession Fee payment over the amounts of Concession Fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱44.0:US$1.0 based on the last rate rebasing exercise effective on January 1, 2008.

c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and

d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

In view of the automatic reimbursement mechanism, MWC recognizes deferred foreign currency differential adjustment (FCDA) (included as part of "Other noncurrent assets" in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by MWSS-RO during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Share-based Payments
The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Black-Scholes model, further details of which are provided in Note 27 to the consolidated financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as of 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 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. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, 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.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 25).

Employee share purchase plans
The Company and some of its subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Company's and its respective subsidiaries' shares at a discounted price. The Group recognizes the difference between the market price at the time of subscription and the subscription price as stock compensation expense over the holding period.

Where the subscription receivable is payable over more than one year, the subscription price is adjusted for the time value and treated as additional stock compensation expense. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. Calculation of diluted EPS considers the potential ordinary shares of subsidiaries, associates and jointly controlled entities that have dilutive effect on the basic EPS of the Company. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share. Basic and diluted EPS are adjusted to give retroactive effect to any stock dividends declared during the period.

Assets Held in Trust
Assets which are owned by MWSS, POL and TIEZA but are operated by MWC under the concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 37).

Operating Segments
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 28 to the consolidated financial statements.

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

Events after the Reporting Period
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

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

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, MWC group has made a judgment that its concession agreements qualify under the Intangible Asset model. Refer to the accounting policy on SCA for the discussion of Intangible Asset model (see Note 2).

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the estimated useful life of the assets.

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases and the rest are cancellable. In determining whether a lease contract is cancellable or not, the Group considers among others, the significance of the penalty, including the economic consequence to the lessee.

Operating lease commitments - Group as lessee
The Group has entered into contracts with various parties to develop commercial or retail properties. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Finance lease commitments - Group as lessee
Certain subsidiaries have entered into finance lease agreements related to office equipment, machineries and production equipment. They have determined, based on the evaluation of the terms and conditions of the arrangement, that they bear substantially all the risks and rewards incidental to ownership of the said machineries and equipment and so account for the contracts as finance leases.

Classification of property as investment property or real estate inventories
The Group determines whether a property is classified as investment property or inventory property as follows:

- Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.

- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential, commercial and industrial property that the Group develops and intends to sell before or on completion of construction.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, not for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Distinction between real estate inventories and land and improvements
The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land and improvements).

Property acquisitions and business combinations
The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group assesses whether the acquisitions represent the acquisition of a business. The Group accounts for an acquisition as a business combination when an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary.

Collectibility of the sales price
For real estate sales, in determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Impairment of AFS equity investments
The Group 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 Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position (see Note 36).

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date 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.

Revenue and cost recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from real estate, pipeworks, construction and management contracts are recognized based on the percentage of completion measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project.

Estimating allowance for impairment losses
The Group maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group 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 receivable's carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. 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 period would differ depending on the judgments and estimates made for the year.

As of December 31, 2011 and 2010, allowance for impairment losses amounted to ₱1.1 billion and ₱1.2 billion, respectively. Accounts and notes receivable, net of allowance for doubtful accounts, amounted to ₱39.6 billion and ₱30.7 billion as of December 31, 2011 and 2010, respectively (see Note 6).

Evaluation of net realizable value of inventories and land and improvements
Inventories and land and improvements are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' and land and improvements' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories and land and improvements, the Group adjusts the cost of its real estate inventories and land and improvements to net realizable value based on its assessment of the recoverability of the real estate inventories and land and improvements. In determining the recoverability of the inventories and land and improvements, management considers whether those inventories and land and improvements are damaged or if their selling prices have declined.

Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Inventories carried at cost amounted to ₱25.8 billion and ₱16.2 billion as of December 31, 2011 and 2010, respectively. Inventories carried at NRV amounted to ₱1.9 billion and ₱2.1 billion as of December 31, 2011 and 2010, respectively (see Note 7).

Evaluation of impairment of nonfinancial assets
The Group reviews investments in associates and jointly controlled entities, land and improvements, investment properties, property, plant and equipment, service concession assets and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. For investments in associates and jointly controlled entities, fair value less costs to sell pertain to quoted prices (listed equities) and to fair values determined using discounted cash flows or other valuation technique such as multiples. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and jointly controlled entities, investment properties, property, plant and equipment, service concession assets and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

IMI's impairment tests for goodwill are based on value in use and fair value less cost to sell calculations. The value in use calculations in 2011 and 2010 used a discounted cash flow model. The cash flows are derived from the budget for the next five years and assume a steady growth rate. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Investments in associates and jointly controlled entities, investment properties, property, plant and equipment, service concession assets and intangible assets amounted to ₱197.2 billion and ₱175.4 billion as of December 31, 2011 and 2010, respectively (see Notes 11, 12, 13,14 and 15).

Estimating useful lives of investment properties, property, plant and equipment, and intangible assets
The Group estimated the useful lives of its investment properties, property, plant and equipment and intangible assets with finite useful lives based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and intangible assets are reviewed at least annually and are updated if expectations

differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives would increase depreciation and amortization expense and decrease noncurrent assets.

Investment properties, property, plant and equipment, and intangible assets with finite useful lives amounted to ₱47.7 billion and ₱41.4 billion as of December 31, 2011 and 2010, respectively (see Notes 12, 13 and 15).

Deferred FCDA and Deferred Credits
Under Amendment No. 1 of the Concession Agreement, MWC is entitled to recover (refund) foreign exchange losses (gains) arising from MWSS loans and any concessionaire loans. For the unrealized foreign exchange losses, MWC recognized deferred FCDA as an asset since this is a resource controlled by MWC as a result of past events and from which future economic benefits are expected to flow to MWC. Unrealized foreign exchange gains, however, which will be refunded to the customers, are presented as deferred credits.

Deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

As of December 31, 2011 and 2010, the Group has net deferred tax assets amounting to ₱3.1 billion and ₱2.7 billion, respectively, and net deferred tax liabilities amounting to ₱6.1 billion and ₱5.9 billion, respectively (see Note 24).

Recognition and measurement of taxes
The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the profit and loss in the period in which such determination is made.

The carrying amount of the Group's income taxes payable as of December 31, 2011 and 2010 amounted to ₱483.3 million and ₱440.8 million, respectively.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group.

Total expense arising from share-based payments recognized by the Group amounted to ₱447.6 million, ₱375.0 million and ₱471.6 million in 2011, 2010 and 2009, respectively (see Note 27).

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 to the consolidated financial statements and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions materially affect retirement obligations. See Note 26 to the consolidated financial statements for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow methodology. See Note 31 for the related balances.

Fair value of put and call options
The acquisition of PSi on October 6, 2010 gave rise to a long equity call option and written equity put option for IMI. The call and put options were valued using the binomial option pricing model. This valuation technique considers the probability of PSi's share price based on a five-year discounted cash flow to move up or down depending on the volatility, risk free rate and exercise price based on a 12-month trailing EBITDA of PSi as of the valuation date. As of December 31, 2011 and 2010, the call option has a positive value of US$2.74 million (₱119.9 million) and US$1.21 million (₱53.1 million), respectively, while the put option has nil value and negative value of US$3.83 million (₱168.0 million), respectively (see Note 31).

Fair value measurement of intangible assets resulting from business combination
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Valuation techniques are used to determine the fair value of the intangible assets. Valuation techniques include relief from royalty method (RRM), multi-period excess earnings method (MEEM) and other relevant valuation techniques. The table below summarizes the carrying amount of the intangible assets and the related valuation techniques used to determine fair value at the acquisition date for business combinations in 2011 and 2010 (amounts in thousands):

2011	**Intangible Asset**	**Valuation Technique**	**Carrying Value**
EPIQ EA	Customer relationships	MEEM	**₱271,928**
IQ BackOffice	Trademark	RRM	**7,419**
	Customer relationships	MEEM	**100,200**
	Developed software	RRM	**165,228**
			₱544,775

2010	Intangible Asset	Valuation Technique	Carrying Value
WCW	Technical service agreement	MEEM	₱56,010

Purchase price allocation
2011 Acquisition
As of December 31, 2011, the purchase price allocation relating to the Group's acquisition of EPIQ subsidiaries and Clark Water Corporation (CWC) have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. The difference between the total consideration and the net assets are either recognized as goodwill or bargain purchase gain as follows:

	EPIQ EA		**EPIQ CZ**		**EPIQ MX**		
	In US$	In Php*	In US$	In Php*	In US$	In Php*	**CWC**
			(In Thousands)				
Total consideration	$28,287	₱1,192,019	$725	₱30,571	$13,957	₱588,141	₱1,200,658
Net Assets	39,949	1,683,442	75	3,163	15,314	645,316	1,070,339
Goodwill (gain from bargain purchase)	($11,662)	(₱491,423)	$650	₱27,408	($1,357)	(₱57,175)	₱130,319

**Translated using the exchange rate at the transaction date (US$ 1:₱42.14)*

2010 Acquisition
As of December 31, 2010, the purchase price allocation relating to the Group's acquisition of PSi Technologies, Inc. (PSi) and Ten Knots have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. For PSi, the difference between the total consideration and the net assets amounting to ₱413.0 million was initially allocated to goodwill as of December 31, 2010. The acquisition of Ten Knots resulted in the recognition of a bargain purchase gain amounting to ₱0.5 million as of December 31, 2010.

4. Cash and Cash Equivalents

This account consists of the following:

	2011	2010
	(In Thousands)	
Cash on hand and in banks (Note 30)	**₱8,784,740**	₱8,822,040
Cash equivalents (Note 30)	**44,792,512**	44,320,737
	₱53,577,252	₱53,142,777

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term rates.

5. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months but less than one year and earn interest at the respective short-term investment rates. The ranges of interest rates of the short-term investments follow:

	2011	2010
PHP	**1.3% to 5.0%**	3.5% to 4.8%
USD	**0.2% to 2.0%**	1.5% to 2.3%

6. Accounts and Notes Receivable

This account consists of the following:

	2011	2010
	(In Thousands)	
Trade:		
Real estate	**₱18,921,685**	₱13,898,871
Electronics manufacturing	**5,628,560**	4,215,059
Water utilities	**1,086,389**	1,006,082
Automotive	**534,975**	869,557
Information technology and business process outsourcing (BPO)	**117,305**	67,227
International and others	**2,493**	2,770
Advances to contractors and suppliers	**4,493,325**	3,586,986
Advances to other companies	**3,247,162**	3,593,632
Related parties (Note 30)	**2,700,765**	2,199,191
Dividend receivable (Note 30)	**815,220**	318,279
Receivable from officers and employees (Note 30)	**738,549**	854,313
Receivable from BWC (Note 23)	**599,342**	–
Investment in bonds classified as loans and receivables	**200,000**	200,000
Others (Note 30)	**1,627,326**	1,076,499
	40,713,096	31,888,466
Less allowance for doubtful accounts	**1,142,037**	1,160,229
	39,571,059	30,728,237
Less noncurrent portion	**8,251,363**	4,793,315
	₱31,319,696	₱25,934,922

The classes of trade receivables of the Group follow:

Real estate
Real estate receivables are receivables relating to residential development which pertain to receivables from the sale of high-end; upper middle-income and affordable residential lots and units, economic housing development and leisure community developments; construction contracts which pertain to receivables from third party construction projects; shopping centers which pertain to lease receivables of retail space; corporate business which pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots; and management fees which pertain to facility management fees receivable.

The sales contracts receivable, included in real estate receivables, are collectible in monthly installments over a period of one to ten years and bear annual interest rates ranging from 2.2% to 20.0% computed based on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made.

Receivables from construction contracts, shopping centers and management fee are due within 30 days upon billing. Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease.

Electronics manufacturing
Electronics manufacturing receivables pertain to receivables arising from manufacturing and other related services for electronic products and components and billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These are collectible within 30- to 60- days from invoice date.

Electronics manufacturing receivables include receivables of PSi from certain customers amounting to US$5.40 million (₱38.4 million) as of December 31, 2010, which were assigned as collateral for a credit facility from a local bank. The credit facility was renewed in April 2011 without required security (see Note 19).

Water utilities
Water utilities receivable arise from water and sewer services rendered to residential, commercial, semi-business and industrial customers of MWC Group and are collectible within 30 days from bill generation.

Automotive
Automotive receivables are receivables relating to manufacture and sale of passenger cars and commercial vehicles and are collectible within 30- to 90- days from date of sale.

Information technology and BPO
Information technology and BPO receivables arise from venture capital for technology businesses; provision of value-added content for wireless services, online business-to-business and business-to-consumer services; electronic commerce; technology infrastructure sales and technology services; and onshore- and offshore-BPO services and are normally collected within 30- to 60- days of invoice date.

International and others
International and other receivables arose from investments in overseas property companies and projects, charter services, agri-business and others and are generally on 30- to 60- day terms.

The nature of the Group's other receivables follows:

Advances to contractors and suppliers
Advances to contractors and suppliers are recouped every progress billing payment date depending on the percentage of accomplishment.

Receivables from related parties and advances to other companies
Receivables from related parties include notes receivable issued by related parties which are interest-bearing ranging from 4.0% to 15% and payable with various maturities up to 2012. Advances to other companies are due and demandable. Advances to other companies include receivable from SAWACO which pertains to the unpaid portion of services rendered by MWC in relation to its management contract with SAWACO.

Receivables from officers and employees
Receivable from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 6% to 13.5% per annum and have various maturity dates ranging from 2012 to 2026.

Investment in bonds classified as loans and receivables
Investment in bonds classified as loans and receivables pertain to ALI's investment in Land Bank of the Philippines' (LBP's) 7.3% unsecured subordinated notes due 2019, callable with step-up interest in 2014. Fitch Ratings assigned a National Long-term rating of AA (phl) to LBP.

Others
Other receivables include accrued interest receivable and other nontrade receivables which are non-interest bearing and are due and demandable.

Other receivables also include IMI's insurance claim amounting to US$1.2 million (₱53.9 million) and US$1.9 million (₱81.5 million) as of December 31, 2011 and 2010, respectively, for damages to equipment and inventories caused by a fire incident in IMI's plant in Cebu, Philippines in May 2009. The gain from the insurance claim is included under "Other income" in the 2009 consolidated statement of income (see Note 22).

Movements in the allowance for doubtful accounts follow (in thousands):

	2011							
	Real Estate	**Electronics Manufacturing**	**Water Utilities**	**Automotive**	**Information Technology and BPO**	**International and Others**	**Others**	**Total**
At January 1	**₱245,059**	**₱28,183**	**₱479,524**	**₱36,516**	**₱7,330**	**₱67**	**₱363,550**	**₱1,160,229**
Additions through business ombinations (Note 23)	**–**	**–**	**3,764**	**–**	**–**	**–**	**–**	**3,764**
Provisions during the year (Note 22)	**8,195**	**83,763**	**49,965**	**1,513**	**25,240**	**–**	**154,258**	**322,934**
Write-offs	**(1,611)**	**(590)**	**(18,516)**	**–**	**–**	**–**	**(109,147)**	**(129,864)**
Reversals	**(4,219)**	**(18,559)**	**(95,469)**	**(2,026)**	**(3,551)**	**–**	**(91,202)**	**(215,026)**
At December 31	**₱247,424**	**₱92,797**	**₱419,268**	**₱36,003**	**₱29,019**	**₱67**	**₱317,459**	**₱1,142,037**
Individually impaired	**₱221,260**	**₱92,797**	**₱42,992**	**₱36,003**	**₱25,148**	**₱67**	**₱177,192**	**₱595,459**
Collectively impaired	**26,164**	**–**	**376,276**	**–**	**3,871**	**–**	**140,267**	**546,578**
Total	**₱247,424**	**₱92,797**	**₱419,268**	**₱36,003**	**₱29,019**	**₱67**	**₱317,459**	**₱1,142,037**
Gross amount of loans and receivables individually determined to be impaired	**₱277,731**	**₱92,797**	**₱42,992**	**₱36,003**	**₱25,148**	**₱67**	**₱177,192**	**₱651,930**

	2010							
	Real Estate	Electronics Manufacturing	Water Utilities	Automotive	Information Technology and BPO	International and Others	Others	Total
At January 1	₱202,810	₱14,436	₱–	₱30,451	₱77,405	₱103	₱47,777	₱372,982
Additions through business combinations (Note 23)	14,264	–	556,430	–	–	–	105,802	676,496
Deconsolidation (Note 33)	–	–	–	–	(45,372)	–	–	(45,372)
Provisions during the year (Note 22)	57,206	34,931	–	6,065	3,248	1,607	353,162	456,219
Write-offs	(27,209)	(21,184)	(49,398)	–	(27,951)	(1,643)	(143,191)	(270,576)
Reversals	(2,012)	–	(27,508)	–	–	–	–	(29,520)
At December 31	₱245,059	₱28,183	₱479,524	₱36,516	₱7,330	₱67	₱363,550	₱1,160,229
Individually impaired	₱221,715	₱28,183	₱61,474	₱36,516	₱7,330	₱67	₱250,668	₱605,953
Collectively impaired	23,344	–	418,050	–	–	–	112,882	554,276
Total	₱245,059	₱28,183	₱479,524	₱36,516	₱7,330	₱67	₱363,550	₱1,160,229
Gross amount of loans and receivables individually determined to be impaired	₱331,280	₱28,183	₱61,474	₱36,516	₱7,330	₱67	₱250,668	₱715,518

As of December 31, 2011 and 2010, certain real estate receivables and receivables from officers and employees with a nominal amount of ₱16,183.4 million and ₱9,682.9 million, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The unamortized discount amounted to ₱2,735.5 million and ₱1,272.3 million as of December 31, 2011 and 2010, respectively. Additions amounted to ₱2,380.4 million and ₱1,250.5 million in 2011 and 2010, respectively, while amortization amounted to ₱918.0 million and ₱601.4 million in 2011 and 2010, respectively. Amortization of discounts are included as part of "Interest income" in the consolidated statement of income.

In 2011, the Company and ALI sold to Bank of the Philippine Islands (BPI) its loans receivable from officers and employees and real estate receivables without recourse amounting to ₱452.5 million and ₱322.8 million, respectively. The discount on these receivables amounting to ₱37.3 million has been included under "Other expenses" in the consolidated statement of income (see Note 22).

7. **Inventories**

This account consists of the following:

	2011	2010
	(In Thousands)	
At cost:		
Condominium, residential and commercial units	**₱13,316,731**	₱6,984,154
Subdivision land for sale	**9,624,053**	7,706,164
Vehicles	**472,230**	621,358
Finished goods	**273,178**	333,591
Work-in-process	**277,452**	232,021
Materials, supplies and others	**1,875,127**	355,905
	25,838,771	16,233,193
At NRV:		
Subdivision land for sale	**524,158**	524,158
Finished goods	**191,481**	12,120
Work-in-process	**82,227**	80,688
Parts and accessories	**140,461**	143,453
Materials, supplies and others	**988,744**	1,381,044
	1,927,071	2,141,463
	₱27,765,842	₱18,374,656

The cost of the inventories carried at NRV amounted to ₱1.9 billion and ₱2.1 billion as of December 31, 2011 and 2010, respectively. Inventories recognized as cost of sales amounted to ₱43.9 billion, ₱37.0 billion and ₱34.2 billion in 2011, 2010 and 2009, respectively, and were included under "Costs of sales" in the consolidated statement of income.

The Group recorded provision for impairment losses on inventories amounting to ₱49.9 million, nil and ₱78.1 million in 2011, 2010 and 2009, respectively. The ₱78.1 million provided in 2009 was for the development cost of real estate inventories which may no longer be recovered. The provision is included under "Other charges" in the consolidated statement of income (see Note 22).

For the years ended December 31, 2011, 2010 and 2009, gain from sale of scrapped packaging supplies amounting to US$0.01 million (₱0.43 million), US$0.23 million (₱10.38 million) and US$0.11 million (₱5.24 million), respectively, are included under “Other income” in the consolidated statement of income (see Note 22).

Inventories amounting to ₱299.6 million in 2011 and 2010 was used to secure an interest bearing loan (see Note 19).

8. Other Current Assets

This account consists of the following:

	2011	2010
	(In Thousands)	
Prepaid expenses	**₱3,179,854**	₱1,989,109
Creditable withholding tax	**2,278,279**	1,201,204
Input VAT	**1,826,450**	1,801,747
Financial assets at FVPL	**1,470,829**	872,080
Deposits in escrow	**147,529**	317,597
Derivative assets (Note 31)	**122,704**	74,226
Investments in bonds and other securities (Note 9)	–	357,129
Others	**263,037**	298,542
	₱9,288,682	₱6,911,634

Prepaid expenses mainly include prepayments for commissions, marketing fees, advertising and promotion, taxes and licenses, rentals and insurance.

Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Financial assets at FVPL consists of:

	2011	2010
	(In Thousands)	
Held for trading:		
Investment securities	**₱1,470,829**	₱468,072
Government securities	–	404,008
	₱1,470,829	₱872,080

Investment securities pertains to the Group’s investment in The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments), which have a combined fair value of US$33.4 million and US$10.5 million as of December 31, 2011 and 2010, respectively. These investments are accounted for at FVPL. There is no change in management’s intention to hold the investments for trading purpose. It was concluded in the past that there was no appropriate valuation method to value these unquoted investments and reference to equity transactions by external party would be the best approximation to fair value. In March 2011, the Group acquired additional 5.96% interest in TRG investments (see Note 11). Subsequent to the equity transaction, the Group’s existing 4.04% equity investments in TRG were revalued based on the most recent equity transaction with an external party. Unrealized gains recognized on this investment amounted to US$3.0 million (₱132.2 million), nil and US$0.3 million (₱14.7 million) in 2011, 2010 and 2009 (see Note 22). In the absence of equity transaction at reporting date, the Group uses the last transaction price as the fair value as of reporting date.

Government securities pertain to treasury bonds and treasury bills with an aggregate face value of ₱400.0 million that have yields to maturity of 1.3% in 2010. All of the government securities held by the Group matured in 2011. Net changes in fair value amounted to ₱4.9 million, ₱8.6 million and ₱0.7 million in 2011, 2010 and 2009, respectively.

Net changes in fair value of financial assets at FVPL is included under "Mark to market gain on financial assets at FVPL and derivatives" in the consolidated statement of income (see Note 22).

Deposits in escrow pertain to the proceeds from the sale of real estate project of an ALI subsidiary. Under its temporary license to sell, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

Derivative assets consist of:

	2011	2010
	(In Thousands)	
Call option	**₱119,939**	₱267,763
Currency forwards	**2,765**	21,073
	122,704	288,836
Less noncurrent portion (Note 16)	**–**	214,610
	₱122,704	₱74,226

9. Investments in Bonds and Other Securities

This account consists of investments in:

	2011	2010
	(In Thousands)	
AFS financial assets		
Quoted equity investments	**₱992,612**	₱1,702,552
Unquoted equity investments	**1,439,324**	2,692,960
	2,431,936	4,395,512
Quoted debt investments	**874,161**	288,007
Unquoted debt investments	**439,071**	527,947
	3,745,168	5,211,466
Less current portion (Note 8)	**–**	357,129
	₱3,745,168	₱4,854,337

Quoted equity instruments consist mainly of listed securities and golf club shares.

The unquoted equity investments include investments in TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF). The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity. In 2011, the Group received a return of capital from SOF amounting to US$13.3 million.

Unquoted equity investments also include the Group's investment in Red River Holdings. The Red River Holdings is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies. In 2010, a final capital call was made amounting to US$1.9 million bringing the total investment in Red River Holdings to US$10.0 million.

In 2011, the Group recorded impairment loss on Red River Holdings amounting to US$3.5 million (₱155.1 million) included under "Other charges" in the consolidated statement of income. The impairment is due to prolonged decline in net asset value of Red River Holdings (see Note 22).

In 2010, AIVPL invested US$0.5 million out of US$1.0 million commitment to invest in Preferred C units of Victoria 1522 Investments, LP (Victoria). Victoria is an investment management firm exclusively focused on the emerging markets of Asia, Latin America, Europe, the Middle East and Africa. In 2011, capital calls amounting to US$0.3 million were made, bringing the total investments in Victoria to US$0.8 million as of December 31, 2011. The investment in Victoria is included as part of unquoted equity investments.

Unquoted equity investments also include unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects and other operations. These are carried at cost less impairment, if any.

As of December 31, 2010, the Group recorded impairment on its investment in a company engaged in the manufacture of broadband devices amounting to ₱235.1 million included under "Other charges" in the consolidated statement of income (see Note 22). The provision is primarily due to poor financial results and liquidity problems of the investee company.

Quoted debt investments consist mainly of government securities such as retail treasury bonds. These bonds earn interest ranging from 6.0% to 8.75% in 2011 and 2010 with maturity dates up to 5 years.

As of December 31, 2011 and 2010, the Net unrealized gain on AFS financial assets as reflected in the equity section is broken down as follows:

	2011	2010
	(In Thousands)	
Net unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries	**₱697,823**	₱676,094
Share in the net unrealized gain on AFS financial assets of associates and jointly-controlled entities	**1,027,571**	452,640
	₱1,725,394	₱1,128,734

The rollforward of unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries is as follows:

	2011	2010
	(In Thousands)	
At January 1	**₱676,094**	₱463,852
Changes in fair value recognized in equity	**(135,585)**	239,536
Recognized in profit and loss	**157,314**	(27,294)
At December 31	**₱697,823**	₱676,094

10. **Land and Improvements**

The rollforward analysis of this account follows:

	2011	2010
	(In Thousands)	
Cost		
At January 1	**₱16,943,823**	₱18,363,314
Additions	**3,959,279**	2,372,740
Additions through business combination (Note 23)	**–**	1,361,645
Transfers*	**(1,846,886)**	(5,149,120)
Disposals	**(15,176)**	(4,756)
At December 31	**19,041,040**	16,943,823
Allowance for decline in value		
At January 1	**510,125**	780,752
Transfers*	**–**	(270,627)
At December 31	**510,125**	510,125
	₱18,530,915	₱16,433,698

**Transfers pertain to land to be developed for sale and included under "Real estate inventories" account.*

In 2009, the ALI recorded provision for impairment amounting to ₱568.7 million included under "Other charges" in the consolidated statement of income (see Note 22).

On August 27, 2009, ALI and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop a 29.1-hectare North Triangle Property in Quezon City as a priming project of the government and the private sector. The joint venture represents the conclusion of a public bidding process conducted by the NHA which began in October 3, 2008.

ALI's proposal, which has been approved and declared by the NHA as compliant with the Terms of Reference of the public bidding and the National Economic Development Authority (NEDA) Joint Venture Guidelines, features the development of a new Central Business District (CBD) in Quezon City. The CBD will be developed as the Philippines' first transit-oriented mixed-use central business district that will be a new nexus of commercial activity. The proposal also aims to benefit the NHA in achieving its mandate of providing housing for informal settlers and transforming a non-performing asset in a model for urban renewal. The development will also generate jobs and revenues both for the local and national governments.

ALI's vision for the property is consistent with the mandate of the Urban Triangle Development (TriDev) Commission to rationalize and speed up the development of the East and North Triangles of Quezon City into well-planned, integrated and environmentally balanced, mixed-use communities. The joint venture also conforms to NHA's vision of a private sector-led and managed model for the development of the property, similar to the development experience in Fort Bonifacio.

The total project cost is estimated at ₱22.0 billion, inclusive of future development costs and the current value of the property, which ALI and the NHA will contribute as their respective equity share in the joint venture. Development of Phase 1 is expected to start within 2012.

For each phase, NHA and ALI shall receive an allocation in form of developed lots with an aggregate value of approximately 28.3% and 71.7%, respectively, of the total value of developed lots in such phase.

11. Investments in Associates and Jointly Controlled Entities

This account consists of the following:

	2011	2010
	(In Thousands)	
Acquisition cost	**₱65,284,572**	₱60,400,933
Accumulated equity in earnings	**13,878,503**	10,946,945
Other comprehensive income	**496,006**	657,001
	₱79,659,081	₱72,004,879

Details of the Group's investments in associates and jointly controlled entities and the related percentages of ownership are shown below:

	Percentage of Ownership		**Carrying Amounts**	
	2011	2010	**2011**	2010
Domestic:			(In Millions)	
Bank of the Philippine Islands and subsidiaries (BPI)	**23.9**	23.9	**₱26,573**	₱24,645
Globe Telecom, Inc. and subsidiaries (Globe)*	**30.5**	30.5	**17,353**	17,053
Ayala DBS Holdings, Inc. (ADHI)*	**45.5**	45.5	**10,743**	9,649
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**3,682**	3,492
Cebu Holdings, Inc. and subsidiaries (CHI)	**47.0**	47.0	**2,265**	2,105
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,578**	1,496
South Luzon Thermal Energy Corp. (SLTEC)*	**50.0**	–	**1,489**	–
North Triangle Depot Commercial Corporation (NTDCC)*	**49.3**	49.3	**1,336**	1,436
Bonifacio Land Corporation (BLC)	**10.1**	10.1	**1,161**	1,133
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**994**	918
Alabang Commercial Corporation (ACC)*	**50.0**	50.0	**617**	617
Northwind Power Development Corp.* (Note 23)	**50.0**	–	**458**	–
BG West Properties, Inc. (BGW)	**50.0**	–	**247**	–
BG South Properties, Inc. (BGS)	**50.0**	–	**195**	–
Foreign:				
Stream Global Services, Inc. (Stream) (U.S. Company)	**25.8**	25.8	**2,978**	3,882
ARCH Capital Asian Partners L.P. (Cayman Island Company)	**23.0**	23.0	**2,403**	2,022
Integreon, Inc. (Integreon) (British Virgin Islands Company)*	**56.4**	56.4	**1,515**	1,834
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	**49.0**	–	**1,788**	–
Tianjin Eco-City Ayala Land Development Co., Ltd. (incorporated in China)*	**40.0**	–	**729**	–
Others	**Various**	Various	**1,555**	1,723
			₱79,659	₱72,005

** Jointly controlled entities.*

The fair value of investments in listed associates and jointly controlled entities for which there are published price quotations amounted to ₱97,504.9 million and ₱87,412.1 million as of December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the Group had total commitments relating to the Group's interests in the joint ventures amounting to ₱1,246.8 million and ₱787.5 million, respectively (see Note 34).

Financial information on significant associates and jointly controlled entities (amounts in millions, except earnings per share figures) follows:

BPI	**2011**	2010
Total resources	**₱842,616**	₱878,146
Total liabilities	**752,086**	795,871
Non-controlling interests	**1,378**	1,245
Net interest income	**25,866**	23,628
Other income	**15,892**	14,779
Other expenses	**23,465**	20,954
Net income attributable to:		
Equity holders of the bank	**12,822**	11,312
Non-controlling interests	**191**	167
Earnings per share:		
Basic	**3.61**	3.38
Diluted	**3.61**	3.38

Globe	**2011**	2010
Current assets	**₱23,564**	₱21,585
Noncurrent assets	**107,275**	109,043
Total assets	**130,839**	130,628
Current liabilities	**38,987**	35,309
Noncurrent liabilities	**43,424**	48,450
Total liabilities	**82,411**	83,759
Revenues	**72,437**	66,623
Costs and expenses	**58,659**	52,618
Net income	**9,832**	9,745
Earnings per share:		
Basic	**74.02**	73.29
Diluted	**73.77**	73.12

ADHI	**2011**	2010
Current assets	**₱707**	₱706
Noncurrent assets	**18,820**	17,098
Total assets	**19,527**	17,804
Total liabilities	**–**	682
Net income	**2,734**	2,442

ECHI and Subsidiaries	**2011**	2010
Current assets	**₱22,094**	₱22,885
Noncurrent assets	**20,577**	18,733
Total assets	**42,671**	41,618
Current liabilities	**3,767**	2,551
Noncurrent liabilities	**3,890**	4,010
Total liabilities	**7,657**	6,561
Net operating revenue	**5,668**	5,732
Costs and expenses	**4,272**	4,299
Net income	**1,396**	1,433

CHI and Subsidiaries	**2011**	2010
Total assets	**₱7,130**	₱5,992
Total liabilities	**2,102**	1,267
Net operating revenue	**1,349**	1,447
Costs and expenses	**884**	1,002
Net income	**465**	445
Earnings per share	**0.22**	0.21

BHI and Subsidiaries	**2011**	2010
Current assets	**₱60**	₱–
Noncurrent assets	**3,756**	3,704
Total assets	**3,817**	3,704
Total liabilities	**7**	7
Net operating revenue	**114**	164
Costs and expenses	**–**	7
Net income	**114**	157

SLTEC**	2011
Current assets	₱472
Noncurrent assets	2,498
Total assets	2,970
Total liabilities	53
Net operating revenue	5
Costs and expenses	47
Net loss	44

***Incorporated in 2011.*

NTDCC	**2011**	2010
Total assets	**₱7,243**	₱7,479
Total liabilities	**4,771**	4,906
Net operating revenue	**1,777**	1,688
Costs and expenses	**1,359**	1,472
Net income	**418**	216

BLC and Subsidiaries	**2011**	2010
Total assets	**₱42,852**	₱41,364
Total liabilities	**7,769**	5,906
Net operating revenue	**4,065**	5,731
Costs and expenses	**2,894**	4,262
Net income	**1,171**	1,468

Stream	**2011**		2010	
	In US$	**In Php***	In US$	In Php*
Current assets	**US$218**	**₱9,573**	US$218	₱9,551
Noncurrent assets	**400**	**17,521**	421	18,462
Total assets	**618**	**27,095**	639	28,013
Current liabilities	**122**	**5,345**	119	5,200
Noncurrent liabilities	**283**	**12,392**	261	11,427
Total liabilities	**405**	**17,737**	380	16,627

(Forward)

Stream	2011		2010	
	In US$	**In Php***	In US$	In Php*
Revenue	**US$847**	**₱36,675**	US$800	₱36,089
Costs and expenses	**832**	**36,020**	818	36,871
Net loss	**(24)**	**(1,024)**	(56)	(2,528)
Loss per share:				
Basic	**(0.30)**	**(13.15)**	(0.67)	(29.37)
Diluted	**(0.30)**	**(13.15)**	(0.67)	(29.37)

ARCH Capital Asian Partners L.P.	2011		2010	
	In US$	**In Php***	In US$	In Php*
Total assets	**US$410**	**₱17,984**	US$406	₱17,804
Total liabilities	**158**	**6,948**	176	7,701
Net operating revenue	**31**	**1,357**	46	2,004
Costs and expenses	**11**	**473**	17	737
Net income	**20**	**884**	29	1,267

Integreon	2011		2010	
	In US$	**In Php***	In US$	In Php*
Current assets	**US$33**	**Php1,450**	US$25	₱1,096
Noncurrent assets	**71**	**3,093**	50	2,192
Total assets	**104**	**4,543**	75	3,288
Current liabilities	**52**	**2,264**	24	1,052
Noncurrent liabilities	**16**	**715**	3	132
Total liabilities	**68**	**2,979**	27	1,184
Revenue	**125**	**5,410**	87	3,815
Costs and expenses	**132**	**5,701**	57	2,499
Net loss	**(18)**	**(770)**	(21)	(721)

TDW**	2011
Total assets	₱3,213
Total liabilities	1,970
Revenues	636
Net income	167

***Acquired in 2011.*

*Assets and liabilities are translated using the closing exchange rate at the reporting date while revenue, cost and expenses and net income are translated using the weighted average rate for the year.

The following significant transactions affected the Group's investments in its associates and jointly controlled entities:

Investment in BPI
In August 2010, BPI offered for subscription a total of 307.7 million common shares to eligible shareholders on a pre-emptive right basis of ₱32.5 per share. The Group participated in the stock rights offering of BPI by subscribing to 104.9 million common shares for a total consideration of ₱ 4,571.1 million.

Investment in Globe
The Company also holds 60% of Asiacom, which owns 158.5 million Globe preferred shares. The Company does not exercise control over Asiacom since it is a joint venture with SingTel.

Investment in ADHI
As of December 31, 2011 and 2010, ADHI owns 757.8 million common shares, BPI. ADHI's direct ownership in BPI is equal to 21.3% as of December 31, 2011 and 2010. The fair value of investments in BPI owned by ADHI amounted to ₱41,642.8 million and ₱43,764.8 million in 2011 and 2010, respectively.

Investment in ECHI and BHI
On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Metro Pacific Investment Corporation (MPIC) as amended:

(a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPIC, pursuant to which, Larouge extended MPIC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to ALI and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPIC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

    The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

    ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPIC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

    Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

    Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

    On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC.

In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPIC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million.

This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

ALI's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because ALI has significant influence over BLC.

Investment in SLTEC
On June 29, 2011, ACEHI entered into a 50-50 joint venture with Trans-Asia Oil and Energy Development Corporation to incorporate SLTEC which will undertake the construction and operation of a 135-megawatt power plant in Calaca, Batangas. The power plant will employ the environment-friendly Circulating Fluidized Bed boiler technology and is expected to start commercial operations by mid-2014.

Investment in BGW and BGS
BGW and BGS were incorporated on August 5 and 10, 2011, respectively, to engage in the development of residential and retail projects in Bonifacio Global City.

Investment in Stream [Formerly eTelecare Global Solutions (eTelecare)]
On September 19, 2008, NewBridge, a subsidiary of the Company through LIL, together with Providence Equity Partners (Providence), entered into a Definitive Agreement to acquire up to all of the outstanding shares of eTelecare common shares and American Depository Shares (ADS) for US$9.0 per share. New Bridge and Providence formed a 50-50 joint venture company, EGS Corporation to own 100% of EGS Acquisition Corp.

On December 12, 2008, EGS Acquisition Corp. acquired through a tender offer, 98.7% of the outstanding eTelecare common shares and ADS for a total consideration of US$285.3 million plus US$9.4 million in transactions costs. The 22.2% eTelecare shares owned by Newbridge were tendered and included in the purchase.

On August 14, 2009, a Share Exchange Agreement (the Agreement) was entered into by Stream, EGS, EGS Dutchco B.V. (EGS Dutchco), and NewBridge to combine in a stock-for-stock exchange. Under the Agreement:

- NewBridge shall contribute all its rights with respect to the US$35.8 million advances from EGS (see Note 30). These advances were originally borrowed by EGS from AYC Holdings. AYC Holdings assigned the advances to NewBridge;
- NewBridge shall transfer to Stream all the shares of EGS that it owns including shares that would result from the conversion of the US$35.8 million advances; and
- Stream shall issue and deliver to NewBridge an aggregate of 20,192,068 common shares with US$0.001 par value per share provided that at the election of Stream, Stream may pay an aggregate of US$5,994 in cash for an aggregate of 1,131 shares (at US$5.3 per share) of Stream Common Stock otherwise issuable to NewBridge.

On October 1, 2009 (the Closing Date), NewBridge received a total of 20,190,937 shares of Stream's capital stock representing 25.5% interest in Stream and cash amounting toUS $5,994 in lieu of 1,131 shares. As a result of the transaction, NewBridge:

- derecognized its Investment in and Loan receivable from EGS amounting to US$61.5 million and US$35.8 million, respectively;
- recognized an Investment in Stream amounting to US$107.0 million; and,
- recognized a gain from the transaction amounting to US$8.8 million.

After the Closing Date, Newbridge acquired additional 320,146 common shares of Stream at a total cost of US$1.9 million.

As of December 31, 2009, Newbridge's effective ownership in Stream is 25.8%.

In 2010, the Group recorded an adjustment for the excess of the carrying value over the fair value of its investment in Stream amounting to ₱365.6 million. The adjustment was recorded mainly due to the decline in the quoted share price of Stream. The recoverable amount of the investment in Stream is based on its quoted share price as of December 31, 2010. The adjustment is netted against the equity in net income of associates and jointly controlled entities in the consolidated statement of income.

Investment in ARCH Fund
In 2006, the Company and ALI entered into a Shareholders' Agreement with ARCH Capital Management Co. Ltd. (ARCH Capital) and Great ARCH Co. Limited, wherein the Company and ALI committed to invest a total of US$75.0 million in a private equity fund that will explore property markets in Asia, excluding Japan and the Philippines. In the same year, an Amendment and Adherence Agreement was entered into by the same parties, together with Fine State Group Limited (Fine State) and Green Horizons Holdings Limited (Green Horizons), transferring the interests of the Company and ALI in ARCH Capital into Fine State and Green Horizons, respectively. Fine State and Green Horizons are effectively 100% owned Hong Kong based subsidiaries of the Company and ALI, respectively.

The Company (through Fine State) and ALI (through Green Horizons) both have interests in the fund management company, ARCH Capital, which is tasked to raise third party capital and pursue investments for the Fund.

On March 7, 2011, the Company and ALI entered into a Contribution and Exchange Agreement with TRG for the exchange of ownership interests in ARCH Capital and ARCH Capital Asian Partners G.P. (a Cayman Islands company) which resulted to a gain amounting to US$9.4 million (₱407.1 million). The gain on the exchange is recorded as part of "Other income" in the consolidated statement of income (see Note 22). The exchange ownership interest with a cash consideration of US$13.3 million resulted in TRG acquiring the Company's 33% and ALI's 17% stake in ARCH Capital and increase in ownership interest in TRG Allocation LLC and TRG Management LP to 10% (Note 8).

As of December 31, 2011 and 2010, the Company and ALI owned a combined interest in ARCH Capital of nil and 50%, respectively.

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (Fund) was established. As of December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. As a result, a portion of the funds disbursed by the Company

and ALI which were invested into the Fund has been returned in 2007, reducing the Company and ALI's overall invested capital to ₱580.3 million as of December 31, 2007. On various dates in 2011 and 2010, the Fund made capital calls where the Company and ALI's share amounted to US$6.7 million and US$27.1 million as of December 31, 2011 and 2010, respectively.

In 2011, the Company, through one of its subsidiaries, committed to invest US$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P., which had its first closing on June 30, 2011. As of December 31, 2011, the Company had contributed US$2.6 million (₱114.0 million) into the fund.

Investment in Integreon
On February 16, 2010, Actis LLP, an emerging markets private equity specialist, invested US$50.0 million to acquire a 37.68% stake in Integreon, a subsidiary of LIL. The transaction resulted in the Group losing control over Integreon. Integreon became a jointly controlled entity by LIL and Actis although LIL owns 56.36% of Integreon. LIL recorded gain on deemed disposal amounting to US$44.7 million (₱2.1 billion) which primarily arose from recognizing the retained investment in Integreon at fair value at the date when control was lost. The gain on deemed disposal is recorded as part of "Other income" in the consolidated statement of income (see Note 22).

Investment in TDW
On October 12, 2011, Thu Duc Water Holdings Pte. Ltd. (TDH), a subsidiary of MWC, together with Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) entered into a share sale and purchase agreement whereby CII will sell to TDH its 49% interest (2.02 million common shares) in TDW. On December 8, 2011, TDH completed the acquisition of CII's interest in the common shares of TDW after which TDH obtained significant influence in TDW.

The acquisition cost of the investment amounted to VND858 billion (₱1.8 billion).

Investment in Tianjin Eco-City Ayala Land Development Co., Ltd.
Regent Wise, a wholly-owned subsidiary of ALI, signed an Equity Joint Venture Agreement with Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd for the development of a 9.78 hectare residential project in China. The project will be located in Tianjin Eco-City, a 3,000 hectare collaboration between the Chinese and Singaporean governments which will showcase future direction of urban planning and sustainable development.

Interest in Limited Partnerships of Ayala International North America (AINA)
Other investments include AINA's interest in various Limited Partnerships with a carrying value of ₱281.4 million and ₱462.0 million as of December 31, 2011 and 2010, respectively. These investments are all incorporated in the United States of America (USA) and are mainly involved in developing properties in different states in the USA. Although the interest of AINA in certain limited partnerships exceeds 50%, these limited partnerships are accounted for under the equity method of accounting because AINA does not have control over the financial and operating policies of these partnerships.

In 2009, impairment loss amounting to ₱574.0 million were provided for property development projects of certain limited partnerships with projected negligible residual values after deducting amount of repayment on loans drawn for the support and costs incurred for the projects and those that have been served with notices of default by banks. In 2010, additional impairment loss amounting to ₱191.4 million was recorded for a property development of a certain limited partnership. The impairment loss is based on the property development's fair value less cost to sell. The impairment loss is netted against the share of profit of associates and jointly controlled entities in the consolidated statement of income.

The excess of cost of investments over the Group's equity in the net assets of its associates and jointly controlled entities accounted for under the equity method amounted to ₱10.5 billion as of December 31, 2011 and 2010.

12. Investment Properties

The movements in investment properties follow:

2011

	Land	**Building**	**Construction-in-Progress**	**Total**
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱5,295,035**	**₱28,752,141**	**₱3,223,649**	**₱37,270,825**
Additions	**1,341,296**	**1,689,312**	**3,595,369**	**6,625,977**
Transfers	**(1,130,877)**	**2,612,710**	**(2,913,512)**	**(1,431,679)**
Balance at end of the year	**5,505,454**	**33,054,163**	**3,905,506**	**42,465,123**
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	**26,616**	**7,755,934**	**–**	**7,782,550**
Depreciation and amortization (Note 22)	**–**	**1,547,615**	**–**	**1,547,615**
Balance at end of the year	**26,616**	**9,303,549**	**–**	**9,330,165**
Net book value	**₱5,478,838**	**₱23,750,614**	**₱3,905,506**	**₱33,134,958**

2010

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	₱5,320,385	₱27,268,941	₱2,178,395	₱34,767,721
Additions	365,769	209,741	2,334,007	2,909,517
Transfers	(391,119)	1,288,753	(1,288,753)	(391,119)
Retirements	–	(15,294)	–	(15,294)
Balance at end of the year	5,295,035	28,752,141	3,223,649	37,270,825
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	26,616	6,617,123	–	6,643,739
Depreciation and amortization (Note 22)	–	1,150,420	–	1,150,420
Retirements	–	(11,609)	–	(11,609)
Balance at end of the year	26,616	7,755,934	–	7,782,550
Net book value	₱5,268,419	₱20,996,207	₱3,223,649	₱29,488,275

On March 5, 2011, Alveo Land Corporation, a subsidiary of ALI, acquired a landholding entity, by way of acquisition of 70% shares of stock of Solinea (formerly Bigfoot Palms, Inc.). Solinea is involved in developing properties located in Cebu Business Park. The value of the investment property arising from the acquisition amounted to ₱417.3 million.

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its own use and benefit.

The aggregate fair value of the Group's investment properties amounted to ₱184.2 billion in 2011 and ₱167.8 billion in 2010. The fair values of the investment properties were determined based on valuations performed by independent professional qualified appraisers.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The values of the land and condominium units were arrived using the Market Data Approach. In this approach, the value of the land and condominium units is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

As of December 31, 2011 and 2010, total commitments for investment properties amounted to ₱7.9 billion and ₱8.9 billion, respectively.

Consolidated rental income from investment properties amounted to ₱8.1 billion in 2011 and ₱7.5 billion in 2010 and ₱7.2 billion in 2009. Consolidated direct operating expenses arising from the investment properties amounted to ₱2.3 billion in 2011 and ₱2.5 billion in 2010 and 2009.

13. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2011						
	Land, Buildings and Improvements (Note 19)	**Machinery and Equipment**	**Hotel Property and Equipment** (Note 19)	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Construction-in-Progress**	**Total**
				(In Thousands)			
Cost							
At January 1	**₱7,225,985**	**₱8,576,352**	**₱4,094,610**	**₱3,710,560**	**₱2,103,160**	**₱21,743**	**₱25,732,410**
Additions	**744,246**	**1,035,227**	**1,200,744**	**512,482**	**205,964**	**42,405**	**3,741,068**
Additions through business combination (Note 23)	**806,914**	**792,054**	**–**	**26,932**	**16,271**	**34,169**	**1,676,340**
Disposals	**(21,507)**	**(938,574)**	**(9,172)**	**(89,175)**	**(256,958)**	**–**	**(1,315,386)**
Transfers	**(215,104)**	**3,664**	**(158,332)**	**136,317**	**–**	**(10,858)**	**(244,313)**
Exchange differences	**(72,778)**	**(108,786)**	**–**	**(17,504)**	**(1,133)**	**(5,540)**	**(205,741)**
At December 31	**8,467,756**	**9,359,937**	**5,127,850**	**4,279,612**	**2,067,304**	**81,919**	**29,384,378**
Accumulated depreciation and amortization and impairment loss							
At January 1	**2,893,496**	**5,385,179**	**2,040,682**	**2,638,032**	**1,076,098**	**–**	**14,033,487**
Depreciation and amortization for the year (Note 22)	**356,268**	**1,177,963**	**169,200**	**536,246**	**269,379**	**–**	**2,509,056**
Disposals	**(19,568)**	**(722,382)**	**(8,741)**	**(71,739)**	**(176,168)**	**–**	**(998,598)**
Transfers	**(13,492)**	**1,699**	**–**	**8,779**	**–**	**–**	**(3,014)**
Exchange differences	**2,058**	**(6,727)**	**–**	**(3,094)**	**254**	**–**	**(7,509)**
At December 31	**3,218,762**	**5,835,732**	**2,201,141**	**3,108,224**	**1,169,563**	**–**	**15,533,422**
Net book value	**₱5,248,994**	**₱3,524,205**	**₱2,926,709**	**₱1,171,388**	**₱897,741**	**₱81,919**	**₱13,850,956**

	2010						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱5,821,509	₱7,455,305	₱2,922,440	₱2,518,254	₱1,522,672	₱92,717	₱20,332,897
Additions	914,166	1,271,895	353,210	584,145	389,253	21,743	3,534,412
Additions through business combination (Note 23)	904,006	805,265	870,197	827,740	403,617	–	3,810,825
Deconsolidation (Note 33)	(228,433)	(461,271)	–	(52,081)	(804)	(17,567)	(760,156)
Disposals	(72,560)	(321,190)	(51,237)	(127,125)	(208,653)	–	(780,765)
Transfers	6,773	64,538	–	–	–	(71,311)	–
Exchange differences	(119,476)	(238,190)	–	(40,373)	(2,925)	(3,839)	(404,803)
At December 31	7,225,985	8,576,352	4,094,610	3,710,560	2,103,160	21,743	25,732,410
Accumulated depreciation and amortization and impairment loss							
At January 1	2,600,711	4,880,684	1,538,265	1,846,267	729,359	–	11,595,286
Depreciation and amortization for the year (Note 22)	389,857	983,176	127,930	313,393	275,901	–	2,090,257
Additions through business combination (Note 23)	110,038	268,332	376,869	614,006	206,473	–	1,575,718
Deconsolidation (Note 33)	(105,175)	(316,753)	–	(31,823)	(804)	–	(454,555)
Disposals	(29,538)	(245,673)	(2,382)	(79,162)	(134,068)	–	(490,823)
Exchange differences	(72,397)	(184,587)	–	(24,649)	(763)	–	(282,396)
At December 31	2,893,496	5,385,179	2,040,682	2,638,032	1,076,098	–	14,033,487
Net book value	₱4,332,489	₱3,191,173	₱2,053,928	₱1,072,528	₱1,027,062	₱21,743	₱11,698,923

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱2,509.1 million in 2011, ₱2,090.3 million in 2010 and ₱2,147.7 million in 2009 (see Note 22).

PSi has a Mortgage Trust Indenture (MTI) with the Trust and Investment Division of a local bank, as Trustee. The mortgaged properties securing the Mortgage Obligations under the MTI are composed of machinery and equipment. The holders of the Mortgage Participation Certificates (MPC) under the MTI in 2010 includes a creditor bank and a major supplier of PSi, with a participation of US$3.0 million each (see Notes 17 and 19). In 2011, the creditor bank cancelled its participation in the MTI (see Note 19). As of December 31, 2011 and 2010, mortgaged machinery and equipment have a net carrying amount of US$2.2 million (₱95.6 million) and US$2.68 million (₱117.5 million), respectively.

The carrying values of IMI's equipment under finance lease amounted to US$2.2 million (₱97.3 million) and US$1.9 million (₱82.0 million), as of December 31, 2011 and 2010, respectively (see Note 29).

The cost of fully depreciated property, plant and equipment amounted to ₱5,017.9 million and ₱4,906.1 million in 2011 and 2010, respectively.

14. Service Concession Assets and Obligations

SCA

The movements in this account follow:

	2011	2010
	(In Thousands)	
Cost		
At January 1	**₱69,526,353**	₱62,470,092
Additions during the year	**8,419,716**	7,056,261
Additions through business combination (Note 23)	**1,077,361**	–
At December 31	**79,023,430**	69,526,353

(Forward)

	2011	2010
	(In Thousands)	
Accumulated amortization		
At January 1	**₱10,428,584**	₱8,632,857
Amortization (Note 22)	**2,347,654**	1,795,727
At December 31	**12,776,238**	10,428,584
Net book value	**₱66,247,192**	₱59,097,769

SCA consist of the present value of total estimated concession fee payments, including regulatory maintenance cost, pursuant to the MWC Group's concession agreements and the costs of rehabilitation works incurred.

Total interest and other borrowing costs capitalized as part of SCA amounted to ₱243.1 million and ₱207.9 million in 2011 and 2010, respectively. The capitalization rates used ranged from 4.0% to 6.6% in 2011 and 3.7% to 6.0% in 2010.

MWC and its subsidiaries (MWC Group) have concession agreements with MWSS, POL, TIEZA and CDC. These concession agreements set forth the rights and obligations of MWC Group throughout the concession period.

Service Concession Obligations

MWSS Concession Fees
Under the concession agreement with MWSS, MWC is granted (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of 25 years commencing on August 1, 1997 (the Commencement Date) to May 6, 2022 (the Expiration Date). While MWC has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by MWC during the Concession remains with MWC until the Expiration Date (or an early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On April 16, 2009, the MWSS Board of Trustees passed Resolution No. 2009-072 approving the fifteen (15) year extension of the Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (by authority from the office of the President of the Republic of the Philippines) on October 19, 2009. With the approval of the Extension, the recovery period for the MWC investment is now extended to another 15 years from 2022 to 2037.

The aggregate concession fee of MWC pursuant to the Agreement is equal to the sum of the following:

a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;

b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;

c. 10% of the local component costs and cost overruns related to the UATP;

d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by the MWC Group for continuation;

e. 100% of the local component costs and cost overruns related to existing projects; and

f. MWC's share in the repayment of MWSS loan for the financing of the Project.

The schedule of undiscounted future concession fee payments follows (amounts in thousands):

	In Original Currency		
Year	Foreign Currency Denominated Loans (Translated to US Dollars)	Peso Loans/Project Local Support	Total Peso Equivalent*
2012	10,777	₱452,906	₱925,359
2013	10,724	471,022	941,173
2014	11,507	489,863	994,333
2015	6,328	509,457	786,897
2016 onwards	73,644	18,145,802	21,374,341
	112,980	₱20,069,050	₱25,022,103

**Peso equivalent is translated using the closing rate as of December 31, 2011 amounting to ₱43.84 to US$1.*

Estimated concession fee payments, excluding MWC's share in current operating budget, related to the Extension is still not determinable. It is only determinable upon loan drawdown of MWSS and their actual construction of the related concession projects.

POL Concession Fees

The Concession Agreement with POL grants Laguna AAA Water Corporation (LAWC), a subsidiary of MWC, (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of 25 years. Legal title to all assets procured by LAWC in the performance of its obligations under the agreement shall remain with LAWC and shall not pass to POL.

Under LAWC's concession agreement with POL, LAWC is required to pay concession fees to POL as percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Advance payment to POL was made for the said concession fees and seventy percent (70%) of the annual concession fees is applied against the said advances. The remaining thirty percent (30%) of the annual concession fees is expensed in the period they are incurred.

Boracay Island Water Company, Inc. (BIWC) Concession Fees
The Concession Agreement with TIEZA is for a period of 25 years, with commencement date on January 1, 2010 and renewable at any time prior to expiration for another 25 years, without necessity of bidding. Concession fees shall be computed at 5% of the annual gross water of the concessionaire.

The aggregate concession fee pursuant to the Agreement is equal to the sum of the following:

a. Servicing the aggregate peso equivalent of all liabilities of Boracay Water and Sewerage System as of commencement date;

b. 5% of the monthly gross revenue of the Concessionaire, inclusive of all applicable taxes which are for the account of the Concessionaire.

c. Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, the Concessionaire shall pay not more than ₱20.0 million, subject to annual consumer price index (CPI) adjustments.

In addition, advanced payment of ₱60.0 million was provided to TIEZA which shall be offset against the annual concession fees pertaining to the 5% annual gross revenue of BIWC, within a period of 10 years from the signing of the concession agreement or until fully paid. Any amount payable after application of the advanced payment will be expensed in the period this is incurred.

CWC Concession Fees
The Concession Agreement with CDC sets out the terms and conditions under which CWC will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling 25 years thereafter or as may be extended by the terms of the Concession Agreement with CDC.

As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within CFZ, CWC pays CDC an annual franchise fee of ₱1.5 million.

On September 29, 2000, CDC leased in favor of CWC the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of CWC and CDC under the Concession Agreement. Under the lease agreement, CWC will pay semi-annual rental fees of ₱2.8 million for the entire concession period. The lease term shall be co-terminus with the Concession Period unless sooner terminated for any of the reasons specified in the Concession Agreement.

15. Intangible Assets

The movements in intangible assets follow:

	2011									
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Total
					(In Thousands)					
Cost										
At January 1	₱4,484,283	₱846,365	₱4,128	₱4,384	₱–	₱212,093	₱84,733	₱–	₱–	₱5,635,986
Additions through business combination (Note 23)	782,072	402,674	–	–	172,912	19,323	–	8,560	33,602	1,419,143
Additions during the year	–	–	–	–	–	41,805	–	–	44,445	86,250
Exchange differences	8,779	14,359	–	–	4,202	925	–	208	816	29,289
At December 31	5,275,134	1,263,398	4,128	4,384	177,114	274,146	84,733	8,768	78,863	7,170,668

(Forward)

	2011									
	Goodwill	**Customer Relationships**	**Order Backlog**	**Unpatented Technology**	**Developed Software**	**Licenses**	**Technical Service Agreement**	**Trademarks**	**Project Development Cost**	**Total**
					(In Thousands)					
Accumulated amortization and impairment loss										
At January 1	**₱1,549,855**	**₱835,618**	**₱4,128**	**₱4,384**	**₱–**	**₱99,340**	**₱28,723**	**₱–**	**₱–**	**₱2,522,048**
Amortization (Note 22)	**–**	**35,913**	**–**	**–**	**11,791**	**82,694**	**56,010**	**1,335**	**8,191**	**195,934**
Impairment loss (Note 22)	**139,170**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**139,170**
Exchange differences	**441**	**391**	**–**	**–**	**95**	**318**	**–**	**14**	**94**	**1,353**
At December 31	**1,689,466**	**871,922**	**4,128**	**4,384**	**11,886**	**182,352**	**84,733**	**1,349**	**8,285**	**2,858,505**
Net book value	**₱3,585,668**	**₱391,476**	**₱–**	**₱–**	**₱165,228**	**₱91,794**	**₱–**	**₱7,419**	**₱70,578**	**₱4,312,163**

	2010							
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Total
				(In Thousands)				
Cost	₱4,434,307	₱1,682,570	₱4,128	₱4,620	₱47,032	₱180,345	₱–	₱6,353,002
At January 1								
Additions through business combination (Note 23)	1,754,888	–	–	–	–	–	84,733	1,839,621
Additions during the year	–	–	–	–	–	33,394	–	33,394
Deconsolidation (Note 11)	(1,456,615)	(731,172)	–	–	(40,045)	–	–	(2,227,832)
Exchange differences	(248,297)	(105,033)	–	(236)	(6,987)	(1,646)	–	(362,199)
At December 31	4,484,283	846,365	4,128	4,384	–	212,093	84,733	5,635,986
Accumulated amortization and impairment loss								
At January 1	662,591	959,314	4,128	3,570	28,012	83,503	–	1,741,118
Amortization (Note 22)	–	118,451	–	831	1,061	42,924	28,723	191,990
Deconsolidation (Note 33)	–	(199,562)	–	–	(12,581)	–	–	(212,143)
Impairment loss (Note 22)	914,118	–	–	–	–	–	–	914,118
Exchange differences	(26,854)	(42,585)		(17)	(16,492)	(27,087)	–	(113,035)
At December 31	1,549,855	835,618	4,128	4,384	–	99,340	28,723	2,522,048
Net book value	₱2,934,428	₱10,747	₱–	₱–	₱–	₱112,753	₱56,010	₱3,113,938

Goodwill mainly comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. In 2010, the amounts pertaining to Integreon were deconsolidated (see Note 11).

Impairment testing of goodwill for IMI
Goodwill acquired through business combinations have been allocated to four individual CGUs of IMI for impairment testing as follows (amounts in thousands):

	2011		2010	
	In US$	**In Php***	In US$	In Php*
Speedy Tech Electronics, Ltd. (STEL)	**US$45,128**	**₱1,978,412**	US$45,128	₱1,978,412
PSi	**7,479**	**327,879**	9,493	416,173
EPIQ CZ	**650**	**28,496**	–	–
IMI USA and Trixell	**657**	**28,803**	657	28,803
IMI Philippines	**441**	**19,333**	441	19,333
	US$54,355	**₱2,382,923**	US$55,719	₱2,442,721

**Translated using the closing exchange rate at the statement of financial position date (US$1:₱43.84).*

STEL Group, PSi and IMI USA and Trixell
The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections for STEL Group, PSi and IMI USA and Trixell are 11.12% and 10.16%, respectively, in 2011 and 12.35% and 11.02%, respectively, in 2010. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global EMS industry.

The final purchase price allocation on the acquisition of PSi resulted in a goodwill amounting to US$10.2 million (₱447.4 million) (see Note 23). The pre-tax discount rate applied to cash flow projections is 12.6% in 2011. The goodwill was assessed for impairment based on value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The impairment test resulted in an impairment loss of US$2.7 million (₱118.6 million) included in "Other charges" in the consolidated statement of income.

Key assumptions used in value-in-use calculations
The calculations of value in use for the CGUs are most sensitive to the following assumptions:

- Budgeted gross margins - Gross margins are based on the mix of business model arrangements with the customers whether consigned or turnkey.
- Growth rate - The forecasted growth rate is based on a very conservative steady growth rate that does not exceed the compounded annual growth rate for the global EMS industry.
- Pre-tax discount rates - Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

With regard to the assessment of value in use of STEL Group and IMI USA and Trixell, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

IMI Philippines
In 2011 and 2010, the recoverable amount was based on the market price of its shares at valuation date less estimated costs to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

EPIQ CZ and CWC
Goodwill from the acquisition of EPIQ CZ and CWC arose from excess of acquisition cost over the provisional estimated fair value of assets acquired. As discussed in Note 23, provisional accounting has been adopted for the acquisition of EPIQ subsidiaries and CWC. As a result, the goodwill recognized is still subject to finalization.

MWC and Philwater
Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million. The recoverable amount in 2011 and 2010 was based on the market price of MWC shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

Customer relationships
Customer relationships pertain to STEL Group's and EPIQ EA's noncontractual agreements and contractual agreements with certain customers, respectively, which lay out the principal terms upon which the parties agree to undertake business.

Unpatented technology
Unpatented technology pertains to products which are technologically feasible. IMI Group's patents were applied for the following technologies, both of which are unique, difficult to design around and which meet the separability criteria:

- Self bias double-ended switching circuit; and
- A zero power consumption switch circuit to simplify the energy star solution for external power adapter.

Developed software
Developed software pertains to IQ BackOffice's (IQB) internally developed web-based process management tool that is used jointly with customers to manage transactions in real-time. The developed software augments IQB's existing accounting system and automates traditionally paper-based processes (e.g.,electronic/paper receipt, electronic routing, approvals. etc.).

Licenses
These pertain to the IMI's acquisitions of various computer software and applications such as APIS IQ - FMEA Pro, Microsoft Visio and MS Project v6 in 2010 and Acrobat Pro 9, Quest DBA Module, and Toad Oracle Professional in 2009. EPIQ EA and EPIQ MX also have computer software with carrying value of US$0.11 million and US$0.24 million, respectively, as of December 31, 2011.

Project development cost
ACEHI expenses all project development costs until a project is deemed probable of being technically, commercially and financially viable. ACEHI capitalizes project development costs generally once a project is deemed probable of being technically, commercially and financially viable. This generally occurs in tandem with management's determination that a project should be classified as advanced project, such as when favorable results of a system impact study are received, interconnection agreements obtained and project financing is in place. Project development cost will be reclassified to property, plant and equipment when construction of the project commences.

16. Other Noncurrent Assets

This account consists of the following:

	2011	2010
	(In Thousands)	
Deposits	**₱1,662,224**	₱725,873
Deferred FCDA	**742,588**	664,017
Deferred charges	**243,446**	317,063
Derivative assets (Notes 8 and 31)	–	214,610
Others	**412,141**	665,691
	₱3,060,399	₱2,587,254

Deposits include security deposits on land leases, electric and water meter deposits.

Deferred FCDA refers to the unrecovered amounts from/or amounts for refund to customers of MWC for realized gains (losses) from loan payments of foreign loans. This is the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains (losses) from loan valuations, accrual of interest and accretion of transaction and related costs.

Derivative asset pertains to the embedded call option on MWC's ₱4.0 billion bonds that gives MWC the right to redeem all but not in part the outstanding bonds on the twelfth quarterly interest payment date. On October 23, 2011, the option was exercised by MWC. The loss recognized due to derecognition of derivative asset amounted to ₱229.6 million (see Note 22).

"Others" includes leasehold right of a subsidiary amounting to ₱120.2 million and ₱126.8 million in 2011 and 2010, respectively. This pertains to the right to use an island property expiring on December 31, 2029. The cost amounted to ₱127.4 million and accumulated amortization expense for 2011 and 2010 amounted to ₱7.2 million and ₱0.5 million, respectively. Amortization expense amounted to ₱6.7 million and ₱0.5 million in 2011 and 2010, respectively.

17. Accounts Payable and Accrued Expenses

This account consists of the following:

	2011	2010
	(In Thousands)	
Accounts payable	**₱29,432,808**	₱17,995,363
Accrued expenses	**7,109,950**	9,846,614
Accrued project costs	**5,684,761**	2,808,045
Taxes payable	**2,599,384**	2,187,639
Dividends payable	**1,831,318**	2,226,117
Related parties (Note 30)	**1,226,606**	1,399,199
Retentions payable	**1,174,760**	119,151
Interest payable (Note 30)	**1,139,681**	572,921
Accrued personnel costs	**814,432**	557,589
	₱51,013,700	₱37,712,638

Accounts payable and accrued expenses are non-interest bearing and are normally settled on 15- to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

Accounts payable include PSi's liability to a certain supplier amounting to US$2.07 million (₱90.7 million) and US$3.39 million (₱148.6 million) as of December 31, 2011 and 2010, respectively, which is covered by an MPC amounting to US$3.00 million under PSi's MTI with a local bank (see Notes 13 and 19). In addition, all overdue accounts from July 1, 2010 to December 31, 2010 with the supplier are subject to 0.5% interest per month.

Accrued expenses consist mainly of accruals for utilities, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, security, insurance, and representation.

Accrued expenses also includes provisions on restructuring of operations by the IMI Group. In 2011, PSi and IMI Singapore announced a restructuring of operations due to unfavorable economic and business situation. PSi made actual payout in September and November 2011 aggregating to US$1.14 million. US$0.58 million of the amount paid by PSi is not covered by its retirement plan. On the other hand, IMI Singapore recognized provision amounting to US$0.25 million and paid US$0.18 million in February 2012, with the remaining balance to be paid in phases in 2012.

18. **Other Current Liabilities**

This account consists of:

	2011	2010
	(In Thousands)	
Customers' deposits	**₱1,340,148**	₱2,204,010
Derivative liability (Note 31)	**1,515**	168,016
Installment payable	**3,793**	7,090
Others	**1,359,262**	252,228
	₱2,704,718	₱2,631,344

19. **Short-term and Long-term Debt**

Short-term debt consists of:

	2011	2010
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 4.25% to 8.0% in 2011 and 3.5% to 8.0% per annum in 2010	**₱3,318,500**	₱2,483,413
Foreign currency debt - with interest rates ranging from 1.16% to 4.13% in 2011 and 1.16% to 3.72% per annum in 2010	**3,347,341**	2,035,874
	₱6,665,841	₱4,519,287

ALI Group

The short-term debt of ALI Group amounting to ₱4,638.8 million and ₱2,890.0 million in 2011 and 2010, respectively, represents unsecured peso-denominated bank loans and dollar-denominated bank loans. Interest rates for peso-denominated bank loans ranged from 3.5% to 5.0% per annum (p.a.) in 2011 and 3.5% to 5.7% p.a. in 2010. Interest rates for dollar-denominated bank loans of the ALI Group, which amounted to ₱1,509.8 million and ₱643.0 million in 2011 and 2010, respectively, ranged from 1.18% to 2.01% in 2011 and 1.45% to 2.30% in 2010.

AAHC Group

The Philippine peso debt of AAHC Group pertain to short-term loans with various banks amounting to ₱144.5 million and ₱171.4 million as of December 31, 2011 and 2010, respectively. These loans are unsecured and bear interest rates ranging from 4.0% to 5.1% per annum in 2011 and 4.0% to 8.0% per annum in 2010.

AIVPL Group

The Philippine peso debt of AIVPL Group pertain to short-term loans with various banks amounting to ₱45.0 million and ₱65.0 million as of December 31, 2011 and 2010, respectively. These loans are unsecured and bear interest rate of 8.0% per annum in 2011 and interest rates ranging from 7.0% to 8.0% per annum in 2010.

BHL Group

BHL's loans are unsecured dollar-denominated bank loans amounting to US$4.5 million and US$10,364.3 million as of December 31, 2011 and 2010, respectively, and bear interest rate of 4.13% and 2.9% in 2011 and 2010, respectively.

IMI Group
IMI has two (2) 90-day term loans amounting to US$5.00 million each, and one (1) 60-day term loan amounting to €5.00 million, which are subject to fixed interest rates of 1.16% and 2.27%, respectively.

EPIQ EA has two (2) loans amounting to US$11.07 million from their existing revolving credit facilities with terms ranging from one year and six months, respectively. These loans bear interest based on 1-month EURIBOR + 3.0% and 3-month EURIBOR +2.5%, respectively.

PSi has an unsecured Omnibus Line Credit Facility with a local bank amounting to US$10.0 million which was granted on November 24, 2010 and will expire on October 30, 2012. It includes 30 to 360 days Promissory Notes (maybe denominated in USD or Philippine peso (PHP)), Letter of Credit/Trust Receipt (LC/TR) Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates ranging from 2.3% to 2.9% in 2011 and 2.6% in 2010. The undrawn credit facility amounted to US$5.0 million as of December 31, 2011.

PSi has short-term credit facility with a local bank in 2010, which expired in April 2011 and was renewed up to April 2012. In 2010, the facility is secured by trade receivables from certain customers (see Note 6) and MTI on machinery and equipment (see Note 13). Upon renewal in 2011, the retained security only pertains to the MTI on machinery and equipment. The interest rates in 2011 and 2010 range from 2.36% to 2.71% and 3.16% to 3.72%, respectively. The undrawn credit facility amounted to US$2.07 million and US$1.37 million as of December 31, 2011 and 2010 respectively.

The loans of STEL amounting to ₱57.6 million and ₱53.8 million as of Decemebr 31, 2011 and 2010, respectively, are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 3.35% to 3.50% and 3.52% to 3.70% in 2011 and 2010, respectively, and have maturities of 30 to 240 days from the date of issue with renewal options.

Loan covenant on BHL's short-term debt requires maintenance of certain financial ratios and restricition on changes of ownership in BHL. These restrictions and requirements were complied by BHL as of December 31, 2011 and 2010. There are no other restrictions or requirements for the remaining short-term loans.

Long-term debt consists of:

	2011	2010
	(In Thousands)	
The Company:		
Bank loans - with interest rates ranging from 1.7% to 3.82% per annum in 2011 and 1.7% to 1.8% per annum in 2010 and varying maturity dates up to 2013 (Note 23)	**₱6,464,991**	₱6,730,000
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 6.7% to 8.4% per annum and varying maturity dates up to 2016	**9,320,169**	11,432,500
Bonds due 2012	–	6,000,000
Bonds due 2017	**9,914,149**	9,800,000
Bonds due 2021	**9,907,987**	–
Syndicated term loan	**1,485,929**	1,496,667
	37,093,225	35,459,167

(Forward)

	2011	2010
	(In Thousands)	
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 0.4% to 13.5% in 2011 and 0.8% to 13.5% per annum in 2010 (Note 23)	**₱20,191,382**	₱18,041,456
Philippine peso - with interest rates ranging from 6.7% to 17.0% in 2011 and 5.0% to 9.7% per annum in 2010 (Note 23)	**14,419,831**	11,020,041
Bonds:		
Due 2012	**325,390**	194,600
Due 2013	**4,327,900**	8,212,027
Due 2014	**173,715**	–
Floating Rate Corporate Notes (FRCNs)	**1,000,000**	10,000
FXCNs	**22,520,583**	5,380,000
	62,958,801	42,858,124
	100,052,026	78,317,291
Less current portion	**7,459,658**	11,237,343
	₱92,592,368	₱67,079,948

Reconciliation of carrying amount against nominal amount follows:

	2011	2010
	(In Thousands)	
Nominal amount	**₱100,937,012**	₱77,613,827
Unamortized premium (discount)	**(884,986)**	703,464
	₱100,052,026	₱78,317,291

The Company

Generally, the Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Company's credit facilities with a local bank are secured by shares of stock of a consolidated subsidiary with fair value of ₱6,187.5 million and ₱6,691.3 million as of December 31, 2011 and 2010 in accordance with BSP regulations.

All credit facilities of the Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

In 2007, the Company issued ₱3.5 billion FXCNs consisting of 5- and 7-year notes to a local bank with fixed interest rates of 6.73% and 6.70% per annum, respectively. In June 2011, the Company prepaid in full the P2.0 billion 5-year FXCN with a fixed interest rate of 6.73% per annum.

In 2007, the Company issued 6.83% Fixed Rate Bonds with an aggregate principal amount of ₱6.0 billion to mature in 2012. Prior to maturity, the Company may redeem in whole the outstanding and due bonds on the twelfth and sixteenth coupon payment date. The bonds have been rated "PRS Aaa" by the Philippine Ratings Services Corporation (PhilRatings). In 2011, the Company fully redeemed its ₱6.0 billion Fixed Rate Bonds and recognized ₱30.0 million penalty on early redemption In the consolidated statement of income.

In the first quarter of 2008, the Company availed of a syndicated term loan amounting to ₱1.5 billion which bears fixed interest rate of 6.75% per annum and will mature in 2018.

In February 2009, the Company issued ₱4.0 billion FXCNs consisting of three 5-year notes and a 6-year note to various financial institutions with fixed interest rates of 7.75% and 7.95% per annum for the 5-year notes and 8.15% per annum for the 6-year note.

In March 2009, the Company issued ₱1.0 billion FXCNs consisting of 7-year note to a local financial institution with fixed interest rate of 8.40% per annum.

In August 2009, the Company issued ₱3.0 billion FXCNs consisting of a 5-year note to various institutions with fixed interest rate of 7.45% per annum.

In April 2010, the Company issued 7.2% Fixed Rate Bonds with an aggregate principal amount of ₱10.0 billion to mature in 2017. On the twentieth (20th) Coupon Payment Date (the "Put Option Date"), each Bondholder shall have the option (but not the obligation) to require the Company to redeem the outstanding Bonds. The bonds have been rated "PRS Aaa" PhilRatings.

In May 2011, the Company issued 6.8% Fixed Rate Multiple Put Bonds with an aggregate principal amount of ₱10.0 billion to mature in 2021. On fifth (5th) anniversary of the Issue Date, Bondholders shall have the right, but not the obligation, to require the Company to redeem up to 20% of all outstanding Bonds registered in such Bondholder's name at such time (the "Five Year Put Option"); and on the eighth (8th) anniversary of the Issue Date, Bondholders shall have the right, but not the obligation, to require the Company to redeem up to 100% of all outstanding Bonds registered in such Bondholder's name at such time (the "Eight Year Put Option"). The Bonds have been rated PRS Aaa by PhilRatings.

Subsidiaries

Foreign Currency Debt

In 2008, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated term loan with a foreign bank, with the Company as guarantor, for US$50.0 million at a rate of 52 points over the 1-, 3- or 6- month LIBOR at the Company's option. As of Decemeber 31, 2011 and 2010, the outstanding balance of the loan amounted to US$45.0 million and US$50.0 million, respectively.

In 2007, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated loan for US$150.0 million at a rate of 71.4 basis points over the 1-month, 3-month or 6-month LIBOR at the Company's option.

In 2006, IMI obtained a US$40.0 million 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. IMI may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. The interest is repriced quarterly at the rate of 3-month LIBOR plus margin of 0.80% and is payable quarterly. In 2007, IMI prepaid a portion of the loan amounting to US$10.0 million. In October 2011, IMI fully paid the remaining balance of US$30.0 million. On the same date, IMI obtained another five-year clean loan with the same bank amounting to US$40.00 million with the same terms as the previous loan.

In 2006, STEL, a wholly-owned subsidiary of IMI, obtained a US$40.0 million variable rate 5-year loan, repayable in 10 equal semi-annual installments of US$4.0 million commencing on May 29, 2007 and maturing on November 29, 2011. The interest is repriced semi-annually at the LIBOR rate plus 0.75% quoted by the bank and is payable semi-annually. As of December 31, 2010, the outstanding balance of the loan amounted to US$8.0 million (₱35.1 million). The loan was fully paid in November 2011.

IMI's long-term debt includes deferred payment aggregating to US$20.40 million arising from the acquisition of EPIQ shares and receivables of EPIQ NV from the EPIQ subsidiaries (see Note 23). This is subject to interest rate of 1.5999% plus 1.5%.

On July 1, 2002, MWC entered into a loan agreement with Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG) to partially finance capital expenditures required to expand water supply and sanitation services and improve the existing facilities of MWC. The loan was made available in US Dollars in the aggregate principal amount of US$20.0 million and is payable in 10 years, inclusive of the 3-year grace period. As of December 31, 2011 and 2010, the outstanding balance amounted to US$2.17 million and US$4.1 million, respectively.

On March 28, 2003, MWC entered into a loan agreement with International Finance Corporation (IFC) (the "First IFC Loan") to partially finance MWC's investment program from 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of the MWC, and concession fee payments. The First IFC Loan will be made available in Japanese Yen (JPY) in the aggregate principal amount of JPY3,591.6 million equivalent to US$30.0 million and shall be payable in 25 semi-annual installments, within 12 years starting on July 15, 2006. As of December 31, 2011 and 2010, the outstanding balance amounted to JPY1,867.6 million and JPY2,155.0 million, respectively.

On May 31, 2004, MWC entered into a loan agreement with IFC (the "Second IFC Loan") comprising of regular loan in the amount of up to US$20.0 million and a standby loan in the amount of up to US$10.0 million to finance the investment program from 2004 to 2007 to expand water supply and sanitation services, improvement of existing facilities of MWC, and concession fee payments. This loan was subsequently amended on November 22, 2006, when MWC executed the Amended and Restated Loan Agreement for the restructuring of the Second IFC Loan. The terms of the second loan were amended to a loan in the aggregate amount of up to US$30.0 million, no part of which shall consist of a standby loan. On December 12, 2008, MWC has made a full drawdown on the said facility. As of December 31, 2011 and 2010, the outstanding balance amounted to US$18.0 million and US$22.0 million, respectively.

On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (LBP Loan) to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JPY6.59 billion payable via semi-annual installments after the 5-year grace period. As of December 31, 2011 and 2010, outstanding loans amounted to JPY3,348.7 million and JPY3,125.4 million, respectively.

On June 20, 2007, MWC entered into a Finance Contract (the "EIB Loan") with the European Investment Bank (EIB) to partially finance the capital expenditures of MWC from 2007 to 2010, as specified under Schedule 1 of the Finance Contract. The loan, in the aggregate principal amount of EUR€60 million, having a term of 10 years, is subject to the Relevant Interbank Rate plus a spread to be determined by EIB, and may be drawn in either fixed-rate or floating-rate tranches. The loan has two tranches as described below:

- Sub-Credit A: In an amount of EUR€40 million to be disbursed in US Dollars or Japanese yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by a consortium of international commercial banks composed of ING Bank, Development Bank of Singapore and Sumitomo-Mitsui Banking Corporation under a Guaranty Facility Agreement; and

- Sub-Credit B: In an amount of EUR€20 million to be disbursed in US Dollars, European Euro or Japanese Yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by ING Bank under a Guaranty Facility Agreement.

The outstanding balance of the EIB loan amounted to JPY3,812.0 million and US$20.4 million in 2011 and JPY4,700.7 million and US$24.4 million in 2010.

On October 21, 2010, MWC entered into a term loan agreement amounting to US$150.0 million to partially finance capital expenditures within the East Zone. The loan has a tenor of 10 years and is financed by a syndication of four banks- ING N.V Tokyo, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation insured by Nippon Export and Investment Insurance. First draw of the loan was made in January 2011 amounting to US$84.0 million. The carrying value of this loan as of December 31, 2011 amounted to US$80.0 million

In 2010, BHL entered into a secured loan agreement with a foreign bank at variable interest of 3.5% spread over 90-day Libor with floor of 6.0% and a ceiling of 14.25% which will mature on January 1, 2013. This loan is secured by certain inventories (see Note 7). As of December 31, 2011 and 2010, the outstanding balance of the loan amounted to US$1.1 million and US$2.8 million.

Philippine Peso Debt
The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2018 with floating interest rates at 50 basis points to 200 basis points spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 4.50% to 9.72% per annum. The term loan facility of a subsidiary is secured by a Mortgage Trust Indenture over land and building with a total carrying value of ₱1,041.3 million and ₱911.3 million as of December 31, 2011 and 2010, respectively.

On August 22, 2006, MWC entered into a Credit Facility Agreement with five banks and four financial institutions to finance the capital expenditures of MWC pursuant to the Concession Agreement. This 7-year term loan with an aggregate principal amount of ₱2.0 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱1.5 billion (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱500.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, MWC prepaid a portion of the loan from one financial institution amounting to ₱600.0 million. As of December 31, 2011 and 2010, the outstanding balance for this loan amounted to ₱1.37 billion and ₱1.40 billion, respectively.

On October 9, 2006, MWC entered into a Credit Facility Agreement with three banks and a financial institution to finance the capital expenditures of MWC pursuant to the Agreement. This 7-year term loan with an aggregate principal amount of ₱1.5 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱950.0 million (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of one percent (1%) of the Tranche 1 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱550.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of one percent (1%) of the Tranche 2 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, MWC prepaid a portion of the loan from one financial institution amounting to ₱400.0 million. As of December 31, 2011 and 2010, the outstanding balance for this loan amounted to ₱1.07 billion and ₱1.1 billion, respectively.

On September 7, 2010, LAWC entered into a loan agreement with two local banks for the financing of its construction, operation, maintenance and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to LAWC up to ₱500.0 million, principal payments of which will be made in 30 consecutive equal quarterly installments starting August 2013. First draw of the loan was made in November 2010 and July 2011amounting to ₱250.0 million each. The carrying value of the loans amounted to ₱493.9 million and ₱246.9 million as of December 31, 2011 and 2010, respectively.

On July 29, 2011, BIWC, a subsidiary of MWC, entered into an omnibus loan and security agreement with the Development Bank of the Philippines (DBP) and Security Bank Corporation (SBC) to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for the Service Area under the Concession Agreement, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.0 million or as the context may require, the amount thereof then outstanding and is payable in twenty (20) years inclusive of a three (3)-year grace period.

The loan shall be available in three sub-tranches, as follows:

- Sub-tranche 1A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF)
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF
- Sub-tranche 1C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through its internally-generated funds

On August 25, 2011, BIWC made its first loan drawdown amounting to ₱150.0 million. The carrying value of the loan as of December 31, 2011 amounted to ₱146.9 milion.

<u>Homestarter Bond due 2012</u>

ALI launched a new issue of the Homestarter Bond in October 2009. The bond is to be issued over a series of 36 issues, once every month which commenced on October 16, 2009, up to ₱14.0 million per series or up to an aggregate issue amount of ₱504.0 million over a 3-year period. The bond carries an interest rate of 5% per annum, payable on the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential

property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond (the "bonus credit"). The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2011 and 2010, bond issued amounted to ₱325.4 million and ₱194.6 million, respectively.

Homestarter Bond due 2013
ALI launched another new issue of the Homestarter Bond in April 2010. The bond is to be issued over a series of 36 issues, once every month which commenced on April 16, 2010, up to ₱28.0 million per series or up to an aggregate issue amount of ₱1,008.0 million over a 3-year period. The bond carries an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2011 and 2010, bond issued amounted to ₱418.1 million and ₱204.0 million, respectively.

5-Year Bonds due 2013
In 2008, ALI issued ₱4.0 billion bonds due 2013 with fixed rate equivalent to 8.75% per annum. The PhilRatings assigned a "PRS Aaa" rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS Aaa is the highest credit rating possible on PhilRatings' rating scales for long-term issuances. PhilRatings maintained its rating of PRS Aaa for the ₱4.0 billion bond in 2011 and 2010.

On October 22, 2008, MWC issued ₱4.0 billion having a term of five years from the issue date with a fixed interest rate equivalent to 8.25% payable quarterly. Prior to maturity, MWC may redeem in whole, and not in part only, the relevant outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date.

On September 2, 2011, MWC approved the early redemption of its ₱4.0 billion bonds due 2013. The bonds were redeemed by payment in cash at a redemption price set at 102% of the principal amount and accrued interest computed up to October 23, 2011 to bondholders as of October 19, 2011. Upon payment, the listing of the bonds on the Philippine Dealing & Exchange Corp. (PDEx) was terminated. The loss incurred on the early redemption of the bonds amounted to ₱6.15 million.

Homestarter Bond due 2014
In May 2011, ALI launched a new issue of the Homestarter Bond. The bond is to be issued over a series of 36 issues, once every month which commenced on May 16, 2011, with an initial issue amount of up to ₱56.0 million or up to an aggregate issue amount of ₱2.02 billion over a 3-year period. The bond carries an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by the ALI or its affiliates. In the event of application of the

bond to partial or full payment for a property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is also subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2011, bond issued amounted to ₱173.7 million.

5-,7- and 10-year FXCNs due in 2011, 2013 and 2016
In 2006, ALI issued ₱3.0 billion FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.3% to 7.8% per annum depending on the term of the notes. In January 2011, simultaneous to a new corporate note offering, ALI undertook a liability management exercise by offering to prepay holders of the corporate notes issued in 2006 while inviting the same institutions to participate in the new issuance. A number of investors holding on to ₱875.0 million worth of notes maturing in 2013 and 2016 accepted the offer to be prepaid. Loss on prepayment of the FXCNs amounted to ₱25.7 million. On September 23, 2011, the 5-year and one (1) day FXCNs amounting to ₱1,830 million matured and were fully repaid by ALI.

5-, 7- and 10-year FXCN due 2014, 2016 and 2019
In 2009, ALI issued an aggregate ₱2.38 billion in 5-, 7- and 10-year notes to various financial institutions and retail investors. The notes will mature on various dates up to 2019. The FXCNs bear fixed interest rates ranging from 7.76% to 8.90%.

7-year FRCN due 2016
In 2009, ALI executed a ₱1.0 billion committed FRCN facility with a local bank, of which an initial ₱10.0 million was drawn on October 12, 2009. The balance of ₱990.0 million was subsequently drawn on November 18, 2011. The FRCN bears a floating interest rate based on the 3-month PDST-R1 plus a spread of 0.96%, repriceable quarterly. The initial note drawn, together with any future drawings, will mature on the seventh anniversary of the initial drawdown date.

5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026
In 2011, ALI issued ₱10.0 billion FXCNs to various financial institutions and retail investors. The notes will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.62% to 7.50% p.a. depending on the term of the notes.

On April 8, 2011, MWC issued ₱10.0 billion (FXCNs). The notes were divided to ₱5.0 billion with an interest rate of 6.385% and have a term of five years and 10 years for the remaining ₱5.0 billion from the issue date with a fixed interest rate equivalent to 8.25% payable quarterly. Prior to maturity, MWC may redeem in whole, and not in part only, the relevant outstanding bonds on the seventh anniversary. The amount payable to the holders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date. The carrying value of the notes as of Decemeber 31, 2011 amounted to ₱9.92 billion.

The loans of MWC were secured by way of first ranking charge over all assigned interests, including the right to receive payments or other consideration under the Agreement, all receivables and bank accounts, interests over all fixed assets (subject to the limitations under the Agreement) and assignment of proceeds of insurance policies. The agreement for the signing of these rights and interests were signed with the lenders at various dates of the loan signing.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC (including the bondholders) are considered Concessionaire Lenders and are on *pari passu* status with one another.

The loan agreements on long-term debt of the Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2011 and 2010.

Total interest paid amounted to ₱5.5 billion in 2011, ₱4.0 billion in 2010 and ₱3.9 billion in 2009.

Interest capitalized by subsidiaries amounted to ₱279.0 million in 2011 and ₱239.6 million in 2010. The average capitalization rate is 2.1% to 6.88% in 2011 and 3.7% to 7.06% in 2010.

20. **Other Noncurrent Liabilities**

This account consists of the following:

	2011	2010
	(In Thousands)	
Deposits and deferred credits	**₱7,450,083**	₱7,219,372
Retentions payable	**2,338,399**	2,630,344
Provisions (Note 36)	**739,626**	622,150
Others	**510,719**	470,423
	₱11,038,827	₱10,942,289

Deposits include rental deposits that serve as security for any damages to the leased property and which will be refunded at the end of lease term.

Deposits are initially recorded at fair value, which was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is recorded as deferred credits.

Deferred credits also include prepayments received from customers before the completion of delivery of goods or services.

Provisions relate to pending unresolved claims and assessments. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these claims and assessments.

Other liabilities mainly include nontrade payables (see Note 30). It also includes liabilities arising from PSi's Subcontracting Service Agreement (SSA) with a local customer. On June 28, 2010, PSi and a local customer entered into a SSA for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA.

The SSA shall take effect upon the execution thereof and effective until August 14, 2020, unless mutually terminated by both parties. However, the subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received non-interest bearing cash advances amounting to US$3.0 million from a foreign customer, an affiliate of the local customer.

On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the local customer. The local customer and PSi agree that the full cash advances amounting to US$3.0 million will be applied to prepay and cover any, and all of the fees payable under Annex B of the SSA for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2011, the current and noncurrent portion of the advances from the foreign customers is as follows (amounts in thousands):

	In US$	In Php*
Total outstanding advances	US$2,829	₱124,023
Less current portion	264	11,574
Noncurrent portion	US$2,565	₱112,449

**Translated using the closing exchange rate at the statement of financial position date (US$1:₱43.84).*

The current portion is included under "Accounts payable and accrued expenses".

21. Equity

On December 7, 2006, the BOD approved the increase of the authorized common stock from ₱19.0 billion divided into 380,000,000 shares to ₱30.0 billion divided into 600,000,000 shares with a par value of ₱50 per share. The BOD likewise approved the declaration of a 20% stock dividend to all common stockholders to be issued from the increase in authorized capital stock.

On April 30, 2007, the Company's application for increase in authorized common stock and stock dividends were approved by the SEC.

On February 22, 2011, the BOD approved the increase in the authorized capital stock of the Company from ₱37.0 billion to ₱56.2 billion which is composed of 900 million shares with par value of ₱50 per share; 12 million Preferred A shares with par value of ₱100 per share; 58 million of Preferred B shares with par value of ₱100 per share; a new series of 40 million Preferred C shares with a par value of ₱100.00 per share; and 200 million voting preferred shares with par value of ₱1 per share. On June 17, 2011, SEC approved the Company's application for increase in capital stock.

The BOD likewise approved the declaration of a 20% stock dividend to all common stockholders to be issued from the increase in authorized capital stock which was approved by SEC on June 21, 2011.

The details of the Company's preferred and common shares follow:

Preferred shares

	Preferred A shares			Preferred B shares			Preferred C shares			Voting Preferred shares		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
	(In Thousands, except for par value figures)											
Authorized shares	**12,000**	12,000	12,000	**58,000**	58,000	58,000	**40,000**	–	–	**200,000**	200,000	–
Par value per share	**₱100**	₱100	₱100	**₱100**	₱100	₱100	**₱100**	₱–	₱–	**₱1**	₱1	₱–
Issued and subscribed shares	**12,000**	12,000	12,000	**58,000**	58,000	58,000	**–**	–	–	**200,000**	200,000	–

Preferred B shares
In February 2006, the BOD approved the reclassification of the unissued preferred shares and redeemed preferred shares of the Company into 58 million new class of Preferred B shares with a par value of ₱100 per share or an aggregate par value of ₱5,800 million. The Preferred B shares have the following features: (a) optional redemption by the Company; (b) issue value, dividend rate and declaration thereof to be determined by the BOD; (c) cumulative in payment of current dividends as well as any unpaid back dividends and non-participating in any other further dividends; (d) nonconvertible into common shares; (e) preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance; (f) nonvoting except in those cases specifically provided by law; (g) no pre-emptive rights to any issue of shares, common or preferred; and (h) reissuable when fully redeemed.

In July 2006, the Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100 per share to be listed and traded on the Philippine Stock Exchange (PSE). The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 9.5% per annum. The Preferred B shares may be redeemed at the option of the Company starting in the fifth year.

On March 14, 2011, the BOD approved and authorized the exercise of call option on Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

Preferred A shares
On January 31, 2008, the BOD approved the reissuance and reclassification of 1.2 billion redeemed Preferred A and AA shares with a par value of ₱1.0 per share into 12.0 million new Preferred A shares with a par value of ₱100 per share with the same features as the existing Preferred B shares, except on the issue price and dividend rate and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the redeemed Preferred shares into new Preferred A shares. On April 4, 2008, the Company's stockholders ratified the reissuance and reclassification.

On July 9, 2008, the SEC approved the amendments to the Company's Articles of Incorporation embodying the reclassification of the redeemed Preferred shares.

In November 2008, the Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500 per share to be listed and traded on the PSE. The Preferred A shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.9% per annum. The Preferred A shares may be redeemed at the option of the Company starting in the fifth year.

Preferred C shares
Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares
On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50 per share into 200.0 million Voting Preferred shares with a par value of ₱1 per share and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares. On April 16, 2010, the Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum.

Common shares

	2011	2010	2009
	(In Thousands, except par value figures)		
Authorized shares	**900,000**	596,000	600,000
Par value per share	**₱50**	₱50	₱50
Issued and subscribed shares	**597,441**	500,322	500,176
Treasury shares	**20,184**	14,677	1,844

The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at anytime at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

The details of the Company's paid-in capital follow:

2011

	Preferred Stock - A	**Preferred Stock - B**	**Preferred Stock - Voting**	**Common Stock**	**Subscribed**	**Additional Paid-in Capital**	**Subscriptions Receivable**	**Total Paid-in Capital**
				(In Thousands)				
As of January 1, 2011	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱24,784,980**	**₱231,114**	**₱6,243,383**	**(₱604,011)**	**₱37,855,466**
Exercise/Cancellation of ESOP/ESOWN	**–**	**–**	**–**	**28,536**	**(14,905)**	**96,210**	**25,195**	**135,036**
Stock dividend	**–**	**–**	**–**	**4,842,317**	**–**	**–**	**–**	**4,842,317**
As of December 31, 2011	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱29,655,833**	**₱216,209**	**₱6,339,593**	**(₱578,816)**	**₱42,832,819**

2010

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
As of January 1, 2010	₱1,200,000	₱5,800,000	₱–	₱24,773,540	₱235,251	₱6,080,755	(₱611,671)	₱37,477,875
Exercise/Cancellation of ESOP/ESOWN	–	–	–	11,440	(4,137)	163,628	7,660	178,591
Issuance of shares	–	–	200,000	–	–	(1,000)	–	199,000
As of December 31, 2010	₱1,200,000	₱5,800,000	₱200,000	₱24,784,980	₱231,114	₱6,243,383	(₱604,011)	₱37,855,466

2009

	Preferred Stock - A	Preferred Stock - B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)			
As of January 1, 2009	₱1,200,000	₱5,800,000	₱24,772,493	₱145,598	₱5,734,748	(₱401,125)	₱37,251,714
Exercise of ESOP/ESOWN	–	–	1,047	89,653	346,007	(210,546)	226,161
As of December 31, 2009	₱1,200,000	₱5,800,000	₱24,773,540	₱235,251	₱6,080,755	(₱611,671)	₱37,477,875

The movements in the Company's outstanding number of common shares follow:

	2011	2010	2009
		(In Thousands)	
At January 1	**485,645**	498,332	496,984
Stock dividends	**96,846**	–	–
Exercise of ESOP/ESOWN	**273**	146	1,814
Treasury stock	**(5,506)**	(12,833)	(466)
At December 31	**577,258**	485,645	498,332

On September 10, 2007, the BOD approved the creation of a share buyback program involving ₱2.5 billion worth of common capital stock. On June 2, 2010, the BOD approved to increase the share buyback program from ₱2.5 billion to ₱5.0 billion. In 2011 and 2010, the Company acquired 5,506,476 and 12,832,860 common shares, respectively, at a total cost of ₱1,776.6 million and ₱4,143.5 million, respectively. As of December 31, 2011 and 2010, treasury stock arising from common shares amounted to ₱6,608.9 million and ₱4,832.3 million, respectively.

In addition, ₱250.0 million Preferred A shares of the Company have been acquired by ALI (₱100.0 million) and MWC (₱150.0 million). This has been accounted for as "Parent Company Preferred shares held by subsidiaries" and presented as a reduction in equity.

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Company's track record of registration of securities.

	Number of shares registered	**Issue/offer price**	**Date of approval**	**Number of holders of securities as of December 31, 2011**
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 21, 1976	7,451
Preferred A shares	12,000,000	₱100 par value; ₱500 issue price	November 11, 2008	55
Preferred B shares	58,000,000	₱100 par value; ₱100 issue price	July 5, 2006	None***

**Initial number of registered shares only.*

***Par value now is ₱50.00*

****The Preferred B shares are fully redeemed on July 21, 2011.*

Retained Earnings
Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and jointly controlled entities accounted for under the equity method amounting to ₱49,628.5 million, ₱41,655.3 million and ₱33,990.7 million as of December 31, 2011, 2010 and 2009, respectively, which are not available for dividend declaration by the Company.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with the SRC Rule 68, as Amended (2011), Annex 68-C, the Company's retained earnings available for dividend declaration as of December 31, 2011 and 2010 amounted to ₱13,848.4 million and ₱27,523 million, respectively.

Dividends consist of the following:

	2011	2010	2009
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱2,124,004**	₱1,944,830	₱1,994,148
Cash dividends per share	**₱4.00**	₱4.00	₱4.00
Stock dividends	**₱4,842,317**	₱–	₱–
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred A shares	**532,800**	532,800	1,065,600
Cash dividends to Preferred B shares	–	411,414	959,967
Cash dividends to Voting Preferred shares	**21,126**	–	–

On December 9, 2011, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Company amounting to ₱1,154.5 million or ₱2 per share, payable to all common shares shareholders of record as of December 28, 2011. The said dividends are payable on January 24, 2012. Also on the same date, the BOD approved the declaration and payment of the quarterly cash dividends of 8.88% to all shareholders of the Company's Preferred A shares for the calendar year 2012 and declaration and payment of the annual cash dividends of 5.2817% per annum to all shareholders of the Company's Voting Preferred shares.

On December 10, 2010, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Company amounting to ₱971.4 million or ₱2 per share, payable to all common shares shareholders of record as of January 7, 2011. The said dividends are payable on February 2, 2011. Also on the same date, the BOD approved the declaration and payment of the quarterly dividends to all shareholders of the Company's Preferred A for the calendar year 2011 and the declaration and payment of the quarterly dividends for the first three quarters of 2011 to all Preferred B shareholders for calendar year 2011.

On December 10, 2009, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Company amounting to ₱996.7 million or ₱2 per share, payable to all common shares shareholders of record as of January 8, 2010. The said dividends are payable on February 2, 2010. Also on the same date, the BOD approved the declaration and payment of the quarterly dividends to all shareholders of the Company's Preferred A and Preferred B shares for calendar year 2010.

Capital Management
The primary objective of the Company's capital management policy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2011 and 2010.

The Company is not subject to externally imposed capital requirements.

The Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents and short-term investments. The Company considers as capital the equity attributable to equity holders of the Company.

	2011	2010
	(In Thousands)	
Short-term debt	**₱6,665,841**	₱4,519,287
Long-term debt	**100,052,026**	78,317,291
Total debt	**106,717,867**	82,836,578
Less:		
Cash and cash equivalents	**53,577,252**	53,142,777
Short-term investments	**1,613,058**	3,993,533
Net debt	**₱51,527,557**	₱25,700,268
Equity attributable to owners of the parent	**₱107,044,063**	₱107,540,968
Debt to equity	**99.7%**	77.0%
Net debt to equity	**48.1%**	23.9%

22. **Other Income and Costs and Expenses**

Other income consists of:

	2011	2010	2009
		(In Thousands)	
Bargain purchase gain (Note 23)	**₱558,233**	₱53,327	₱235,851
Gain on sale of investments (Note 11)	**539,713**	13,972	1,698,820
Mark to market gain on financial assets at FVPL and derivatives (Notes 8 and 31)	**337,679**	146,299	13,958
Dividend income	**234,333**	146,962	204,691
Gain on sale of other assets	**131,078**	162,156	168,063
Foreign exchange gain (loss) (Note 31)	**90,060**	39,105	(64,974)
Remeasurement gain arising from business combination (Note 23)	**–**	4,386,789	–
Gain on deemed disposal of a subsidiary (Note 11)	**–**	2,110,272	–
Insurance claim (Note 6)	**–**	–	280,100
Others (Note 7)	**599,830**	287,707	524,969
	₱2,490,926	₱7,346,589	₱3,061,478

In 2009, gain on sale of investments consists mostly of gain arising from the sale of the Company's investments in a listed subsidiary, an associate and jointly controlled entities.

Other income includes income derived from ancillary services of consolidated subsidiaries.

Details of costs of services included in the consolidated statement of income are as follows:

	2011	2010	2009
		(In Thousands)	
Personnel costs (Notes 26, 27 and 30)	**₱6,243,245**	₱6,715,873	₱6,101,673
Cost of rehabilitation works	**6,195,936**	5,695,373	–
Depreciation and amortization (Notes 12, 13, 14 and 15)	**5,579,278**	3,823,056	2,474,988
Rental and utilities	**3,008,625**	3,439,918	2,334,891
Professional and management fees	**1,927,082**	2,105,147	1,613,256
Repairs and maintenance	**1,035,499**	624,675	613,251
Taxes and licenses	**910,876**	800,097	769,698
Transportation and travel	**228,244**	169,079	531,021
Insurance	**167,958**	153,224	163,791
Contract labor	**124,828**	175,976	101,587
Others	**720,993**	692,983	462,076
	₱26,142,564	₱24,395,401	₱15,166,232

General and administrative expenses included in the consolidated statement of income are as follows:

	2011	2010	2009
		(In Thousands)	
Personnel costs (Notes 26, 27 and 30)	**₱5,890,790**	₱5,564,564	₱4,661,710
Depreciation and amortization (Notes 12, 13, 14 and 15)	**1,020,981**	1,405,338	870,997
Professional fees	**792,331**	593,636	817,167
Taxes and licenses	**520,075**	771,534	428,525
Rental and utilities	**336,206**	229,798	384,790
Transportation and travel	**259,705**	261,659	264,030
Dues and fees	**230,464**	150,087	55,041
Repairs and maintenance	**227,392**	201,046	128,511
Advertising and promotions	**222,804**	236,992	182,492
Contract labor	**208,159**	113,482	125,750
Entertainment, amusement and recreation	**185,804**	170,805	124,712
Provision for doubtful accounts (Note 6)	**107,908**	426,699	217,208
Postal and communication	**156,601**	162,493	179,638
Donations and contributions	**128,226**	245,674	67,129
Supplies	**99,772**	81,024	89,420
Insurance	**85,459**	86,135	106,841
Research and development	**67,562**	45,600	29,339
Others (Note 6)	**334,733**	259,110	481,270
	₱10,874,972	₱11,005,676	₱9,214,570

Depreciation and amortization expense included in the consolidated statement of income follows:

	2011	2010	2009
		(In Thousands)	
Included in:			
Costs of sales and services	**₱5,579,278**	₱3,823,056	₱2,474,988
General and administrative expenses	**1,020,981**	1,405,338	870,997
	₱6,600,259	₱5,228,394	₱3,345,985

Personnel costs included in the consolidated statement of income follow:

	2011	2010	2009
		(In Thousands)	
Included in:			
Costs of sales and services	**₱6,243,245**	₱6,715,873	₱6,101,673
General and administrative expenses	**5,890,790**	5,564,564	4,661,710
	₱12,134,035	₱12,280,437	₱10,763,383

Interest expense and other financing charges consist of:

	2011	2010	2009
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱199,717**	₱236,906	₱271,057
Long-term debt	**5,276,219**	3,832,346	3,474,892
Amortization of discount on long-term debt	**206,258**	50,495	405
Amortization of service concession obligations and deposits	**345,978**	546,528	–
Others	**147,171**	89,714	75,988
	₱6,175,343	₱4,755,989	₱3,822,342

Other charges consist of:

	2011	2010	2009
		(In Thousands US$)	
Loss on derecognition of derivative asset (Note 16)	**₱229,613**	₱–	₱–
Provision for impairment losses			
AFS financial assets (Note 9)	**157,314**	235,114	–
Inventories (Note 7)	**49,937**	–	78,091
Land and improvements (Note 10)	**–**	–	568,672
Write-offs and other charges	**142,741**	221,306	350,265
Impairment loss on goodwill (Notes 15 and 23)	**139,170**	914,118	–
Remeasurement loss arising from business combination (Note 23)	**–**	595,925	–
Others (Note 7)	**18,586**	105,446	438,010
	₱737,361	₱2,071,909	₱1,435,038

In 2009, write-offs and other charges include the write-down of ALI's inventory from purchase of steel bars which amounted to ₱350.3 million and IMI's lost inventories amounting to US$0.6 million (₱27.7 million), due to a fire incident in its plant in Cebu, Philippines.

23. **Business Combinations**

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

2011 Acquisitions

EPIQ subsidiaries
On April 28, 2011, IMI Philippines infused additional capital to its subsidiary, IMI Singapore, equivalent to US$35.8 million (consisting of US$7.0 million cash and 200 million of the IMI Philippines' own shares with fair value of US$28.8 million) in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.00 per share. This was used by IMI Singapore to set up Monarch and Cooperatief as holding companies and facilitate the acquisition of EPIQ subsidiaries from EPIQ NV.

On May 4, 2011, IMI Philippines, Cooperatief (the Purchaser), and EPIQ NV (the Seller), entered into a Sale and Purchase Agreement (SPA), for the Purchaser to buy the Seller's 100% direct or indirect ownership shares (EPIQ shares) in the EPIQ subsidiaries.

IMI Philippines, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200 million of IMI Philippines' shares (the IMI Consideration Shares); deferred payment of EUR€7.3 million (₱443.1 million) from 2013 to 2018 subject to interest rate of 1.599% plus 1.5%; and assumption of liabilities of EPIQ NV to the EPIQ subsidiaries aggregating to EUR€2.5 million (US$153.6 million).

The acquisition costs are allocated as follows:

	EPIQ EA	EPIQ CZ	EPIQ MX	Total
		(In Thousands)		
Issuance of 200 million IMI Consideration Shares	US$20,639	US$525	US$7,645	US$28,809
Deferred payment	7,533	191	2,791	10,515
Assumed liabilities of EPIQ NV to EPIQ subsidiaries	115	9	3,521	3,645
	US$28,287	US$725	US$13,957	US$42,969

On July 29, 2011, all of the completion conditions under the SPA were fulfilled by the responsible parties, and the acquisition of the EPIQ subsidiaries by Cooperatief was completed. The issuance of IMI shares resulted in equity reserve amounting to ₱694.5 million in 2011.

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from the EPIQ subsidiaries aggregating to EUR€11.7 million (₱707.9 million). On July 29, 2011, EUR€4.8 million (₱291.4 million) of this was settled through cash payment, while the rest will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.599% plus 1.5% (see Note 19).

The provisional fair values of the identifiable assets and liabilities acquired and goodwill (gain from bargain purchase) arising as at the date of acquisition follow:

	EPIQ EA		EPIQ CZ		EPIQ MX	
	In US$	In Php*	In US$	In Php*	In US$	In Php*
			(In Thousands)			
Assets						
Cash and cash equivalents	US$1,153	₱48,569	US$515	₱21,711	US$3,386	₱142,668
Receivables	26,486	1,116,115	3,334	140,492	10,508	442,811
Inventories	20,701	872,338	2,985	125,769	4,476	188,632
Property, plant and equipment	24,811	1,045,517	5,734	241,639	8,618	363,172
Intangible assets	6,925	291,838	–	–	300	12,631
Deferred tax assets	–	–	444	18,720	–	–
Other assets	193	8,141	–	–	121	5,092
	80,269	3,382,518	13,012	548,331	27,409	1,155,006
Liabilities						
Accounts payable	17,651	745,824	2,445	103,025	6,410	270,107
Bank loans	12,871	542,394	–	–	–	–
Accrued charges and deferred income	1,159	48,831	378	15,919	–	–
Taxes payable	352	14,857	–	–	1,090	45,932
Provisions	1,320	55,615	–	–	–	–
Deferred tax liabilities	2,139	90,131	–	–	1,686	71,060
Long term debt	4,780	201,424	10,114	426,224	2,909	122,591
	40,272	1,699,076	12,937	545,168	12,095	509,690
Net Assets	US$39,997	₱1,683,442	US$75	₱3,163	US$15,314	₱645,316
Cooperatief's share in the fair value of net assets acquired	39,949	1,683,442	75	3,163	15,314	645,316
Goodwill (gain from bargain purchase)	(11,662)	(491,423)	650	27,408	(1,357)	(57,175)
Acquisition cost	US$28,287	₱1,192,019	US$725	₱30,571	US$13,957	₱588,141

**Translated using the exchange rate at the transaction date (US$1:₱42.14)*

The purchase price allocation for the acquisition of the EPIQ subsidiaries has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets, contingent liabilities and goodwill. The goodwill recognized on the acquisition of EPIQ CZ can be attributed to the acquisition of its automotive and turnkey experience, platforms in Europe and North America that serve global customers, access to suppliers and scale benefit in materials.

Acquisition related costs which consist of professional fees, representation and travel expenses amounting to US$2.86 million (₱123.9 million) were recognized as expense in 2011.

From the date of acquisition, the Group's share in the revenue and net income of EPIQ subsidiaries amounted to US$66.2 million (₱2.9 billion) and US$2.42 million (₱104.8 million), respectively. If the combination had taken place at the beginning of 2011, the Group's total revenue and net income would have been ₱99.4 billion and ₱16.1 billion, respectively.

CWC

On November 8, 2011, MWC and Veolia Water Philippines, Inc. (VWPI) entered into a share sale and purchase agreement whereby VWPI will sell to MWC its 100% interest in CWC and receivable from Bonifacio Water Corporation (BWC). On November 29, 2011, MWC completed the acquisition of VWPI's 100% interest in the common shares of CWC and the BWC receivable at a total contract price of ₱1.8 billion, broken down as follows:

BWC Receivable (see Note 6)	₱0.6 billion
Investment in CWC	1.2 billion
	₱1.8 billion

The terms of the BWC receivable provide that payments will be made on a quarterly basis at an amount based on a certain percentage of BWC's revenue until 2022, the end of BWC's concession period. The fair value of the BWC receivable has been determined based on the present value of forecasted collections of the receivable.

The purchase price allocation of CWC has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash	₱31,621
Receivable - net	38,854
Materials and supplies - at cost	1,132
Other current assets	1,324
Property, plant and equipment - net	5,188
Service concession assets	1,077,361
Other noncurrent assets	13,900
	1,169,380
Liabilities	
Accounts and other payables	₱22,178
Income tax payable	838
Service concession liabilities	37,013
Deferred tax liability	244
Customers' deposits	27,429
Pension liability	11,339
	99,041
Net assets	₱1,070,339
Goodwill	130,319
Acquisition cost	₱1,200,658

Cash on acquisition follows:

Cash acquired from CWC	₱31,621
Cash paid	1,200,658
Net cash flow	₱1,169,037

From the date of acquisition, the Group's share in the revenue and net income of CWC amounted to ₱27.6 million and ₱6.8 million, respectively. If the contribution had taken place at the beginning of the year, the revenue of the Group would have been ₱97.3 billion and net income would have been ₱15.9 billion in 2011.

IQ BackOffice, LLC (IQB)
On April 29, 2011, AIVPL through LIL and HRMall acquired IQB for a total consideration of US$12.5 million. IQB is engaged in the business of providing outsourced back office accounting and financial management services. AIVPL dissolved IQB upon its acquisition to create a new company in the name of IQ BackOffice, Inc. (IQB Delaware).

The purchase price has been allocated based on management's estimates after considering independent appraisals of the fair values of the acquired identifiable assets and assumed liabilities at the date of acquisition as follows (amounts in thousands):

	In US$	In Php*
Assets		
Cash	US$323	₱13,807
Receivables	259	11,065
Property and equipment	486	20,821
Intangibles	7,771	332,603
	8,839	378,296
Liabilities		
Accounts and other payables	28	1,185
Net assets	8,811	377,111
Goodwill	3,689	157,889
Acquisition cost	US$12,500	₱535,000

**Translated using the exchange rate at the transaction date (US$1:₱42.80).*

The cost of acquisition pertains to cash paid in the amount of ₱535.0 million (US$12.5 million).

From the date of acquisition, the Group's share in the revenue and net income of IQB amounted to ₱100.6 million (US$2.3 million) and ₱3.6 million (US$0.1 million) ,respectively. If the contribution had taken place at the beginning of the year, the revenue would have been ₱94.1 billion (US$2.2 billion) and net income of the Group would have been ₱15.9 billion US$(0.4 billion) in 2011.

Wind power companies
On March 15, 2011, ACEHI entered into a share purchase agreement with Viage Holdings, Presage Holdings, Moorland Philippines Investments, Inc. and BDO Capital Corporation for their respective holdings in Viage Corporation (Viage), Presage Corporation (Presage) and Moorland Philippines Holdings, Inc. (Moorland). The acquisition gave ACEHI 100% ownership interest in Viage, Presage and Moorland (collectively "Wind power companies") which collectively owns a 50% effective stake in NorthWind Power Development Corporation (NorthWind). Northwind owns and operates the 33-MW wind farm located in Bangui Bay, Ilocos Norte.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash	₱683
Receivables	42,548
Other current assets	165
Investments in stocks	457,180
	500,576
Liabilities	
Accounts payable	1,078
Advances	21,136
	22,214
Net assets	478,362
Goodwill	411,031
Acquisition cost	₱889,393

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱492,423
Contingent consideration liability	396,970
	₱889,393

Cash on acquisition follows (amounts in thousands):

Cash acquired from Wind power companies	₱683
Cash paid	492,423
Net cash flow	₱491,740

As part of the share purchase agreement with the previous owners of the Wind power companies, a contingent consideration has been agreed. There will be additional payments to the previous owners for Feed-in-Tariff (FiT) Adjustment and Achieved Capacity Factor Adjustment within one year from closing date (March 15, 2012).

As at the acquisition date, the fair value of the contingent consideration is ₱396.97 million.

As of December 31, 2011, Northwind was able to exceed the agreed capacity factor with the previous owners. However, the FiT provision of the Renewable Energy Act of 2008 is pending approval by the Energy Regulatory Commission (ERC).

From the date of acquisition, the Group’s share in the revenue and net income of the wind power companies amounted to ₱3.6 million and ₱2.2 million, respectively. If the combination had taken place at the beginning of the year, the revenue of the Group would have been ₱94.0 billion and net income would have been ₱15.8 billion in 2011.

Hydro power companies
On April 19, 2011, ACEHI and Sta. Clara Power Corporation (SCP) entered into a Shareholder's Agreement (the Agreement) to develop various mini-hydro power projects in various locations in the Philippines. ACEHI and SCP shall carry out the Agreement through Quadriver Energy Corporation (QEC), Philnew Hydro Power Corporation (PHPC) and Philnew River Power Corporation (PRPC) (collectively "Hydro power companies"), wholly-owned subsidiaries of SCP. QEC and PHPC were incorporated on April 5, 2011 while PRPC was incorporated on June 24, 2011.

Under the Agreement, SCP issued an irrevocable proxy in favor of ACEHI wherein ACEHI will hold 70% of the subscribed capital stock, vote on any and all corporate actions therein, and elect such number of directors as corresponds to its intended 70% stake in QEC, PHPC and PRPC. This enabled ACEHI to exercise control over QEC, PHPC and PRPC.

Simultaneous with the signing of the Agreement, SCP transferred 25% of its ownership interest in QEC and PHPC to ACEHI.

The following is a summary of the fair values of the asset acquired from QEC and PHPC as of the date of the acquisition (amounts in thousands).

Assets	
Cash	₱500
Share in the fair value of the asset acquired (25%)	125
Goodwill	55,423
Acquisition cost	₱55,548

The acquisition cost pertains to the cash consideration paid to SCP.

Cash on acquisition of QEC and PHPC follows (amounts in thousands):

Cash acquired from PRPC	₱500
Cash paid	55,548
Net cash flow	₱55,048

As of December 31, 2011, ACEHI does not own any shares of PRPC but the balances were still consolidated by virtue of the irrevocable proxy issued by SCP.

The asset of PRPC as of acquisition date pertain to cash amounting to ₱0.25 million.

Cash on acquisition of PRPC follows (amounts in thousands):

Cash acquired from PRPC	₱250
Cash paid	–
Net cash flow	₱250

Subsequent to acquisition date, renewable energy contracts under the name of SCP were transferred to the respective Hydro power companies.

From the date of acquisition, the Group's share in the revenue and net loss of Hydro power companies amounted to ₱0.1 million and (₱3.01 million), respectively. Since the business combination happened close to the date of incorporation of the Hydro power companies, the Group's total revenue and net income would be the same as presented in the consolidated statement of income.

2010 Acquisitions

PSi

On June 25, 2010, IMI and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the "New Investors") entered into an Investors' Agreement (the Agreement) with PSi Technology Holdings, Inc. (PSiH) and Merrill Lynch Global Emerging Markets Partners, LLC (MLGEMP) (collectively referred to as the "Old Investors"), to take on 55.8% and 11.2% equity share in PSi, respectively.

Under the Agreement, IMI subscribed to 13.2 billion common shares or 55.8% of PSi's outstanding common shares in exchange for a cash consideration of US$8.3 million.

The Agreement also provided for the following:

1) The grant of Put and Call Options as follows (see Note 31):

Put Option	Option to require the New Investors to purchase all but not some of the shares held by the Old Investors (Option Shares) at the time of exercise, at anytime during the Put Option Period.
Put Option Period	The period from acquisition date up to 24 months from completion date, with 7-day exercise notice.
Put Option Strike Price	The higher of (a) US$1.0 and (b) value of the shares calculated based on 5.5x trailing 12-month Earnings before interest, taxes, depreciation and amortization (EBITDA) of PSi as of receipt of the exercise notice less net debt.
Call Option	Option to require the Old Investors to sell all but not some only of the shares held by the Old Investors at the time of exercise, at anytime during the Call Option Period.
Call Option Period	The period commencing 6 days prior to the lapse of the Put Option Period and ending 30 days after the lapse of the Put Option Period.
Call Option Strike Price	The higher of (a) US$1.0 and (b) value of the shares calculated based on 6.0x trailing 12-month EBITDA of PSi as of the date of receipt of the exercise notice less net debt.

2) The assumption of the Old Investors of certain pre-completion liabilities of PSi. However, payment of such liabilities would come from and is limited to any proceeds from the exercise of either the Put Option or the Call Option.

3) The New Investors agreed to proportionately assume one-third (1/3) of the initial US$3.0 million of the pre-completion liabilities assumed by the Old Investors.

The equity subscription of the New Investors was finalized on October 6, 2010. On that date, IMI paid the US$8,325,000 subscription price and four (4) of its officers were appointed as members of PSi's BOD. As of this date, IMI effectively obtained control of PSi.

The purchase price allocation has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition.

	In US$	In Php*
	(In Thousands)	
Assets		
Cash	US$10,528	₱461,966
Accounts receivable - net	18,420	808,263
Inventories - net	6,581	288,774
Property, plant and equipment - net (Note 13)	9,210	404,152
Other assets	1,312	57,568
	46,051	2,020,723
Liabilities		
Accounts payable and accrued expenses	35,783	1,570,180
Loans payable	2,348	103,013
Deferred revenue	2,923	128,259
Accrued rental noncurrent	902	39,581
Other long-term benefits	372	16,327
	42,328	1,857,360
Net assets	3,723	163,363
IMI's share in the fair value of net assets acquired (55.78%)	2,077	91,123
Goodwill	9,493	416,570
Acquisition cost	US$11,570	₱507,693

**Translated using the exchange rate at the transaction date (US$1:₱43.88)*

The cost of the acquisition is determined as follows:

	In US$	In Php*
	(In Thousands)	
Cash paid	US$8,325	₱365,301
IMI's share in acquisition-date fair value of Call Option granted to New Investors	(1,404)	(61,608)
IMI's share in acquisition-date fair value of Put Option granted to Old Investors	3,816	167,447
IMI's share in Pre-Completion liabilities assumed from the Old Investors	833	36,553
Cost of acquisition	US$11,570	₱507,693

**Translated using the exchange rate at the transaction date (US$1:₱43.88)*

Cash on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Cash acquired from PSi	US$10,528	₱461,966
Cash paid	8,325	365,301
Net cash flow	US$2,203	₱96,665

**Translated using the exchange rate at the transaction date (US$1:₱43.88)*

The non-controlling interest amounted to US$1.6 million (₱71.6 million) and is measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Acqusition related costs which consists of professional fees, representation and travel expenses amounting to US$0.2 million were recognized as expense in 2010.

From the date of acquisition, the Group's share in PSi's revenue and net loss amounted to ₱486.8 million and ₱20.8 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱82.8 billion, while the Group's net income would have been ₱16.0 billion.

In 2011, IMI finalized the purchase price allocation and the fair value computation of accounts receivable, accounts payable and accrued expenses, and goodwill.

	In US$	In Php*
	(In Thousands)	
Accounts receivable	US$12,454	₱546,490
Accounts payable and accrued expenses	31,591	1,386,242
Goodwill (Note 10)	10,196	447,419

**Translated using the exchange rate at the transaction date (US$1:₱43.88)*

The 2010 comparative information was restated to reflect the above adjustments. Accounts receivable, accounts payable and accrued expenses, and cost of acquisition decreased by US$5.97 million (₱261.8 million), US$4.19 million (₱183.9 million), and US$0.29 million (₱12.6 million), respectively. The final purchase price allocation resulted in goodwill of US$10.20 million (₱447.4 million).

Ten Knots

ALI entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a new company which will serve as a holding vehicle for Ten Knots Phils, Inc. (TKPI) and Ten Knots Development Corp (TKDC) (wholly-owned subsidiaries of the ACC Group before ALI's entry). TKPI/TKDC are mainly involved in the development of parcels of land and islands into resorts in Miniloc, Lagen, Pangulasian and Apulit islands in the municipalities of El Nido and Taytay in Northern Palawan.

The agreement will eventually result in ALI obtaining 60% interest in the new company and ACC Group acquiring 40%. ALI will infuse ₱2.0 billion cash to obtain the 60% stake.

As of December 31, 2010, ALI has subscribed to 60% of the shares of TKPI and TKDC, thereby providing ALI with the ability to exercise control over TKPI and TKDC effective April 23, 2010. Accordingly, TKPI and TKDC financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

The following are the fair values of the identifiable assets and liabilities assumed (amounts in thousands):

Assets	
Cash and cash equivalents	₱365,652
Trade and other receivables	1,455,940
Inventories	16,393
Other current assets	25,401
Land and improvements - net (Note 10)	1,361,645
Deposit on land purchase	444,622
Property and equipment - net (Note 13)	493,328
Other assets	140,640
	4,303,621
Liabilities	
Accounts and other payables	310,177
Deposits and other current liabilities	21,446
Due to related parties	89,232
Loans payable	81,621
Income tax payable	18,630
Deferred tax liabilities	399,155
	920,261
Net assets	₱3,383,360
Non-controlling interest in TKDC and TKPI	1,353,344
Total net assets acquired	2,030,016
Acquisition cost	2,029,500
Negative goodwill	₱516

ALI's share in the fair value of the net assets amounted to ₱2.0 billion, which resulted in a negative goodwill amounting to ₱0.5 million included under "Other income" in the consolidated statement of income (see Note 22).

The fair value of the trade receivables and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interest has been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, TKDC and TKPI contributed ₱260.0 million of revenue and ₱10.6 million to the net income of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been ₱82.3 billion and the net income of the Group would have been ₱16.0 billion.

Transaction costs of ₱1.0 million have been expensed and are included in administrative expenses.

In 2011, ALI finalized its purchase price allocation and there were no changes to the fair market values of the assets acquired and liabilities assumed for TKDC and TKPI.

Water Capital Works (WCW)
On November 11, 2009, the Company and United Utilities Pacific Holdings, BV (UU) entered into a share sale and purchase agreement whereby UU will sell to the Company its 28% interest (0.2 million common shares) in WCW. On January 18, 2010, the Company completed the acquisition of UU's interest in the common shares of WCW resulting in the Company obtaining 100% control in WCW. In prior years, WCW was treated as a jointly controlled entity of the Company.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash and cash equivalents	₱22,828
Receivable - net	90
	22,918
Liabilities	
Accounts payable and accrued expenses	63
Income tax payable	1,219
Deferred tax liability	25,420
	26,702
Net assets	(3,784)
Intangible asset (Note 15)	84,733
Bargain purchase gain	(52,811)
Acquisition cost	₱28,138

In accordance with PFRS 3, the bargain purchase gain is recognized as part of "Other income" in the consolidated statement of income (see Note 22).

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱8,490
Fair value of the Company's equity interest in WCW held before the business combination	19,648
	₱28,138

The Company recognized a gain of ₱3.0 million as a result of remeasuring to fair value its 72% equity interest in WCW held before the business combination. The gain is included as part of remeasurement gain under the "Other income" account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

Cash acquired from WCW	₱22,828
Cash paid	8,490
Net cash flow	₱14,338

From the date of acquisition, the Group's share in WCW's revenue and net income amounted to ₱51.4 million and ₱35.5 million, respectively. Since the business combination happened close to the beginning of the year, the Group's total revenue and net income would be the same as presented in the consolidated statement of income.

MWCI and Philwater

On November 11, 2009, the Company and UU entered into a share sale and purchase agreement whereby UU will sell to the Company its interest in: a) 81.9 million common shares of MWC representing 3.4% interest in MWC and b) 133.4 million common shares of Philwater representing 40% interest in Philwater. On the same date, UU and Philwater entered into a share sale and purchase agreement for the sale of UU's interest in 666.7 million participating preferred shares of MWC to Philwater.

On March 4, 2010, the Company completed the acquisition of UU's interest in the common shares of MWC and Philwater and participating preferred shares in MWC resulting in the Company increasing its ownership interest in MWC to 43.1% and obtaining control to more than one-half (1/2) of the voting power in MWC and Philwater becoming a subsidiary. In prior years, MWC and Philwater were treated as jointly controlled entities of the Company.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands).

Assets	
Cash and cash equivalents	₱6,106,284
Short-term investments	1,854,763
Receivables - net	578,522
Materials and supplies	16,664
Other current assets	736,509
Property and equipment - net (Note 13)	1,341,081
Service concession asset - net (Note 14)	53,904,778
AFS financial assets	1,978,644
Other noncurrent assets	1,331,605
	67,848,850
Liabilities	
Accounts payable and accrued expenses	3,006,485
Long-term debt	15,761,983
Service concession obligation	8,006,437
Income tax payable	375,994
Payable to related parties	806,781
Customers' guaranty and other deposits	1,279,315
Pension liabilities	216,775
Deferred tax liability	5,014,393
Deferred credits	196,984
	34,665,147
Net assets	33,183,703
Goodwill	393,777
Acquisition cost	₱33,577,480

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱2,614,687
Fair value of the Company's equity interest in MWC and Philwater held before the business combination	10,317,101
Fair value of the non-controlling interest in MWC	20,645,692
	₱33,577,480

The non-controlling interest has been measured at fair value based on the share price of the MWC common shares as of acquisition date.

The Company recognized a gain of ₱4.4 billion as a result of remeasuring to fair value its equity interest in MWC and Philwater held before the business combination. The gain is included as part of remeasurement gain under the "Other income" account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

Cash acquired from MWC and Philwater	₱6,106,284
Cash paid	2,614,687
Net cash flow	₱3,491,597

From the date of acquisition, the Group's share in the revenue and net income of MWC and Philwater amounted to ₱13.7 billion and ₱2.5 billion, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱98.2 billion, while the Group's net income would have been ₱18.0 billion.

Wardley/WDF-AY, LLC (Wardley)
AY Saratoga, Inc. (AY Saratoga), a subsidiary of AINA, executed a settlement agreement and mutual general release and assignment of member interest in January 2010 whereby the 75% remaining interest owned by the other partner was transferred to AY Saratoga for US$2.4 million. As a result of the acquisition, Wardley became a subsidiary of WDF-AY, LLC.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

	In US$	In Php*
Assets		
Cash and cash equivalents	US$183	₱8,554
Short-term investments	500	23,371
Receivables – net	17	795
Real estate inventory	9,118	426,203
	9,818	458,923
Liabilities		
Loans payable	18,407	860,398
Net liability	8,589	401,475
Goodwill	10,989	513,659
Consideration paid	US$2,400	₱112,184

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

The cost of the acquisition is determined as follows (amounts in thousands):

	In US$	In Php*
Cash paid	US$2,400	₱112,184
Fair value of AINA's equity interest in Wardley held before the business combination	–	–
	US$2,400	₱112,184

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

AINA recognized remeasurement loss amounting to US$4.4 million (₱201.9 million) on its previously owned 25% equity interest in Wardley. The loss is included as part of remeasurement loss under "Other charges"account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

	In US$	In Php*
Cash acquired from Wardley	US$183	₱8,554
Cash paid	2,400	112,183
Net cash flow	(US$2,217)	(₱103,629)

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

From the date of acquisition, the Group's share in Wardley's revenue and net loss amounted to US$2.8 million (₱126.3 million) and US$17.1 million (₱771.6 million), respectively. Since the business combination happened close to the beginning of the year, the Group's total revenue and net income would be the same as presented in the consolidated statement of income.

Given the net liability position of Wardley, the goodwill arising from the acquisition amounting to US$10.9 million was fully impaired (see Note 22).

One Park Place, Inc. (OPPI)

On December 6, 2010, OPPI, one of the limited liability company investees of AINA, redeemed some of the limited partners' interests and paid a nominal amount of US$5 and recognized a loss on redemption amounting to US$8.7 million (₱394.0 million) included as part of remeasurement loss under "Other charges" account in the consolidatd statement of income. The redemption of the limited partners' interests resulted in new equity interests for the remaining partners with AINA having a 57.1% equity share in OPPI.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

	In US$	In Php*
Assets		
Cash and cash equivalents	US$4,706	₱205,888
Receivables - net	8	350
Real estate inventory	37,739	1,651,081
	42,453	1,857,319
Liabilities		
Loans payable	57,886	2,532,513
Net liability before redemption	15,433	675,194
Share in the net liability of redeemed shares	8,672	379,400
Net liability after redemption	6,761	295,794
Partners' deficit from consolidation	2,464	107,800
Goodwill	US$9,225	₱403,594

**Translated using the exchange rate at the transaction date (US$1:₱43.75).*

The fair value of the non-controlling interests has been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, the Group's share in OPPI's revenue and net loss amounted to US$0.4 million (₱18.0 million) and US$9.5 million (₱426.4 million), respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱82.1 billion, while the Group's net income would have been ₱15.9 billion.

Given the net liability position of OPPI, the goodwill arising from the acquisition of USD$9.2 million was fully impaired (see Note 22).

24. Income Tax

The components of the Group's deferred taxes as of December 31, 2011 and 2010 are as follows:

Net deferred tax assets

	2011	2010
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱1,071,486**	₱1,352,511
Allowance for probable losses	**908,155**	779,823
Service concession obligation	**750,240**	429,032
Retirement benefits	**257,628**	109,924
Advanced rental	**129,087**	52,907
Share-based payments	**90,057**	115,147
MCIT	**13,715**	523
Unrealized foreign exchange loss	**13,154**	110,107
NOLCO	**3,996**	24,375
Others	**334,432**	240,723
	3,571,950	3,215,072
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(477,015)**	(422,390)
Excess of financial realized gross profit over taxable realized gross profit	**(14,279)**	(29,504)
Others	**(72)**	(14,030)
	(491,366)	(465,924)
Net deferred tax assets	**₱3,080,584**	₱2,749,148

Net deferred tax liabilities

	2011	2010
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱97,392**	₱170,507
Fair value adjustments on:		
Long-term debt	**117,426**	223,760
Available for sale financial asset	**1,116**	1,116
Derivative asset	–	3,751
Others	**12,682**	5,961
	228,616	405,095
Deferred tax liabilities on:		
Fair value adjustments on:		
Property and equipment	**(58,548)**	(74,419)
Service concession assets	**(5,119,478)**	(5,363,892)
Service concession obligation	**(34,091)**	(34,091)
Customers' guaranty and other deposits	**(18,691)**	(18,691)
Intangible asset	–	(16,803)
Land and improvements	**(392,194)**	(392,194)
Excess of financial realized gross profit over taxable realized gross profit	**(325,558)**	(213,618)
Prepaid expenses	**(120,134)**	(163,740)
Others	**(278,779)**	(21,089)
	(6,347,473)	(6,298,537)
Net deferred tax liabilities	**(₱6,118,857)**	(₱5,893,442)

The Group has NOLCO amounting to ₱7.1 billion and ₱6.1 billion in 2011 and 2010, respectively, on which deferred tax have not been recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱51.7 million in 2011 and ₱60.6 million in 2010 and ₱38.6 million in 2009, respectively, were also not recognized, since management believes that there would be no sufficient taxable income against which the benefits of the deferred tax assets may be utilized.

As of December 31, 2011, NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, are as follows:

Year incurred	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2009	2012	₱1,336,734	₱28,197
2010	2013	2,440,583	14,884
2011	2014	3,350,465	22,293
		₱7,127,782	₱65,374

As of December 31, 2011 and 2010, deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings and cumulative translation adjustment amounted to ₱813.8 million and ₱1,245.6 million as of December 31, 2011 and 2010, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nontaxable equity in net earnings of associates and jointly controlled entities	**(11.79)**	(9.73)	(17.66)
Interest income subjected to final tax at lower rates	**(2.14)**	(1.98)	(0.97)
Income under income tax holiday	**(0.17)**	(0.98)	(0.16)
Gain on sale of shares and capital gains tax	**(0.78)**	(0.45)	(3.20)
Others	**4.55**	(1.50)	5.59
Effective income tax rate	**19.67%**	15.36%	13.59%

Revenue Regulations (RR) No. 16-2008
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the Optional Standard Deduction (OSD) for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. This became effective on July 1, 2008 and was applied by MWC for transactions for the year ended December 31, 2010.

The OSD results in an effective tax rate of 18% for MWC for the years in which OSD is projected to be utilized. This rate was used in computing the deferred income taxes on the net service concession obligation and capitalized borrowing costs starting 2009 that are considered in determining gross income for income tax purposes.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. MWC forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result to any future tax consequence under OSD.

IMI Group
IMI is registered with PEZA and is entitled to certain incentives, which include ITH. IMI entitlements to ITH under the current PEZA registrations have expirations beginning January 2010. In 2011, there are two remaining project activities with ITH entitlement which will expire in 2013. Upon the expiration of the ITH, IMI will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes.

PSi
PSi is a PEZA-registered entity, and is subject to a 5% tax on gross income less allowable deductions, as defined in RA No. 7916, as amended by RA No. 8748, in lieu of all national and local taxes, except real property tax on land being leased in FTI-SEZ. The 5% tax on gross income shall be paid and remitted as follows: (a) three percent (3%) to the National Government; and (b) two percent (2%) to the treasurer's office of the municipality or city where the enterprise is located.

PSi registered its subcontracted services with PEZA on July 9, 2010. Under the Supplemental Agreement, the subcontracted services are entitled to incentives granted to non-pioneer projects under RA No. 7916, as amended. PSi started rendering subcontracted services on July 15, 2010.

On August 9, 2010, PSi was registered by PEZA as an Ecozone Logistics Service Enterprise to provide warehousing logistics support services.

ITH incentives availed in 2011 amounted to US$11,079.

STHK and Monarch Elite
Hong Kong profits tax has been provided at the rate of 16.5% for the years ended December 31, 2011 and 2010, on the assessable profit for the year.

SZSTE, SZSTT, STJX and STCQ
In accordance with the “Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises”, the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two (2) years and a 50% reduction in EIT for the next three (3) years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five (5) years.

SZSTE is subject to taxation at the statutory tax rate of 25% for the years ended December 31, 2011 and 2010 on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

SZSTT has been dormant for the financial year under audit and thus there is no current tax expense for SZSTT. Deferred income tax assets arising from the tax losses of SZSTT are not recognized in the consolidated financial statements due to uncertainty as to whether sufficient taxable income will be available against which the deferred income tax assets can be utilized.

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the “Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises”. STJX is in its seventh profitable year, and hence is subject to taxation at the rate of 25% in 2011 and 2010 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five (5) years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the “Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises”. STCQ is in its second profitable year, and hence is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

STPHIL
STPHIL is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under R.A. No. 7916, in lieu of all local and national taxes.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking account of any losses carried forward from previous financial years (if applicable) and tax-exempt items and non-deductible expenses and using tax facilities.

IMI France
Income tax is computed based on the income earned by the corporation during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back three years. The tax rate applicable is 33.33% based on net profits.

EPIQ EA
Income taxes are calculated in accordance with the Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current income tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10%.

EPIQ MX
EPIQ MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in the results of the year they are incurred. Income tax rate for 2011 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

EPIQ CZ
Income tax due is calculated by multiplication of the tax base and the rate as defined by the income tax law. The tax base comprises the book income from operations which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues
(e.g. creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate is 19%.

25. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Company:

	2011	2010	2009
	(In Thousands, except EPS figures)		
Net income	**₱9,394,887**	₱11,161,092	₱8,154,345
Less dividends on preferred stock	**965,341**	1,081,352	1,081,352
	8,429,546	10,079,740	7,072,993
Less profit impact of assumed conversions of potential ordinary shares of investees	**27,095**	27,128	31,140
	₱8,402,451	₱10,052,612	₱7,041,853
Weighted average number of common shares*	**579,965**	588,348	596,381
Dilutive shares arising from stock options*	**2,332**	2,550	1,849
Adjusted weighted average number of common shares for diluted EPS	**582,297**	590,898	598,230
Basic EPS	**₱14.53**	₱17.13	₱11.86
Diluted EPS	**₱14.43**	₱17.01	₱11.77

**The weighted average number of common shares and dilutive shares arising from stock options take into account the effect of declaration of stock dividends during 2011 (see Note 21).*

26. **Retirement Plan**

The Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with minimum lump-sum guarantee of 1.5 months effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱368.5 million in 2011, ₱415.6 million in 2010 and ₱344.4 million in 2009.

The principal actuarial assumptions used to determine the pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. The Company's and certain subsidiaries' annual contributions to their respective plans consist of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The components of retirement expense in the consolidated statement of income are as follows:

	2011	2010	2009
		(In Thousands)	
Current service cost	**₱541,001**	₱349,035	₱261,116
Interest cost on benefit obligation	**363,042**	349,672	307,200
Expected return on plan assets	**(529,652)**	(341,339)	(255,016)
Net actuarial loss (gain)	**(46,845)**	54,944	30,401
Past service cost	**20,468**	3,292	2,532
Curtailment loss	**7,209**	–	382,296
Settlement gain	**13,279**	–	(384,170)
Effect of ceiling limit	**–**	30	–
Total retirement expense	**₱368,502**	₱415,634	₱344,359
Actual return on plan assets	**₱292,529**	₱862,727	₱453,834

The funded status and amounts recognized in the consolidated statement of financial position for the pension plans as of December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Benefit obligation	**(₱5,956,615)**	(₱5,254,419)
Plan assets	**4,929,284**	4,837,187
	(1,027,331)	(417,232)
Unrecognized net actuarial loss	**772,669**	218,728
Unrecognized past service cost	**30,296**	48,259
Effect of ceiling limit	**(56)**	–
Net pension obligation	**(₱224,422)**	(₱150,245)

The net pension obligation is presented in the consolidated statement financial position as follows:

	2011	2010
	(In Thousands)	
Pension assets	**₱189,287**	₱190,658
Pension liabilities	**(413,709)**	(340,903)
Net pension obligation	**(₱224,422)**	(₱150,245)

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

	2011	2010
	(In Thousands)	
Balance at January 1	**₱5,254,419**	₱3,774,239
Interest cost on benefit obligation	**363,042**	349,672
Current service cost	**541,001**	349,035
Benefits paid	**(476,486)**	(366,604)
Actuarial loss on obligations	**269,973**	556,473
Addition arising from business combination	**13,315**	604,250
Curtailments	**(7,209)**	8,914
Settlements	**(13,279)**	(25,615)
Past service cost	**2,505**	17,403
Benefits obligation from deconsolidated subsidiary	**–**	(13,348)
Transfers in/out	**9,334**	–
Balance at December 31	**₱5,956,615**	₱5,254,419

Changes in the fair value of the combined plan assets are as follows:

	2011	2010
	(In Thousands)	
Balance at January 1	**₱4,837,187**	₱3,655,919
Fair value of plan assets from acquired subsidiary	**–**	171,593
Expected return	**529,652**	341,339
Contributions by employer	**192,208**	559,716
Benefits paid	**(401,974)**	(366,604)
Settlements	**–**	(2,118)
Actuarial gains (losses) on plan assets	**(237,123)**	477,342
Transfers in/out	**9,334**	–
Balance at December 31	**₱4,929,284**	₱4,837,187

The assumptions used to determine pension benefits for the Group are as follows:

	2011	2010
Discount rates	**5.8% to 25.1%**	6.3% to 15.0%
Salary increase rates	**1.0% to 11.0%**	6.0% to 10.0%
Expected rates of return on plan assets	**3.7% to 8.0%**	4.0% to 11.0%

The allocation of the fair value of plan assets of the Group follows:

	2011	2010
Investments in debt securities	**56.9%**	52.2%
Investments in equity securities	**36.1%**	44.4%
Others	**7.0%**	3.4%

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

	2011	2010	2009	2008	2007
			(In Thousands)		
Defined benefit obligation	**(₱5,956,615)**	(₱5,254,419)	(₱3,774,239)	(₱3,442,841)	(₱3,708,898)
Plan assets	**4,929,284**	4,837,187	3,655,919	3,014,124	3,734,339
Excess (deficit)	**(₱1,027,331)**	(₱417,232)	(₱118,320)	(₱428,717)	₱25,441

Gains (losses) on experience adjustments are as follows:

	2011	2010	2009	2008	2007
			(In Thousands)		
Defined benefit obligation	**₱44,076**	₱69,045	₱19,482	(₱566,144)	₱136,564
Plan assets	**178,877**	(521,388)	198,818	(657,834)	30,727

The Company expects to contribute ₱98.2 million to its defined benefit pension plan in 2012.

As of December 31, 2011 and 2010, the plan assets include shares of stock of the Company with total fair value of ₱239.9 million and ₱577.5 million, respectively.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

27. Stock Option Purchase Plans

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3.0% of the Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

A summary of the Company's stock option activity and related information for the years ended December 31, 2011, 2010 and 2009 follows:

	2011		2010		2009	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	**4,266,129**	**₱179.36**	3,340,118	₱141.17	3,352,018	₱141.18
Exercised	**(411,743)**	**(150.90)**	(304,838)	(152.77)	(11,900)	(143.51)
Grants	**894,371**	**316.87**	1,230,849	273.03	–	–
Stock dividends	**906,620**	**–**	–	–	–	–
Cancelled	**(341,903)**	**171.88**	–	–	–	–
Outstanding, at end of year	**5,313,474**	**174.63**	4,266,129	₱179.36	3,340,118	₱141.17

The options have a contractual term of 10 years. As of December 31, 2011 and 2010, the weighted average remaining contractual life of options outstanding is 3.70 and 4.01 years, respectively, and the range of exercise prices amounted from ₱89.41 to ₱264.06.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 18, 2011	April 16, 2010	June 30, 2005	June 10, 2004
Weighted average share price	₱352.08	₱303.70	₱327.50	₱244.00
Exercise price	₱316.87	₱273.03	₱295.00	₱220.00
Expected volatility	41.21%	41.31%	46.78%	46.71%
Option life	10 years	10 years	10 years	10 years
Expected dividends	0.86%	0.92%	1.27%	1.43%
Risk-free interest rate	6.64%	8.56%	12.03%	12.75%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in whole or in part to the shares awarded to them based on the 10% discounted market price as offer price set at grant date. To subscribe, the grantee must be an employee of the Group during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

Shares granted and subscribed under the ESOWN in 2009 follows:

Granted	1,831,782
Subscribed	1,813,994
Exercise price	₱180.13

Subscriptions receivable from the stock option plans covering the Company's shares are presented as deduction under equity.

For the unsubscribed shares, the employee still has the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant. Movements in the number of options outstanding under ESOWN as of December 31, 2011 and 2010 follow:

	2011		2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At January 1	**141,906**	**₱260.72**	160,150	₱252.34
Stock dividends	**17,644**	**–**	–	–
Exercised/cancelled	**(53,683)**	**272.06**	(18,244)	187.19
At December 31	**105,867**	**₱211.51**	141,906	₱260.72

The fair value of stock options granted on April 30, 2009 is estimated on the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

Number of unsubscribed shares	17,788
Fair value of each option	₱112.87
Weighted average share price	₱263.38
Exercise price	₱180.13
Expected volatility	49.88%
Dividend yield	1.59%
Interest rate	7.49%

Total expense arising from share-based payments recognized by the Group in the consolidated statement of income amounted to ₱447.6 million in 2011, ₱375.0 million in 2010 and ₱471.6 million in 2009.

ALI Group

ALI has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 2.5% of the ALI's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of ALI or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

Movements in the number of stock options outstanding under ESOP are as follows:

Pre-PFRS 2 Options

	2011	**Weighted average exercise price**	2010	Weighted average exercise price
At January 1	**17,449,397**	**₱4.26**	22,271,511	₱4.16
Exercised	**(2,087,014)**	**3.80**	(4,822,114)	3.71
Cancelled	**(1,349,352)**	**–**	–	–
At December 31	**14,013,031**	**₱4.15**	17,449,397	₱4.26

PFRS 2 Options

	2011	**Weighted average exercise price**	2010	Weighted average exercise price
At January 1	**14,025,648**	**₱4.26**	16,647,814	₱4.16
Exercised	**(1,139,489)**	**3.80**	(2,622,166)	3.71
At December 31	**12,886,159**	**₱4.26**	14,025,648	₱4.26

The options exercised had a weighted average exercise price of ₱3.80 per share or ₱12.3 million in 2011 and ₱3.71 per share or ₱27.6 million in 2010. The average fair market value of the shares at the exercise date was ₱15.52 per share or about ₱ 50.1 million in 2011 and ₱16.45 per share or about ₱122.5 million in 2010.

The fair value of stock options granted is estimated as at the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOP at June 30, 2005 grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.30%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.60%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

In November 2001, ALI offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, ALI introduced a revised ESOWN and granted to qualified officers wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of ALI or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to ALI's Right to Repurchase.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2011	**WAEP**	2010	WAEP
At January 1	**27,412,217**	**₱8.67**	24,849,066	₱8.67
Granted	**4,852,343**	**13.63**	2,563,151	10.02
Cancelled	**(1,391,042)**	**–**	–	–
At December 31	**30,873,518**	**₱9.52**	27,412,217	₱8.67

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. Option maturity is four years from the date of grant. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Date						
	March 31, 2011	March 31, 2010	April 30, 2009	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	3,843,057	2,298,247	5,418,619	15,057,840	494,400	5,270,333	3,036,933
Fair value of each option	₱7.27	₱8.88	₱4.05	₱6.77	₱6.93	₱7.33	₱5.58
Weighted average share price	₱15.5	₱13.00	₱6.40	₱10.50	₱15.00	₱13.00	₱9.30
Exercise price	₱13.2	₱9.74	₱4.96	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	36.25%	43.57%	37.45%	32.04%	34.67%	46.03%	46.32%
Dividend yield	1.01%	0.48%	0.85%	0.49%	0.41%	1.56%	0.77%
Interest rate	5.60%	5.95%	5.94%	8.53%	6.93%	10.55%	11.30%

MWC Group

ESOP, Expanded ESOP and ESOWN

On February 26, 2004, MWC's BOD authorized the allocation of up to 20.0 million of the treasury shares for distribution from time to time as may be authorized by the Chairman of the Board (Chairman) as incentive and reward to deserving officers of MWC with rank of Manager 2 and above, including senior officers seconded from any parent company, under the ESOP.

On October 28, 2004, MWC's BOD approved the allocation of an additional 3.6 million shares for the ESOP, which will come from the MWC's unissued shares or common shares held in treasury. Accordingly, total allocation for the ESOP increased to 23.6 million shares.

On the same date, MWC's BOD approved the allocation of 136.40 million common shares for the Expanded ESOP covering 96.40 million common shares and the ESOWN covering 40.00 million common shares. The common shares for the ESOWN and the Expanded Executive SOP will come from the MWC's unissued common shares or common shares held in treasury. The common shares under the Expanded ESOP and ESOWN will be distributed from time to time as an incentive and reward to deserving MWC's executives (Expanded ESOP) and employees (ESOWN) of the MWC as may be authorized by the Chairman.

In March 2005, MWC granted 23.6 million options under the ESOP with an exercise price of ₱2.71 per share. To enjoy the rights provided for in the plan, the option holder should be with MWC at the time the options vest. The vesting schedule of the options is as follows:

Year	Vesting Percentage
2006	40%
2007	30%
2008	30%

On November 15, 2005, MWC's BOD approved the allocation of 25.0 million common shares, consisting of unissued shares and/or undisposed treasury shares, for distribution from time to time as may be authorized by the Chairman, as an incentive and reward to deserving executives of MWC with rank of Manager 1 and above, under the ESOWN.

On February 2, 2006, MWC's BOD authorized the migration of the ESOP covering 23.6 million common shares to ESOWN by giving ESOP grantees a one-time opportunity to convert their ESOP allocation into an ESOWN subscription using the ESOP subscription price of ₱2.71 per share. The ESOWN terms are described in the succeeding paragraphs.

The migration resulted in the recognition of the additional fair value of the replacement options amounting to ₱26.50 million. For the exercised options, the fair value was computed using the market price at the date of grant less the discounted strike price.

Details of MWC's grants under the ESOWN follow:

	Grant Dates				
	September 19, 2011	April 30, 2009	June 15, 2008	May 21, 2007	May 2, 2006
Number of shares granted	4,617,000	9,241,025	7,798,483	2,130,000	13,625,000
Number of unsubscribed shares	54,000	1,442,000	1,580,000	520,000	2,265,000
Fair value of each option	₱8.68	₱5.90	₱10.65	₱9.85	₱4.59
Weighted average share price	₱19.8	₱13.50	₱18.00	₱12.00	₱6.50
Exercise price	₱17.38	₱9.63	₱15.13	₱8.08	₱5.47
Expected volatility	33.68%	44.66%	25.64%	27.29%	24.65%
Dividend yield	2.68%	2.92%	1.96%	2.58%	3.40%
Risk-free interest rate	4.76%	8.53%	6.93%	10.55%	11.30%
Expected life of option	4 years	4 years	4 years	7 years	7 years

To enjoy the rights provided for in the ESOWN, the grantee should be with MWC at the time the Holding Period expires. The Holding Period of the ESOWN shares follows:

Year	Holding Period
After one year from subscription date	40%
After two years from subscription date	30%
After three years from subscription date	30%

The ESOWN grantees are allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of initial partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another 3-year holding period.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2011	**Weighted average exercise price**	2010	Weighted average exercise price
At January 1	**5,422,000**	**₱6.45**	7,362,000	₱9.63
Granted	**4,617,000**	**17.38**	–	–
Exercised	**(4,563,000)**	**17.38**	(1,920,000)	6.45
At December 31	**5,476,000**		5,442,000	

The fair value of equity-settled share options granted was estimated at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted.

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. The expected volatility used for the 2007 and 2006 grants was based on the average historical price volatility of several water utility companies within the Asian region. For the 2011 grants, MWC's volatility was used as input in the valuation. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

IMI Group

ESOWN

The IMI group has an ESOWN which is a privilege extended to IMI's eligible managers and staff whereby IMI allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the plan. Under the ESOWN, for as long as IMI remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of 10 comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once IMI becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of the BOD at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the plan. However, should the grantee cease to be employed by or connected with the IMI group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety (90) days from separation subject to the Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. Sixty (60) days after the due date and account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.

On February 21, 2007, IMI's BOD approved the granting of 45,150,000 shares of IMI under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to IMI's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to IMI's top performers and key personnel subject to the same terms as the shares subscribed in 2007.

All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of 8 years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the above two grants was on October 15, 2007. The fair value, determined based on a private bank's valuation of IMI to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, the management has approved a two-year moratorium on the scheduled payments due in 2008 and 2009 which resulted in an extension of the payment period from eight (8) to ten (10) years. This extension resulted in a net reversal of accretion amounting to US$0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.

On December 14, 2009, the Chairman of IMI's BOD approved the terms for granting 30,885,000 shares of IMI under ESOWN at the subscription price of ₱5.54 per share to various employees of the IMI group. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is ₱9.30, which is the closing price of IMI's stock at the PSE at the date of grant.

Movements in the number of shares outstanding under ESOWN for the years ended December 31, 2011 and 2010 follow:

	2011		2010	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
At January 1	**120,987,477**	**₱6.59**	111,297,000	₱6.88
Granted	**–**	**–**	30,885,000	5.54
Forfeitures	**(4,737,168)**	**6.59**	(21,194,523)	6.59
At December 31	**116,250,309**	**₱6.59**	120,987,477	₱6.59

28. Operating Segment Information

For management purposes, the Group is organized into the following business units:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and bancassurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agri-business loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.

- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.

- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.

- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.

- Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.

- Automotive - manufacture and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others - power and infrastructure, air-charter services, agri-business and others.

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.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

In 2010, the Company re-organized AC Capital to focus on asset management and business development initiatives. The group was also subsequently renamed and re-assigned to report to the Chief Financial Officer. Segments formerly under AC Capital's purview, including, Water Utilities, Electronics, Information Technology and BPO Services, International, and Automotive are now presented, monitored, and analyzed independently. This has no impact on the 2009 presentation of operating segment information.

The following tables regarding operating segments present assets and liabilities as of December 31, 2011 and 2010 and revenue and profit information for each of the three years in the period ended December 31, 2011 (amounts in millions).

2011

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	**₱30**	**₱39,731**	**₱–**	**₱–**	**₱18,944**	**₱24,845**	**₱1,123**	**₱186**	**₱9,174**	**₱–**	**₱94,033**
Intersegment	**94**	**1,893**	**–**	**–**	**124**	**–**	**5**	**–**	**140**	**(2,256)**	**–**
Share of profit of associates and jointly controlled entities	**59**	**899**	**4,288**	**3,045**	**–**	**–**	**(596)**	**98**	**(66)**	**–**	**7,727**
Interest income	**1,165**	**1,460**	**–**	**–**	**575**	**14**	**49**	**12**	**10**	**(3)**	**3,282**
Other income	**501**	**276**	**–**	**–**	**75**	**1,094**	**89**	**467**	**254**	**(266)**	**2,490**
Total income	**1,849**	**44,259**	**4,288**	**3,045**	**19,718**	**25,953**	**670**	**763**	**9,512**	**(2,525)**	**107,532**
Operating expenses	**1,643**	**31,487**	**–**	**–**	**13,397**	**25,445**	**1,340**	**419**	**9,479**	**(2,258)**	**80,952**
Operating profit	**206**	**12,772**	**4,288**	**3,045**	**6,321**	**508**	**(670)**	**344**	**33**	**(267)**	**26,580**
Interest expense and other financing charges	**2,848**	**1,880**	**–**	**–**	**1,274**	**109**	**11**	**30**	**26**	**(3)**	**6,175**
Other charges	**(89)**	**143**	**–**	**–**	**352**	**149**	**1**	**177**	**4**	**–**	**737**
Provision for income tax	**221**	**2,619**	**–**	**–**	**790**	**201**	**33**	**30**	**45**	**(70)**	**3,869**
Net income	**(2,774)**	**₱8,130**	**₱4,288**	**₱3,045**	**₱3,905**	**₱49**	**(₱715)**	**₱107**	**(₱42)**	**(₱194)**	**₱15,799**
Other information											
Segment assets	**104,150**	**142,212**	**–**	**–**	**79,996**	**19,390**	**3,287**	**4,905**	**3,932**	**(82,985)**	**274,887**
Investments in associates and jointly controlled entities	**54,670**	**12,626**	**–**	**–**	**1,788**	**–**	**4,973**	**2,352**	**3,250**	**–**	**79,659**
Deferred tax assets	**–**	**1,949**	**–**	**–**	**760**	**24**	**–**	**–**	**46**	**302**	**3,081**
Total assets	**₱158,820**	**₱156,787**	**–**	**–**	**₱82,544**	**₱19,414**	**₱8,260**	**₱7,257**	**₱7,228**	**(₱82,683)**	**₱357,627**
Segment liabilities	**55,656**	**81,755**	**–**	**–**	**39,151**	**10,923**	**330**	**968**	**1,757**	**(10,282)**	**180,270**
Deferred tax liabilities	**–**	**744**	**–**	**–**	**5,109**	**204**	**9**	**43**	**10**		**6,119**
Total liabilities	**₱55,656**	**₱82,499**	**–**	**–**	**₱44,260**	**₱11,127**	**₱339**	**₱1,011**	**₱1,767**	**(₱10,282)**	**₱186,389**
Segment additions to property, plant and equipment and investment properties	**₱89**	**₱8,907**	**₱–**	**₱–**	**₱581**	**₱2,346**	**₱69**	**₱2**	**₱49**	**₱–**	**₱12,043**
Depreciation and amortization	**₱90**	**₱2,304**	**₱–**	**₱–**	**₱1,890**	**₱1,116**	**₱81**	**₱2**	**₱1,117**	**₱–**	**₱6,600**
Non-cash expenses other than depreciation and amortization	**₱21**	**₱143**	**₱–**	**₱–**	**₱331**	**₱149**	**₱1**	**₱177**	**₱5**	**₱–**	**₱827**

2010

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱522	₱35,352	₱–	₱–	₱14,748	₱18,611	₱1,129	₱22	₱11,696	₱–	₱82,080
Intersegment	–	454	–	–	–	–	13	–	60	(527)	–
Share of profit of associates and jointly controlled entities	(85)	906	3,807	2,989	222	–	(1,603)	(161)	49	–	6,124
Interest income	1,152	1,044	–	–	244	16	53	41	2	(31)	2,521
Other income	4,748	27	–	–	416	199	2,111	35	250	(440)	7,346
Total income	6,337	37,783	3,807	2,989	15,630	18,826	1,703	(63)	12,057	(998)	98,071
Operating expenses	1,700	28,193	–	–	10,751	18,417	1,502	958	11,832	(995)	72,358
Operating profit	4,637	9,590	3,807	2,989	4,879	409	201	(1,021)	225	(3)	25,713
Interest expense and other financing charges	2,353	1,539	–	–	720	41	50	61	13	(21)	4,756
Other charges	349	221	–	–	(15)	5	–	1,513	10	(11)	2,072
Provision for income tax	209	1,562	–	–	948	155	(37)	2	61	–	2,900
Net income	₱1,726	₱6,268	₱3,807	₱2,989	₱3,226	₱208	₱188	(₱2,597)	₱141	₱29	₱15,986
Other information											
Segment assets	₱108,855	₱112,036	₱–	₱–	₱70,665	₱15,284	₱2,419	₱4,630	₱3,074	(₱ 76,347)	₱240,616
Investments in associates and jointly controlled entities	51,340	10,846	–	–	6	–	6,182	2,323	1,308	–	72,005
Deferred tax assets	–	2,917	–	–	32	5	–	–	27	(232)	2,749
Total assets	₱160,195	₱125,799	₱–	₱–	₱70,703	₱15,289	₱8,601	₱6,953	₱4,409	(₱76,579)	₱315,370
Segment liabilities	₱54,377	₱56,234	₱–	₱–	₱30,106	₱7,305	₱353	₱2,939	₱1,654	(₱10,243)	₱142,725
Deferred tax liabilities	–	598	–	–	5,279	–	4	7	5	–	5,893
Total liabilities	₱54,377	₱56,832	₱–	₱–	₱35,385	₱7,305	₱357	₱2,946	₱1,659	(₱10,243)	₱148,618
Segment additions to property, plant and equipment and investment properties	₱94	₱4,926	₱–	₱–	₱3,564	₱1,456	₱93	₱3	₱119	₱–	₱10,255
Depreciation and amortization	₱100	₱1,814	₱–	₱–	₱1,957	₱994	₱204	₱46	₱113	₱–	₱5,228
Non-cash expenses other than depreciation and amortization	₱498	₱279	₱–	₱–	₱–	₱22	₱369	₱1,219	₱ 6	₱–	₱2,393

2009

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱376	₱28,593	₱–	₱–	₱–	₱18,937	₱4,041	₱9	₱ 11,281	₱–	₱63,237
Intersegment	–	318	–	–	–	–	(22)	–	(43)	(253)	–
Share of profit of associates and jointly controlled entities	4	968	2,707	3,862	1,029	–	(809)	(394)	(6)	–	7,361
Interest income	1,618	959	–	–	–	35	5	111	3	(96)	2,635
Other income	1,611	254	–	–	–	323	701	118	259	(205)	3,061
Total income	3,609	31,092	2,707	3,862	1,029	19,295	3,916	(156)	11,494	(554)	76,294
Operating expenses	1,795	21,857	–	–		18,536	4,575	284	11,452	34	58,533
Operating profit	1,814	9,235	2,707	3,862	1,029	759	(659)	(440)	42	(588)	17,761
Interest expense and other financing charges	2,381	1,345	–	–	–	82	69	22	19	(96)	3,822
Other charges	13	1,407	–	–	–	4	–	2	9	–	1,435
Provision for income tax	236	1,165	–	–	–	240	1	(18)	50	25	1,699
Net income	(₱816)	₱5,318	₱2,707	₱3,862	₱1,029	₱433	(₱729)	(446)	(36)	(517)	₱10,805
Other information										–	
Segment assets	₱102,302	₱98,370	₱–	₱–	₱–	₱14,019	₱6,248	₱4,276	₱2,862	(₱68,881)	₱159,196
Investments in associates and jointly controlled entities	52,517	10,798	–	–	–	–	5,341	2,531	370	–	71,557
Deferred tax assets	–	1,523	–	–	–	10	40	–	45	(222)	1,396
Total assets	₱154,819	₱110,691	₱–	₱–	₱–	₱14,029	₱11,629	₱6,807	₱3,277	(₱69,103)	₱232,149
Segment liabilities	₱45,248	₱48,396	₱–	₱–	₱–	₱6,241	₱3,098	₱893	₱1,627	(₱8,979)	₱96,524
Deferred tax liabilities	–	151	–	–	–	5	41	5	5	–	207
Total liabilities	₱45,248	₱48,547	₱–	₱–	₱–	₱6,246	₱3,139	₱898	₱1,632	(₱8,979)	₱96,731
Segment additions to property, plant and equipment and investment properties	₱77	₱4,895	₱–	₱–	₱–	₱387	₱407	₱23	₱414	₱–	₱6,203
Depreciation and amortization	₱–	₱1,794	₱–	₱–	₱–	₱997	₱339	₱4	₱212	₱–	₱3,346
Non-cash expenses other than depreciation and amortization	₱116	₱1,287	₱–	₱–	₱–	₱67	₱75	₱–	₱3	₱–	₱1,548

Geographical Segments

	Revenue			Segment Assets		Investment Properties and Property, Plant and Equipment Additions	
	2011	2010	2009	**2011**	2010	**2011**	2010
Philippines	**₱84,304,099**	₱80,152,760	₱60,284,336	**₱341,035,791**	₱304,938,675	**₱10,193,041**	**₱**9,862,531
Japan	**394,200**	892,096	1,023,625	**39,000**	13,089	**2,563**	167,584
USA	**6,465,127**	5,642,469	6,253,443	**1,350,869**	2,056,907	**8,626**	34,425
Europe	**12,291,678**	7,357,986	5,594,446	**4,978,681**	–	**1,542,476**	–
Others (mostly Asia)	**4,077,292**	4,025,989	3,137,965	**10,222,255**	8,361,045	**296,679**	190,214
	₱107,532,396	₱98,071,300	₱76,293,815	**₱357,626,596**	₱315,369,716	**₱12,043,385**	₱10,254,754

Summarized financial information of BPI and Globe are presented in Note 11 to the consolidated financial statements.

29. Leases

Finance leases - as lessee
The Group conducts a portion of its operations from leased facilitites, which includes various equipment. These leases are classified as finance leases with a lease term of 3 to 10 years.

IMI Group
On June 30, 2009, IMI entered into a lease contract with IBM for the lease of servers for a three-year period starting on the same date. IMI has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides for monthly rental payments of US$17,141.

EPIQ EA has various finance lease contracts with Interlease AD related to its machinery and production equipment with terms of 3 to 5 years and final repayment dates between 2012 and 2016. The leases are subject to interests of 3-month Euribor plus 2% to 4%.

EPIQ CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of 5 to 10 years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment pertaining to a car is subject to interest of 12.26% per annum.

AIVPL Group
The Group has entered into finance lease agreements for some of its property and equipment. The said leased assets are capitalized and depreciated over their estimated useful lives of one (1) to three (3) years. Carrying value of the leased assets as of December 31, 2011 and 2010 amounted to ₱0.88 million and ₱1.93 million, respectively (see Note 13). Finance lease facility amounted to ₱10.0 million were approved at 8.86% interest.

Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2011		2010	
	Minimum Payments	**Present values of payments**	Minimum payments	Present values of payments
	(In Thousands)			
Within one year	**₱66,855**	**₱67,050**	₱72,773	₱71,596
After one year but not more than five years	**15,539**	**17,404**	30,248	29,002
Total minimum lease payments	**82,394**	**84,454**	103,021	100,598
Less amounts representing finance charges	**2,592**	**–**	5,806	–
Present value of minimum lease payments	**₱79,802**	**₱84,454**	₱97,215	₱100,598

Operating lease commitments - as lessee

The Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

IMI Group

On December 13, 2005, IMI entered into a lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a three-year period commencing on December 31, 2005 up to December 31, 2008. On December 23, 2008, IMI extended the lease contract for another three (3) years commencing on December 31, 2008 up to December 31, 2011. On January 2, 2012, IMI again extended the lease contract for another three years commencing January 2, 2012 up to December 31, 2015. The lease contract is renewable at the option of TLI upon such terms and conditions and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. IMI shall advise TLI in writing at least sixty (60) days before the expiration of the term of its desire to renew the contract, which TLI may consider upon such terms and conditions as may be agreed upon between the parties. IMI shall pay, as monthly rental for and in consideration of the use of the leased premises, the amount of US$1,642 exclusive of value added tax.

IMI also leases condominium units for the use of its officers and certain managers. The terms are usually for two (2) to four (4) months and are normally renewable under conditions specified in separate lease contracts.

IMI leases two office condominium units where some of its facilities are located under noncancellable operating leases with Cyberzone Properties Inc. The lease agreements are for three-year periods up to July 2008 and August 2008. On August 15, 2008, the lease agreements were extended for another three (3) years commencing September 1, 2008 up to August 31, 2011. The leases contain provisions including, but not limited to, an escalation rate of 7% per year and early termination penalties. The leases provide for quarterly rental payments of US$26,364 during the first year of the lease term.

IMI Japan

On December 1, 2006, IMI Japan entered into a two-year contract with Kaneshichi Administration for lease of office premises commencing on December 1, 2006, whereby it is committed to pay a monthly rental of US$6,406. The lease agreement provides for automatic renewal of the lease contract for another two (2) years unless prior notice of termination is given to the lessor. This was terminated on April 21, 2010.

On February 15, 2010, IMI Japan entered into a two-year contract with Kabushikigaisha Tokyu Community for lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of 245,490 Yen inclusive of tax and monthly maintenance fee of 35,070 Yen inclusive of tax. The lease agreement provides for automatic renewal of the lease contract unless prior notice of termination is given to the lessor.

IMI USA
On July 17, 2008, IMI USA entered into seven-year contract with Roy G.G. Harris and Patricia S. Harris for lease of office premises commencing in August 2008 up to November 2014. The lease contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payments of US$13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a six-year lease agreement with Fremont Ventures, LLC commencing two months from issuance of building permit or maximum of three months if Fremont caused the delay. The base monthly rental rate is US$3,687 on the first 6 months with escalation every 11 months as listed in the lease contract. Average monthly rental rate amounts to US$9,523.

IMI Singapore and STEL
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These noncancellable leases have remaining noncancellable lease terms of between 1 to 50 years commencing on January 1, 1992 to April 1, 2011 and ending on February 28, 2010 to April 30, 2050. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

PSi
PSi has a 15-year non-cancellable operating lease agreement with Food Terminal, Inc. (FTI) for its plant facilities, office spaces, and other facilities commencing on August 15, 2004 up to August 14, 2020. The lease agreement with FTI provides for increase in rental per year starting on the second year and annually thereafter until the end of the lease term. The lease agreement provides a late payment penalty of 2% per month for the monthly rental not paid on time.

Moreover, PSi leases its plant facilities, office spaces and other facilities from RBF Development Corporation for 36 months until March 31, 2011. PSi has the option to extend the term of the lease for another two (2) years and the contract was extended up to March 2013. The lease agreement with RBF provides for increase in rental at varying rates over the term of the lease. The lease agreement provides penalty interest of 3% per month compounded for the late payment of monthly rental.

Other operating lease agreements for machinery and equipment and storage space entered into by PSi are for one (1) year, subject to renewal options.

Future minimum rentals payable under noncancellable operating leases of lessee subsidiaries are as follows:

	2011	2010
	(In Thousands)	
Within one year	**₱232,209**	₱238,623
After one year but not more than five years	**647,885**	724,219
More than five years	**1,269,150**	1,518,990
	₱2,149,244	₱2,481,832

Operating leases - as lessor
Certain subsidiaries have lease agreements with third parties covering their investment properties portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

On August 1, 2009, IMI subleased the unused portion of its two leased office condominium units from Cyberzone Properties Inc., with the consent of the latter. 102.52 square meters and 32.80 square meters were leased to Stratpoint Technologies Inc. and Xepto Computing Inc., respectively, at the rate of ₱475.00 per square meter in the first month and ₱502.25 per square meter in the subsequent months. The lease contract is for a term of one (1) year, renewable upon mutual agreement of both parties.

On June 8, 2010, an extension of the lease contract was executed by IMI and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to February 15, 2011. On March 15, 2011, the sublease agreement expired.

Future minimum rentals receivable under noncancellable operating leases of the Group are as follows:

	2011	2010
	(In Thousands)	
Within one year	**₱2,242,665**	₱1,552,790
After one year but not more than five years	**5,644,663**	4,304,099
More than five years	**1,384,795**	1,823,452
	₱9,272,123	₱7,680,341

30. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate
   i. As of December 31, 2011 and 2010, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2011	2010
Cash in bank	**₱4,465,252**	₱4,385,954
Cash equivalents	**28,624,303**	33,625,700
Short-term investments	**1,266,070**	1,181,563

From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱40.0 million and ₱71.3 million as of December 31, 2011 and December 31, 2010, respectively. Interest income earned amounted to ₱1,655.2 million in 2011, ₱1,199.7 million in 2010 and ₱1,089.6 million in 2009.

ii. On November 16, 2011, BPI declared cash dividends amounting to ₱0.9 per share. Cash dividends declared by BPI are payable to common shareholders of record as of 15th day from the receipt of approval by Bangko Sentral ng Pilipinas and distributable on the 15th day from the said record date. As of December 31, 2011, the Group has dividend receivable from BPI amounting to ₱764.2 million.

iii. The Group also has short-term and long-term debt payable to BPI amounting to ₱7.5 billion and ₱5.4 billion as of December 31, 2011 and 2010, respectively. The Group has accrued interest payable amounting to ₱5.7 million and ₱3.3 million as of December 31, 2011 and 2010, respectively, pertaining to the outstanding loans. Interest expense incurred from the debt amounted to ₱165.5 million and ₱232.9 million in 2011 and 2010, respectively.

b. Receivable from related parties follow (amounts in thousands):

	2011	2010
Associates:		
Interest in limited partnerships of AINA	**₱151,681**	₱49,311
BPI	**92,003**	–
CHI	**82,638**	108,239
BLC	**50,522**	–
NTDCC	**17,160**	15,790
ASTI	**16,120**	13,238
First Gen Northern Energy (FGNEC)	**5,531**	–
Naraya Development Co. Ltd.	**1,293**	17,146
Arch Capital	–	216
PPI Prime Ventures, Inc. (PPI Prime)	–	5
	416,948	203,945
Jointly controlled entities:		
Integreon	**475,751**	359,067
Globe	**66,150**	29,987
Northwind Power Development Corp.	**45,017**	–
ACC	**17,802**	743
Asiacom	–	9
	604,720	389,806
Other related parties:		
Columbus Holdings, Inc. (Columbus)	**888,810**	888,810
Glory High	**420,013**	542,674
Fort Bonifacio Development Corporation (FBDC)	**271,096**	109,279
Cebu Property Ventures Development	**58,571**	–
Isuzu Philippines Corporation (IPC)	**33,787**	29,742
Bonifacio Hotel Ventures, Inc.	**4,067**	–
Honda Cars Philippines, Inc. (HCP)	**2,428**	23,998
Innove Communications, Inc. (Innove)	**325**	7,281
MyAyala	–	3,656
	1,679,097	1,605,440
	₱2,700,765	₱2,199,191

i. Receivables from AINA's interest in limited partnerships are nontrade in nature and bear interests ranging from 10% to 15% and will mature on May 31, 2013. Interest income earned amounted to ₱9.5 million and ₱36.7 million in 2011 and 2010, respectively.
ii. Amounts owed by CHI represents management fee of the Group for CHI's Cebu Business Park and Amara projects.
iii. Receivables from ASTI and FGNEC are advances made for working capital requirements which are non-interest bearing and demandable.
iv. Receivable from Integreon has an interest rate of 15% in 2011 and 14% in 2010 which will mature on February 16, 2012. Interest income earned amounted to ₱44.5 million and ₱47.2 million in 2011 and 2010, respectively.
v. Receivable from Northwind represents unpaid cash dividends on preferred shareholders declared on November 23, 2007 that was converted into a promissory note due in November 2017 and bear interest of 8% per annum. As of December 31, 2011, accrued interest on the promissory note amounted to ₱10.9 million. Interest income in 2011 amounted to ₱2.7 million. The promissory note stipulates, among others, that Northwind shall not declare any dividends to any shareholder without first paying in full the note and interest on the note.
vi. Receivable from Columbus represents non-interest bearing advance for future acquisition of shares in BLC.
vii. Receivables from Glory High represent non-interest bearing advances for certain residential development projects. Payments become due as soon as the projects are completed.
viii. Receivable from FBDC largely pertains to management fees.
ix. Other outstanding balances of receivable from related parties at year-end pertain mostly to advances and reimbursement of operating expenses. These are unsecured, interest free, will be settled in cash and are due and demandable.

Allowance for doubtful accounts on amounts due from related parties amounted to ₱22.5 million and ₱122.7 million as of December 31, 2011 and 2010, respectively. Provision for doubtful accounts amounted to ₱16.5 million, ₱11.9 million and ₱8.0 million in 2011, 2010 and 2009, respectively.

On December 29, 2011, PPI Prime declared cash dividends amounting to ₱1,133 per share. Cash dividends declared by PPI Prime are payable to common shareholders of record as of December 31, 2011. As of December 31, 2011, the Group's dividend receivable from PPI Prime amounted to ₱51.0 million.

On December 17, 2010, ADHI declared cash dividends amounting to ₱682.0 million payable to common shareholders of record as of December 20, 2010. Of the amount declared, ₱310.0 million is payable to the Group.

c. Receivables from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 6.0% to 13.5% per annum and have various maturity dates ranging from 2012 to 2026.

d. The Group has debt investments with its associates and jointly controlled entities which are included in "Investment in bonds and other securities" account in the consolidated statements of financial position. These debt instruments earn interest ranging from 6.0% to 8.75% in 2011 and 2010 with maturity dates up to 5 years. The fair values of these investments are as follows (amounts in thousands):

	2011	2010
Associate:		
BPI	**₱130,074**	₱135,072
Jointly controlled entity:		
Globe	**101,401**	104,181
	₱231,475	₱239,253

In addition, the Group holds 0.39 million units of Unit Investment Trust Fund of BPI. As of December 31, 2011, the fair value of the UITF of BPI amounted to ₱51.4 million.

e. Payable to related parties follow:

	2011	2010
Associates:		
BPI	**₱5,961**	₱3,289
ASTI	**153**	152
Arch Capital	**139**	343,540
CHI	–	284,750
BLC	–	80,954
	6,253	712,685
Jointly controlled entities:		
Globe	**356**	772
Asiacom	**94**	94
	450	866
Other related parties:		
Columbus	**988,808**	491,121
IPC	**183,371**	34,181
HCP	**34,682**	155,873
Innove	**123**	208
City Sports Club Cebu, Inc.	–	4,000
Ayala Multipurpose Cooperative	–	126
Others	**12,919**	139
	1,219,903	685,648
	₱1,226,606	₱1,399,199

i. Payable to Arch Capital as of December 31, 2010 is nontrade in nature, unsecured, interest-free and payable on demand.
ii. Payable to CHI comprise mainly of cost of lots for joint development projects.
iii. Payable to Columbus represents non-interest bearing advance for future stock redemption.
iv. Payable to IPC and HCP consist of purchased parts and accessories and vehicles that are trade in nature, interest-free, unsecured and are payable within 15 to 30 days.
v. The other outstanding balances of payable to related parties at year-end are unsecured, interest-free, will be settled in cash and are due and demandable.

f. Income from related parties follow:

	2011	2010	2009
		(In Thousands)	
Associates	**₱1,250,190**	₱1,202,628	₱2,046,351
Jointly controlled entities	**142,024**	138,971	140,652
Other related parties	**18,527**	19,899	15,062
	₱1,410,741	₱1,361,498	₱2,202,065

Revenue recognized from related parties includes:
i. Leasing and developmental projects services rendered by ALI group.
ii. Water and sewerage services rendered by MWC.
iii. Automotive sales and repair services rendered by AAHC group.

g. Cost and expenses from related parties follow:

	2011	2010	2009
		(In Thousands)	
Associates	**₱172,362**	₱228,461	₱606,641
Jointly controlled entities	**22,449**	104,493	47,732
Other related parties	**83,995**	18,901	7,294
	₱278,806	₱351,855	₱661,667

Expenses recognized from related parties include:
i. Interest expense from short-term and long-term debt payable to BPI.
ii. Purchases of Blackberry software and billings for cellphone charges and WiFi connections with Globe.
iii. Building rental, leased lines, internet connections and ATM connections with Innove.

h. Compensation of key management personnel by benefit type follows:

	2011	2010	2009
		(In Thousands)	
Short-term employee benefits	**₱1,222,511**	₱1,219,128	₱864,014
Share-based payments (Note 27)	**195,154**	207,746	167,886
Post-employment benefits (Note 26)	**57,460**	98,949	103,979
	₱1,475,125	₱1,525,823	₱1,135,879

31. Financial Instruments

Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and estimated fair values of all of the Group's financial instruments (amounts in thousands):

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL				
Held for trading	**₱1,470,829**	**₱1,470,829**	₱872,080	₱872,080
Derivative assets				
Embedded	**119,939**	**119,939**	267,763	267,763
Freestanding	**2,765**	**2,765**	21,073	21,073
Total financial assets at FVPL	**1,593,533**	**1,593,533**	1,160,916	1,160,916
LOANS AND RECEIVABLES				
Cash and cash equivalents	**53,577,252**	**53,577,252**	53,142,777	53,142,777
Short-term investments	**1,613,058**	**1,613,058**	3,993,533	3,993,533
Accounts and notes receivables				
Trade receivables				
Real estate	**18,674,261**	**19,341,610**	13,653,812	12,429,914
Electronics manufacturing	**5,535,763**	**5,535,763**	4,186,876	4,186,876
Water utilities	**667,121**	**667,121**	526,558	526,558
Automotive	**498,972**	**498,972**	833,401	833,401
Information technology and BPO	**88,286**	**88,286**	59,897	59,897
International and others	**2,426**	**2,426**	2,703	2,703
Total trade receivables	**25,466,829**	**26,134,178**	19,263,247	18,039,349
Nontrade receivables				
Advances to other companies	**2,966,508**	**3,035,412**	3,506,446	3,522,926
Related parties	**2,700,637**	**2,700,637**	2,076,515	2,076,515
Investment in bonds classified as loans and receivables	**200,000**	**214,518**	200,000	218,990
Dividends receivables	**815,220**	**815,220**	318,279	318,279
Receivable from BWC	**599,342**	**599,342**	–	–
Receivable from officers and employees	**724,329**	**738,181**	853,164	824,136
Other receivables	**1,627,326**	**1,627,326**	1,036,842	1,036,042
Total nontrade receivables	**9,633,362**	**9,730,636**	7,991,246	7,996,888
Total loans and receivables	**90,290,501**	**91,055,124**	84,390,803	83,172,547
AFS FINANCIAL ASSETS				
Quoted equity investments	**992,612**	**992,612**	1,702,552	1,702,552
Unquoted equity investments	**1,439,324**	**1,439,324**	2,692,960	2,692,960
Quoted debt investments	**874,161**	**874,161**	288,007	288,007
Unquoted debt investments	**439,071**	**439,071**	527,947	527,947
Total AFS financial assets	**3,745,168**	**3,745,168**	5,211,466	5,211,466
Total financial assets	**₱95,750,183**	**₱96,515,506**	₱90,763,185	₱89,544,929
FINANCIAL LIABILITIES AT FVPL				
Derivative liabilities				
Embedded	**₱–**	**₱–**	₱168,016	₱168,016
Freestanding	**1,515**	**1,515**	–	–
OTHER FINANCIAL LIABILITIES				
Current other financial liabilities				
Accounts payable and accrued expenses				
Accounts payable	**29,432,808**	**29,432,808**	17,995,363	17,995,363
Accrued expenses	**7,109,950**	**7,109,950**	9,846,614	9,846,614
Accrued project costs	**5,684,761**	**5,684,761**	2,808,045	2,808,045
Related parties	**1,226,606**	**1,226,606**	1,399,199	1,399,199
Dividends payable	**1,831,318**	**1,831,318**	2,226,117	2,226,117
Retentions payable	**1,174,760**	**1,174,760**	119,151	119,151
Interest payable	**1,139,681**	**1,139,681**	572,921	572,921
Accrued personnel costs	**814,432**	**814,432**	557,589	557,589

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Customers' deposits	**₱1,340,148**	**₱1,340,148**	₱2,204,010	₱2,204,010
Short-term debt	**6,665,841**	**6,665,841**	4,519,287	4,519,287
Current portion of service concession obligation	**980,620**	**980,620**	794,473	794,473
Current portion of long-term debt	**7,459,658**	**7,459,658**	11,237,343	11,237,343
Noncurrent other financial liabilities				
Service concession obligation	**6,916,998**	**8,733,961**	7,025,751	8,299,826
Other noncurrent liabilities	**9,273,827**	**9,208,645**	9,067,708	8,989,761
Long-term debt	**92,592,368**	**100,397,093**	67,079,948	68,679,877
Total other financial liabilities	**173,643,776**	**183,200,282**	137,453,519	140,249,576
Total financial liabilities	**₱173,645,291**	**₱183,201,797**	₱137,621,535	₱140,417,592

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents, short-term investments and current receivables - Carrying amounts approximate fair values due to the relative short-term maturities of these investments.

Financial assets at FVPL - Fair values of investments in government securities are based on quoted prices as of the reporting date. For other investment securities with no reliable measure of fair value, these are carried at its last transaction price.

Derivative instruments - The fair value of the freestanding currency forwards is based on counterparty valuation. The embedded call and put options of IMI were valued using binomial model. This valuation technique considers the probability of PSi's share price which is based on a 5-year discounted cash flow valuation to move up or down depending on the volatility, the risk free rate and exercise price that is based on a 12-month trailing EBITDA. The fair value of the embedded call option of MWC was determined using Black's option pricing model. Valuation inputs such as discount rates were based on credit adjusted interest rates ranging from 2% to 5% in 2010 while interest rate volatility was computed based on historical rates or data.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 1.22% to 6.06% in 2011 and 1.13% to 13.8% in 2010. The carrying value of the receivable from BWC approximates its fair value since the receivable was recognized only on November 29, 2011.

AFS quoted investments - Fair values are based quoted prices published in markets.

AFS unquoted shares - Fair value of equity funds are based on the net asset value per share. For other unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost less impairment, if any.

AFS unquoted debt investments - Fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 1% to 7% in 2011 and 2% to 7% in 2010.

Accounts payable and accrued expenses, customers' deposits, short-term debt and current portion of long-term debt and service concession obligation - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Customers' deposits - non-current - The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used for Peso-denominated loans were 1.35% to 7.60% in 2011 and 1.99% to 7.27% in 2010 while the discount rates used for the foreign currency-denominated loans ranged from 1.02% to 3.16% in 2011 and 1.13% to 3.66% in 2010.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi-annual/annual basis and deposits) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 1.02% to 7.60% in 2011 and 2.70% to 7.40% in 2010.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

Fair Value Hierarchy

The Group 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 or 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 that have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the Group's financial instruments carried at fair value as of December 31, 2011 and 2010, based on fair value hierarchy (amounts in thousands):

	Level 1	Level 2	Level 3	Total
2011				
Financial assets at FVPL	**₱–**	**₱–**	**₱1,470,829**	**₱1,470,829**
Derivative assets				
Embedded	–	–	**119,939**	**119,939**
Freestanding	–	**2,765**	–	**2,765**
AFS financial assets				
Quoted equity investments	**992,612**	–	–	**992,612**
Quoted debt investments	**874,161**	–	–	**874,161**
Unquoted debt investments	–	**439,071**	–	**439,071**
Derivative liabilities				
Freestanding	–	**1,515**	–	**1,515**
	₱1,866,773	**₱443,351**	**₱1,590,768**	**₱3,900,892**

	Level 1	Level 2	Level 3	Total
2010				
Financial assets at FVPL	₱404,008	₱–	₱468,072	₱872,080
Derivative assets				
Embedded	–	–	267,763	267,763
Freestanding	–	21,073	–	21,073
AFS financial assets				
Quoted equity investments	1,702,552	–	–	1,702,552
Quoted debt investments	288,007	–	–	288,007
Unquoted debt investments	–	527,947	–	527,947
Derivative liabilities				
Embedded	–	–	168,016	168,016
	₱2,394,567	₱549,020	₱903,851	₱3,847,438

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.

A reconciliation of the beginning and closing balances of Level 3 fair value measurements are summarized below

	2011	2010
At January 1	**₱903,851**	₱493,039
Additions	**876,010**	61,607
Additions through business combination	–	214,610
Disposals	**(229,613)**	–
Recognized in profit or loss	**40,520**	134,595
At December 31	**₱1,590,768**	₱903,851

The sensitivity analysis for the TRG investments cannot be performed because there is no appropriate basis to value these unquoted investments and reference to equity transactions by external parties would be the best approximation of fair value (see Note 8).

The fair value of the embedded put and call option of IMI are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period and PSi's cost of equity as of valuation date.

The following are the estimated changes in the fair values of the embedded derivatives assuming the estimated EBITDA used in the fair value calculation would vary by 5% (amounts in thousands):

	2011	2010
	Increase (Decrease) in net income	Increase (Decrease) in net income
Estimated EBITDA is 5% higher		
Call option	**(₱11,758)**	(₱5,278)
Put option	–	(22,579)
Estimated EBITDA is 5% lower		
Call option	**7,011**	5,890
Put option	–	22,131

The following are the estimated changes in the fair values of the embedded derivatives assuming the cost of equity will change by 5% (amounts in thousands):

	2011	2010
	Increase (Decrease) in net income	Increase (Decrease) in net income
Cost of equity is 5% higher		
Call option	₱–	(₱12,818)
Put option	–	(20,901)
Cost of equity is 5% lower		
Call option	–	17,690
Put option	–	22,687

The embedded call option bifurcated from the MWC ₱4.0 billion bonds was classified under Level 3 because of the use of credit spread as input to its fair value calculation which was assessed by the Group as having a significant impact to its fair value.

The following are the estimated changes in the fair values of the embedded call option on MWC's ₱4.0 billion Bonds using an assumed increase (decrease) in the credit spread (amounts in thousands):

	Changes in Basis Points (bps)	Effect on Income before Income Tax
2010	+25	(₱5,626)
	-25	6,925

Derivatives

	2011	2010
Derivative Assets		
Embedded call options of IMI	**₱119,939**	₱53,153
Embedded call option of MWC	–	214,610
Freestanding currency forwards of IMI	**2,765**	21,073
	₱122,704	₱288,836
Derivative Liabilities		
Embedded put options of IMI	**₱–**	₱168,016
Freestanding currency forwards of IMI	**1,515**	–
	₱1,515	₱168,016

Freestanding Derivatives
In 2011 and 2010, IMI entered into various short-term currency forwards with aggregate nominal amount of US$59.0 million (₱2,586.0 million) and US$27.6 million (₱1,210.0 million), respectively. As of December 31, 2011 and 2010, the outstanding forward contracts have a net positive fair value of US$0.03 million (₱1,250.5 million) and US$0.5 million (₱21,073.7 million). Net fair value gain recognized in 2011, 2010 and 2009 amounted to US$1.2 million (₱52.0 million) US$2.1 million (₱94.2 million) and US$0.2 million (₱7.7 million), respectively (see Note 22).

Embedded derivatives

MWC

₱4.0 billion Bonds Embedded Call Option
MWC has an embedded call option on the ₱4.0 billion Peso Bonds issued on October 22, 2008. The embedded call option gives MWC the right to redeem all but not in part the outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date. On issue date, MWC recognized separately the fair value of the embedded call option, resulting in recognition of a derivative asset and loan premium amounting to ₱210.6 million. The embedded derivative is carried at FVPL while the loan premium is amortized at effective interest rate over the life of the loan.

As of December 31, 2010, the embedded option's fair value is ₱214.6 million and included as part of "Other noncurrent assets" in the consolidated statement of financial position (see Note 8). The mark-to-market gain amounting to ₱70.8 million in 2010 was recognized in the consolidated statement of income. On October 23, 2011, the derivative asset was derecognized upon redemption of the ₱4.0 billion Peso Bonds. The loss recognized due to the derecognition of derivative asset amounted to ₱229.6 million (see Note 22).

IMI

PSi Equity Call and Put Option
As discussed in Note 23, the acquisition of PSi gave rise to a long equity call option and written equity put option for IMI. As of December 31, 2011 and 2010, the call option has a positive value of US$2.7 million (₱119.9 million) and US$1.2 million (₱53.2 million), respectively, while the put option has a zero value and negative value of US$3.8 million (₱168.0 million), respectively. Net fair value gain (loss) on the options amounted to US$5.36 million (₱232.1 million) in 2011 and (US$0.21 million) (₱9.4 million) in 2010. The call option is included as part of "Other current assets" while the the put option is included as part of "Other current liabilities" in the consolidated statement of financial position.

Fair Value Changes on Derivatives
The net movements in fair values of the Group's derivative instruments as of December 31 follow (amounts in thousands):

Derivative Assets

	2011	2010
Balance at beginning of year	**₱288,836**	₱–
Additions through business combination	–	143,815
Initial value of long call option	–	61,607
Net changes in fair value of derivatives	**106,128**	156,323
Translation adjustment	**15,003**	(461)
	409,967	361,284
Fair value of settled instruments	**(287,263)**	(72,448)
Balance at end of year	**₱122,704**	₱288,836

Derivative Liability

	2011	2010
Balance at beginning of year	**₱168,016**	₱–
Initial value of written put option	–	167,467
Net changes in fair value of derivatives	**(166,501)**	724
Translation adjustment	–	(175)
Balance at end of year	**₱1,515**	₱168,016

Net changes in fair value of derivative asets and liabilities was recognized in the consolidated statement of income under "Other Income" (see Note 22).

Financial Risk Management

General

The Ayala Group adopts formal risk management as an essential element of sound corporate governance and an integral part of good management practice. It is designed primarily to have a structured and disciplined approach of aligning strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the uncertainties the Group faces as it creates value for all stakeholders.

Enterprise Risk Management (ERM) policies and activities are in place, in accordance with an internationally recognized framework, which are periodically reviewed and improved to adapt to changes in the business and operating environment, and be responsive to emerging and changing risks. The risk management framework encompasses the identification and assessment of risks, development of risk management strategies, assessment of risk management capabilities, monitoring and evaluating the effectiveness of risk mitigation strategies and management performance, and identification of areas and opportunities for improvement in the risk management activities. The Group aims to strengthen its ERM practices and benchmark with industry best practices to ensure they remain to be relevant and effective as part of the continuous improvement process.

A Chief Risk Officer (CRO) is the ultimate champion of enterprise risk management of the Group and oversees the entire risk management function. On the other hand, the Risk Management Unit provides support to the CRO and is responsible for overall continuity. Under an expanded charter, the Audit and Risk Committee provides a more focused oversight role of the risk management function. Regular management reporting to the Board and/or its Committees of the risk management initiatives and mitigation efforts likewise facilitates the Board's oversight role to risk management activities.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies
The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk,liquidity risk and credit risk. The Group also enters into derivative transactions, the purpose of which is to manage the currency risks arising from its financial instruments.

The Group's risk management policies are summarized below:

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Company's and its subsidiaries' long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2011 and 2010, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of AFS financial assets and financial assets at FVPL).

December 31, 2011

Fair value interest rate risk

	Effect on profit before tax Change in basis points		**Effect on equity Change in basis points**	
	+100 basis points	**-100 basis points**	**+100 basis points**	**-100 basis points**
		(In Thousands)		
FVPL financial assets	**₱–**	**₱–**	**₱–**	**₱–**
AFS financial assets	**–**	**–**	**(25,832)**	**27,391**

Cash flow interest rate risk

	Effect on profit before tax Change in basis points	
	+100 basis points	**-100 basis points**
	(In Thousands)	
Parent Company - floating rate borrowings	**(₱48,563)**	**₱48,563**
Subsidiaries - floating rate borrowings	**(231,242)**	**231,242**
	(₱279,805)	**₱279,805**

December 31, 2010

Fair value interest rate risk

	Effect on profit before tax Change in basis points		Effect on equity Change in basis points	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
		(In Thousands)		
FVPL financial assets	(₱576)	₱578	₱–	₱–
AFS financial assets	–	–	(4,447)	4,508

Cash flow interest rate risk

	Effect on profit before tax Change in basis points	
	+100 basis points	-100 basis points
	(In Thousands)	
Parent Company - floating rate borrowings	(₱50,475)	₱50,475
Subsidiaries - floating rate borrowings	(119,106)	119,106
	(₱170,157)	₱170,159

There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values (in thousands), are shown in the following table:

2011

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	**₱53,524,835**	**₱53,524,835**	**₱–**	**₱–**	**₱53,524,835**
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	**1,613,058**	**1,613,058**	**–**	**–**	**1,613,058**
Accounts and notes receivable	Fixed at the date of investment or revaluation cut-off	Various	**16,183,396**	**7,372,039**	**5,930,444**	**151,585**	**13,454,068**
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	**874,161**	**132,332**	**723,664**	**18,165**	**874,161**
AFS financial asset - Unquoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	**420,000**	**126,053**	**268,905**	**44,113**	**439,071**
			₱72,615,450	**₱62,768,317**	**₱6,923,013**	**₱213,863**	**₱69,905,193**
Company							
Long-term debt							
Fixed							
	Fixed at 7.45% to 7.95%	5 years	**₱5,890,000**	**₱3,009,938**	**₱2,856,066**	**₱–**	**₱5,866,004**
	Fixed at 8.15%	6 years	**1,000,000**	**995,233**	**–**	**–**	**995,233**
	Fixed at 6.70% to 8.40%	7 years	**12,470,000**	**–**	**2,384,395**	**9,988,686**	**12,373,081**
	Fixed at 6.75% to 6.80%	10 years	**11,495,000**	**–**	**–**	**11,393,916**	**11,393,916**
Floating							
	Variable at 0.60% to 0.67% over 3M PDST-R1	3 months	**6,475,000**	**249,940**	**6,215,051**	**–**	**6,464,991**
Subsidiaries							
Short-term debt	Ranging from 1.16% to 4.13%	Monthly, quarterly	**3,347,341**	**3,347,341**	**–**	**–**	**3,347,341**
	Ranging from 3.50% to 8.00%	Monthly, quarterly	**3,318,500**	**3,318,500**	**–**	**–**	**3,318,500**
Long-term debt							
Fixed							
	Fixed at 2.08% to 13.50%	3,5,7,10 and 12 years	**41,204,600**	**2,345,485**	**30,065,253**	**8,394,537**	**40,805,275**
Floating							
	Variable at Libor+0.50% to 3.50%	3 months, semi-annual	**22,402,412**	**873,934**	**17,705,624**	**3,573,968**	**22,153,526**
			₱107,602,853	**₱14,140,371**	**₱59,226,389**	**₱33,351,107**	**₱106,717,867**

2010

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱53,125,220	₱53,125,220	₱–	₱–	₱53,125,220
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	3,993,533	3,993,533	–	–	3,993,533
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Various	404,008	404,008	–	–	404,008
Accounts and notes receivable	Fixed at the date of investment or revaluation cut-off	Various	9,682,862	6,107,831	1,666,651	652,991	8,427,473
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	288,007	–	228,755	59,252	288,007
AFS financial asset - Unquoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	513,912	357,129	170,818	–	527,947
			₱68,007,542	₱63,987,721	₱2,066,224	₱712,243	₱66,766,188
Company							
Long-term debt							
Fixed							
	Fixed at 6.725% to 7.95%	5 years	₱14,955,000	₱65,000	₱14,890,000	₱–	₱14,955,000
	Fixed at 8.15%	6 years	1,000,000	–	1,000,000	–	1,000,000
	Fixed at 6.70% to 8.40%	7 years	1,477,500	7,500	1,470,000	–	1,477,500
	Fixed at 6.75%	10 years	1,496,667	1,667	6,667	1,488,333	1,496,667
	Fixed at 7.20%	7 years	9,800,000	–	–	9,800,000	9,800,000
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	6,730,000	255,000	6,475,000		6,730,000
Subsidiaries							
Short-term debt	Ranging from 1.16% tp 3.72%	Monthly, quarterly	2,035,874	2,035,874	–	–	2,035,874
	Ranging from 3.5% to 8.0%	Monthly, quarterly	2,483,413	2,483,413	–	–	2,483,413
Long-term debt							
Fixed							
	Fixed at 4.57% to9%	3,5,7,10 and 12 years	27,241,778	3,248,671	21,699,076	2,791,029	27,738,776
Floating							
	Variable	3 months, semi-annual	14,912,882	7,659,840	3,901,729	3,557,779	15,119,348
			₱82,133,114	₱15,756,965	₱49,442,472	₱17,637,141	₱82,836,578

Foreign exchange risk
The Group's foreign exchange risk results from movements of the Philippine Peso (₱) against foreign currency. The Group may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its US$ obligations.

IMI Group
The IMI Group's foreign exchange risk results primarily from movements of the U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, IMI Group's consolidated statements of comprehensive income can be affected significantly by movements in the U.S. Dollar versus the Philippine Peso. In 2011 and 2010, IMI Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI Group's functional currency. Approximately 37% and 20% of IMI Group's sales for the years ended December 31, 2011 and 2010, respectively, and 51% and 31% of costs for the years ended December 31, 2011 and 2010, respectively, are denominated in other than IMI Group's functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.

MWC Group
The MWC Group's foreign exchange risk results primarily from movements of the Philippine Peso (PHP) against the United States Dollar (USD) and Japanese Yen (JPY). Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 46% and 52% of debt as of December 31, 2011 and 2010, respectively, was denominated in foreign currency. Under Amendment 1 of the Agreement, however, the Group has a natural hedge on its foreign exchange risks on its loans and concession fee payments through a recovery mechanism in the tariff (see Note 35).

The table below summarizes the Group's exposure to foreign exchange risk as of December 31, 2011 and 2010. Included in the table are the Group's monetary assets and liabilities at carrying amounts, categorized by currency.

	2011		2010	
	US$	**Php Equivalent***	US$	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**US$101,318**	**₱4,441,781**	US$167,622	₱7,348,548
Short term investments	**2,199**	**96,404**	5,404	236,911
Accounts and notes receivables	**78,043**	**3,421,405**	4,572	200,436
Other current assets	**4**	**175**	12	526
Investments	**6**	**263**	–	–
Other noncurrent assets	**2,469**	**108,241**	1,287	56,422
Total assets	**184,039**	**8,068,269**	178,897	7,842,843

(Forward)

	2011		2010	
	US$	**Php Equivalent***	**US$**	**Php Equivalent***
		(In Thousands)		
Liabilities				
Accounts payable and accrued expenses	**US$1,657**	**₱72,643**	US$1,192	₱52,257
Other current liabilities	**–**	**–**	–	–
Short-term debt	**39,440**	**1,729,050**	14,668	643,045
Long-term debt	**258,662**	**11,675,995**	205,448	9,006,840
Service concession obligation	**69,554**	**3,049,247**	57,142	2,505,105
Other noncurrent liabilities	**978**	**42,876**	–	–
Total liabilities	**370,291**	**16,569,811**	278,450	12,207,247
Net foreign currency denominated liabilities	**(US$186,252)**	**(₱8,501,542)**	(US$99,553)	(₱4,364,404)

**Translated using the exchange rate at the reporting date (US$1:₱43.84 in 2011 and 2010).*

	2011		2010	
	JPY	**Php Equivalent***	US$	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY24,802**	**₱13,889**	JPY67,270	₱36,326
Accounts and notes receivable	**137,928**	**77,240**	219,487	118,523
Other noncurrent assets	**2,392**	**1,340**	2,325	1,256
Total assets	**165,122**	**92,469**	289,082	156,105
Liabilities				
Long-term debt	**8,947,369**	**5,010,527**	9,981,073	5,389,779
Service concession obligation	**1,678,875**	**940,170**	740,731	399,995
Total liabilities	**10,626,244**	**5,950,697**	10,721,804	5,789,774
Net foreign currency denominated liabilities	**(JPY10,461,122)**	**(₱5,858,228)**	(JPY10,432,722)	(₱5,633,669)

**Translated using the exchange rate at the reporting date (JPY1:₱0.56 in 2011 and JPY1:₱0.54 in 2010).*

	2011		2010	
	SGD	**Php Equivalent***	SGD	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**SGD4,465**	**₱151,140**	SGD1,301	₱44,169
Accounts and notes receivables	**16**	**542**	244	8,284
Other current assets	**102**	**3,453**	–	–
Investments	**–**	**–**	198	6,722
Other noncurrent assets	**10,169**	**344,221**	10,384	352,537
Total assets	**14,752**	**499,356**	12,127	411,712
Liabilities				
Accounts payable and accrued expenses	**1,802**	**60,998**	5,042	171,176
Other current liabilities	**1,294**	**43,802**	1,295	43,965
Short-term debt	**1,633**	**55,277**	1,682	57,104
Other noncurrent liabilities	**262**	**8,869**	143	4,855
Total liabilities	**4,991**	**168,946**	8,162	277,100
Net foreign currency denominated assets	**SGD9,761**	**₱330,410**	SGD3,965	₱134,612

**Translated using the exchange rate at the reporting date SGD1:₱33.85 in 2011, SGD1:₱33.95 in 2010).*

	2011		2010	
	HKD	**Php Equivalent***	HKD	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**HKD988**	**₱5,582**	HKD1,118	₱6,306
Accounts and notes receivables	**78,479**	**443,406**	97,779	551,474
Investments	**149**	**842**	13,890	78,340
Other current assets	**9,630**	**54,410**	–	–
Total assets	**89,246**	**504,240**	112,787	636,120
Liabilities				
Accounts payable and accrued expenses	**3,436**	**19,413**	6,293	35,493
Net foreign currency denominated assets	**HKD85,810**	**₱484,827**	HKD106,494	₱600,627

**Translated using the exchange rate at the reporting date (HKD1: ₱5.65 in 2011, HKD1: ₱5.64 in 2010).*

	2011		2010	
	RMB	**Php Equivalent***	RMB	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB42,525**	**₱295,549**	RMB31,304	₱207,546
Accounts and notes receivables	**271,962**	**1,890,136**	255,384	1,693,196
Other current assets	**17,377**	**120,770**	–	–
Total assets	**331,864**	**2,306,455**	286,688	1,900,742
Liabilities				
Accounts payable and accrued expenses	**186,654**	**1,297,245**	153,864	1,020,118
Other current liabilities	**38**	**264**	–	–
Total liabilities	**186,692**	**1,297,509**	153,864	1,020,118
Net foreign currency denominated assets	**RMB145,172**	**₱1,008,946**	RMB132,824	₱880,624

**Translated using the exchange rate at the reporting date (RMB1: ₱6.95 in 2011, RMB1: ₱6.63 in 2010).*

	2011		2010	
	INR	**Php Equivalent***	INR	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**INR15,552**	**₱12,924**	INR6,307	₱6,156
Other current assets	**38,723**	**32,179**	10,680	10,424
Other noncurrent asset	**–**	**–**	5,602	5,468
Total assets	**54,275**	**45,103**	22,589	22,048
Liabilities				
Accounts payable and accrued expenses	**71,368**	**59,307**	33,522	32,717
Short term debt	**–**	**–**	2,000	1,952
Long-term debt	**14,951**	**12,424**	8,335	8,135
Other noncurrent liabilities	**15,105**	**12,552**	4,217	4,116
Total liabilities	**101,424**	**84,283**	48,074	46,920
Net foreign currency denominated liabilities	**(INR47,149)**	**(₱39,180)**	(INR25,485)	(₱24,872)

*Translated using the exchange rate at the reporting date *(INR1: ₱0.831 in 2011, INR1: ₱0.976 in 2010).*

	2011		2010	
	THB	**Php Equivalent***	THB	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**THB226**	**₱314**	THB1,840	₱2,686
Accounts and notes receivables	**–**	**–**	(1,591)	(2,323)
Investments	**–**	**–**	9,120	13,315
Other current assets	**41**	**57**	–	–
Other noncurrent assets	**100,875**	**140,216**	120,042	175,261
Total assets	**101,142**	**140,587**	129,411	188,939
Liabilities				
Accounts payable and accrued expenses	**–**	**–**	712	1,040
Net foreign currency denominated assets	**THB101,142**	**₱140,587**	THB128,699	₱187,899

**Translated using the exchange rate at the reporting date (THB1: ₱1.39 in 2011, THB1: ₱1.46 in 2010).*

	2011		2010	
	MYR	**Php Equivalent***	MYR	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**MYR4,674**	**₱64,875**	MYR4,676	₱66,446
Short term investments	**–**	**–**	30	426
Investments	**321**	**4,455**	–	–
Other noncurrent assets	**6,785**	**94,176**	4,410	62,666
Total assets	**11,780**	**163,506**	9,116	129,538
Liabilities				
Accounts payable and accrued expenses	**49**	**680**	89	1,265
Other noncurrent liabilities	**26**	**361**	26	369
Total liabilities	**75**	**1,041**	115	1,634
Net foreign currency denominated assets	**MYR11,705**	**₱162,465**	MYR9,001	₱127,904

**Translated using the exchange rate at the reporting date (MYR1: ₱13.88 in 2011, MYR1: ₱14.21 in 2010).*

	2011		2010	
	EUR	**Php Equivalent***	EUR	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**EUR3,533**	**₱200,816**	EUR505	₱29,305
Accounts and notes receivables	**17,176**	**976,284**	247	14,333
Total assets	**20,709**	**1,177,100**	752	43,638
Liabilities				
Accounts payable and accrued expenses	**10,679**	**606,994**	333	19,324
Other current liabilities	**24,986**	**1,420,204**	–	–
Short-term debt	**13,552**	**770,296**	–	–
Long-term debt	**15,083**	**857,318**	–	–
Other noncurrent liabilities	**188**	**10,686**	–	–
Total liabilities	**64,488**	**3,665,498**	333	19,324
Net foreign currency denominated assets (liabilities)	**(EUR43,779)**	**(₱2,488,398)**	EUR419	₱24,314

**Translated using the exchange rate at the reporting date (EUR1: ₱56.84 in 2011, EUR1: ₱58.03 in 2010).*

	2011	
	CZK	**Php Equivalent***
	(In Thousands)	
Assets		
Cash and cash equivalents	**CZK61**	**₱134**
Accounts and notes receivables	**1,063**	**2,339**
Total assets	**1,124**	**2,473**
Liabilities		
Accounts payable and accrued expenses	**20,420**	**44,924**
Other current liabilities	**4,172**	**9,178**
Short-term debt	**3,042**	**6,692**
Long-term debt	**5,256**	**11,563**
Other noncurrent liabilities	**–**	**–**
Total liabilities	**32,890**	**72,357**
Net foreign currency denominated liabilities	**(CZK31,766)**	**(₱69,884)**

**Translated using the exchange rate at the reporting date (CZK1:₱2.20 in 2011).*

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (amounts in thousands).

2011

Currency	**Increase (decrease) in Peso per foreign currency**	**Increase (decrease) in profit before tax**
US$	₱1.00	**(₱186,252)**
	(1.00)	**186,252**
JPY	1.00	**(10,461,122)**
	(1.00)	**10,461,122**
SGD	1.00	**9,761**
	(1.00)	**(9,761)**
HKD	1.00	**85,810**
	(1.00)	**(85,810)**
RMB	1.00	**145,172**
	(1.00)	**(145,172)**
INR	1.00	**(47,149)**
	(1.00)	**47,149**
THB	1.00	**101,142**
	(1.00)	**(101,142)**
MYR	1.00	**11,705**
	(1.00)	**(11,705)**
EUR	1.00	**(43,779)**
	(1.00)	**43,779**
CZK	1.00	**(31,766)**
	(1.00)	**31,766**

2010

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax
US$	₱1.00	(₱99,553)
	(1.00)	99,553
SGD	1.00	3,965
	(1.00)	(3,965)
JPY	1.00	(10,432,722)
	(1.00)	10,432,722
HKD	1.00	106,494
	(1.00)	(106,494)
RMB	1.00	132,824
	(1.00)	(132,824)
INR	1.00	(25,485)
	(1.00)	25,485
THB	1.00	128,699
	(1.00)	(128,699)
MYR	1.00	9,001
	(1.00)	(9,001)
EUR	1.00	419
	(1.00)	(419)

There is no other impact on the Group's equity other than those already affecting net income.

Equity price risk
AFS financial assets are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, domestic inflation rates, these prices change, reflecting how market participants view the developments. The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity arising from fair valuation of quoted AFS financial assets (amounts in thousands).

2011

Market Index	Change in Variables	Effect on Equity Increase (decrease)
PSEi	**5%**	**₱193,244**
	-5%	**(193,244)**

2010

Market Index	Change in Variables	Effect on Equity Increase (decrease)
PSEi	+5%	₱175,365
	-5%	(175,365)

Liquidity risk
Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult for the Group to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

ALI Group
ALI Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. ALI Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

MWC Group
MWC Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, leases and hire purchase contracts. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through cash collections.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2011 and 2010 based on contractual undiscounted payments.

			2011		
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	**₱29,432,808**	**₱–**	**₱–**	**₱–**	**₱29,432,808**
Accrued expenses	**7,109,950**	–	–	–	**7,109,950**
Accrued project costs	**5,684,761**	–	–	–	**5,684,761**
Dividends payable	**1,831,318**	–	–	–	**1,831,318**
Related parties	**1,226,606**	–	–	–	**1,226,606**
Retentions payable	**1,174,760**	–	–	–	**1,174,760**
Accrued personnel costs	**814,432**	–	–	–	**814,432**
Derivative liability	**1,515**	–	–	–	**1,515**
Service concession liability	**980,620**	**946,375**	**979,431**	**4,991,192**	**7,897,618**
Customers' deposit	**1,340,148**	–	–	–	**1,340,148**
Short-term debt	**6,665,841**	–	–	–	**6,665,841**
Long-term debt (LTD)	**7,421,861**	**19,329,254**	**9,781,964**	**64,403,934**	**100,937,013**
Other noncurrent liabilities	–	**7,299,133**	**455,701**	**1,518,993**	**9,273,827**
	₱63,684,620	**₱27,574,762**	**₱11,217,096**	**₱70,914,119**	**₱173,390,597**

	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
Interest payable on LTD	**₱5,054,350**	**₱4,870,537**	**₱4,002,544**	**₱14,027,950**	**₱27,955,381**

			2010		
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱17,995,363	₱–	₱–	₱–	₱17,995,363
Accrued expenses	9,846,614	–	–	–	9,846,614
Accrued project costs	2,808,045	–	–	–	2,808,045
Dividends payable	2,226,117	–	–	–	2,226,117
Related parties	1,399,199	–	–	–	1,399,199
Accrued personnel costs	557,589	–	–	–	557,589
Retentions payable	119,151	–	–	–	119,151
Derivative liability	168,016	–	–	–	168,016
Service concession liability	794,473	911,529	934,713	5,179,509	7,820,224
Customers' deposit	2,204,010	–	–	–	2,204,010
Short-term debt	4,519,287	–	–	–	4,519,287
Long-term debt (LTD)	11,237,343	11,110,988	18,098,406	37,870,554	78,317,291
Other noncurrent liabilities	–	4,924,193	1,090,429	3,053,086	9,067,708
	₱53,875,207	₱16,946,710	₱20,123,548	₱46,103,149	₱137,048,614

	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
Interest payable on LTD	₱4,193,819	₱4,063,511	₱3,391,864	₱5,214,882	₱16,864,076

Cash and cash equivalents, short-term investments, financial assets at FVPL and AFS debt investments are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section. AFS unquoted debt investments with maturity of more than a year from December 31 are marketable securities and could be sold as and when needed prior to its maturity in order to meet the Group's short-term liquidity needs.

Credit risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures.

<u>ALI Group</u>
For installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant as titles to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

<u>IMI Group</u>
The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

<u>MWC Group</u>
It is the Group's policy that except for connection fees and other highly meritorious cases, the Group does not offer credit terms to its customers. Credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and short-term investments and AFS financial assets, the Group's exposure to credit risk arises from default fo the counterparty, with a maximum exposure equal to the carrying amount of the investments.

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting arrangements or collateral agreements.

	2011	2010
	(In Thousands)	
Cash and cash equivalents	**₱53,524,835**	₱53,125,220
Short-term investments	**1,613,058**	3,993,533
Financial assets at FVPL	**1,470,829**	872,080
Derivative assets	**122,704**	288,836
Accounts and notes receivables		
Trade		
Real estate	**18,674,261**	13,653,812
Electronics manufacturing	**5,535,763**	4,186,876
Water utilities	**667,121**	526,558
Automotive	**498,972**	833,041
Information technology and BPO	**88,286**	59,897
International and others	**2,426**	2,703
Advances to other companies	**2,966,508**	3,506,446
Related parties	**2,700,637**	2,076,515
Dividends receivables	**815,220**	318,279
Receivable from BWC	**599,342**	–
Investment in bonds classified as loans and receivables	**200,000**	200,000
Other receivables	**1,627,326**	1,036,842
AFS financial assets		
Quoted equity investments	**992,612**	1,702,552
Unquoted equity investments	**1,439,324**	2,692,960
Quoted debt investments	**874,161**	288,007
Unquoted debt investments	**439,071**	527,947
Total credit risk exposure	**₱94,852,456**	₱89,892,104

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2011

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	**₱16,118,809**	**₱718,215**	**₱466,170**	**₱285,440**	**₱187,830**	**₱867,490**	**₱2,525,145**	**₱277,731**	**₱18,921,685**
Electronics manufacturing	**4,646,243**	**492,454**	**168,404**	**53,159**	**27,377**	**148,126**	**889,520**	**92,797**	**5,628,560**
Water utilities	**309,182**	**347,096**	**55,170**	**82,763**	**75,914**	**173,272**	**734,215**	**42,992**	**1,086,389**
Automotive	**233,644**	**109,822**	**77,627**	**37,640**	**15,829**	**24,410**	**265,328**	**36,003**	**534,975**
Information technology and BPO	**34,482**	**47,824**	**5,276**	**2,535**	**2,040**	**–**	**57,675**	**25,148**	**117,305**
International and others	**1,950**	**–**	**476**	**–**	**–**	**–**	**476**	**67**	**2,493**
Advances to other companies	**2,834,066**	**66,537**	**36,916**	**37,146**	**54,960**	**77,021**	**272,580**	**140,516**	**3,247,162**
Related parties	**2,425,677**	**40,218**	**18,149**	**12,150**	**10,717**	**171,398**	**252,632**	**22,456**	**2,700,765**
Dividend receivable	**815,220**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**815,220**
Receivable from officers and employees	**646,786**	**51,627**	**8,030**	**1,667**	**1,132**	**15,087**	**77,543**	**14,220**	**738,549**
Receivable from BWC	**599,342**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**599,342**
Investment in bonds classified as loans and receivables	**200,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**200,000**
Others	**1,594,147**	**733**	**–**	**–**	**–**	**32,446**	**33,179**	**–**	**1,627,326**
Total	**₱30,459,548**	**₱1,874,526**	**₱836,218**	**₱512,500**	**₱375,799**	**₱1,509,250**	**₱5,108,293**	**₱651,930**	**₱36,219,770**

December 31, 2010

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	₱11,039,146	₱681,668	₱442,056	₱340,243	₱294,771	₱769,707	₱2,528,445	₱331,280	₱13,898,871
Electronics manufacturing	3,484,362	178,400	106,854	51,722	40,768	324,770	702,514	28,183	4,215,059
Water utilities	386,210	242,446	18,693	34,311	57,340	205,608	558,398	61,474	1,006,082
Automotive	631,379	81,328	25,184	38,430	24,686	32,034	201,662	36,516	869,557
Information technology and BPO	55,068	1,603	2,073	470	683	–	4,829	7,330	67,227
International and others	2,703	–	–	–	–	–	–	67	2,770
Advances to other companies	3,039,325	94,592	92,574	90,953	25,251	163,751	467,121	87,186	3,593,632
Related parties	1,850,756	109,376	35,399	8,236	6,034	66,714	225,759	122,676	2,199,191
Dividend receivable	318,279	–	–	–	–	–	–	–	318,279
Receivable from officers and employees	817,186	20,745	1,289	1,310	753	11,881	35,978	1,149	854,313
Investment in bonds classified as loans and receivables	200,000	–	–	–	–	–	–	–	200,000
Others	1,036,824	–	–	–	–	18	18	39,657	1,076,499
Total	₱22,861,239	₱1,410,158	₱724,122	₱565,675	₱450,286	₱1,574,483	₱4,724,724	₱715,518	₱28,301,481

The table below shows the credit quality of the Group's financial assets as of December 31, 2011 and 2010 (amounts in thousands):

December 31, 2011

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱53,524,835	₱–	₱–	₱53,524,835	₱–	₱–	₱53,524,835
Short-term investments	1,613,058	–	–	1,613,058	–	–	1,613,058
FVPL financial assets	1,470,829	–	–	1,470,829	–	–	1,470,829
Accounts and notes receivables							
Trade							
Real estate	13,834,616	1,463,154	821,039	16,118,809	2,525,145	277,731	18,921,685
Electronics manufacturing	4,247,002	284,263	114,978	4,646,243	889,520	92,797	5,628,560
Water utilities	171,249	137,933	–	309,182	734,215	42,992	1,086,389
Automotive	201,599	32,045	–	233,644	265,328	36,003	534,975
Information technology and BPO	34,482	–	–	34,482	57,675	25,148	117,305
International and others	689	1,261	–	1,950	476	67	2,493
Advances to other companies	2,551,047	3,856	279,163	2,834,066	272,580	140,516	3,247,162
Related parties	1,901,980	4,713	518,984	2,425,677	252,632	22,456	2,700,765
Dividend receivable	815,220	–	–	815,220	–	–	815,220
Receivable from BWC	599,342	–	–	599,342	–	–	599,342
Receivable from officers employees	452,365	4,235	190,186	646,786	77,543	14,220	738,549
Investments in bonds classified as loans and receivables	200,000	–	–	200,000	–	–	200,000
Other receivable	1,593,904	–	243	1,594,147	33,179	–	1,627,326
AFS Investments							
Quoted shares of stocks	992,612	–	–	992,612	–	–	992,612
Unquoted shares of stocks	1,439,324	–	–	1,439,324	–	–	1,439,324
Quoted debt investments	874,161	–	–	874,161	–	–	874,161
Unquoted debt investments	439,071	–	–	439,071	–	–	439,071
	₱86,957,386	₱1,931,460	₱1,924,593	₱90,813,438	₱5,108,293	₱651,930	₱96,573,661

December 31, 2010

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱53,125,220	₱–	₱–	₱53,125,220	₱–	₱–	₱53,125,220
Short-term investments	3,993,533	–	–	3,993,533	–	–	3,993,533
FVPL financial assets	872,080	–	–	872,080	–	–	872,080
Accounts and notes receivables							
Trade							
Real estate	8,049,691	1,577,103	1,412,352	11,039,146	2,528,445	331,280	13,898,871
Electronics manufacturing	3,248,723	199,593	36,046	3,484,362	702,514	28,183	4,215,059
Water utilities	264,449	121,761	–	386,210	558,398	61,474	1,006,082
Automotive	602,645	–	28,734	631,379	201,662	36,516	869,557
Information technology and BPO	55,068	–	–	55,068	4,829	7,330	67,227
International and others	2,449	254	–	2,703	–	67	2,770
Advances to other companies	2,301,575	717,437	20,313	3,039,325	467,121	87,186	3,593,632
Related parties	1,696,047	150,193	4,516	1,850,756	225,759	122,676	2,199,191
Receivable from officers and employees	757,005	3,103	57,078	817,186	35,978	1,149	854,313
Dividend receivable	318,279	–	–	318,279	–	–	318,279
Investments in bonds classified as loans and receivables	200,000	–	–	200,000	–	–	200,000
Other receivable	1,028,675	8,149	–	1,036,824	18	39,657	1,076,499
AFS Investments							
Quoted shares of stocks	1,702,552	–	–	1,702,552	–	–	1,702,552
Unquoted shares of stocks	2,692,960	–	–	2,692,960	–	–	2,692,960
Quoted debt investments	288,007	–	–	288,007	–	–	288,007
Unquoted debt investments	527,947	–	–	527,947	–	–	527,947
	₱81,726,905	₱2,777,593	₱1,559,039	₱86,063,537	₱4,724,724	₱715,518	₱91,503,779

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, FVPL financial assets, quoted AFS financial assets,investment in bonds classified as loans and receivable,advances to other companies and related party receivables
High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, investment in bonds classified as loans and receivable, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short-term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet their obligation.

Low grade pertains to financial assets with the probability to be impaired based on the nature of the counterparty.

Trade receivables
Real estate, information technology and BPO and international and others - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment in the past; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade or transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

Water utilities - high grade pertains to receivables that are collectible within 7 days from bill delivery; medium grade pertains to receivables that are collectible from 11 to 30 days from bill delivery.

Automotive - high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Unquoted AFS financial assets - the unquoted investments are unrated.

32. Registration with the Philippine Export Zone Authority (PEZA) and Board of Investments (BOI) Incentives

Some activities of certain subsidiaries are registered with the PEZA. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

On February 9, 2010, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Celadon Park Tower 2, Felix Huertas Street, Manila in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from February 2010.

On March 23, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Laguna, Brgy. Barandal, Calamba City, Laguna. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of four (4) years commencing from March 2011.

On December 13, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Avida Towers Cebu Tower 1, Asiatown I.T. Park, Lahug, Cebu City. The project has been granted an Income Tax Holiday for a period of four (4) years commencing from December 2011.

On December 14, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Avida Towers San Lazaro Tower 5, Lot 5 E Block 50 C Pista St., Brgy. 350, Zone 035 Sta. Cruz, Manila , Avida Towers Cebu Tower 2, Asiatown I.T. Park, Lahug, Cebu City and Avida Towers Sucat Tower 7, Dr. A. Santos Ave., Brgy. San Dionisio, Parañaque City. The projects have been granted an Income Tax Holiday for a period of three (3) years commencing from December 2011.

33. Note to Consolidated Statements of Cash Flows

The Group's major noncash investing activities in 2011 are as follows:

- Exchange of interest in ARCH Capital for additional interest in TRG shares (see Note 11).
- Recognition of contingent consideration arising from the acquisition of wind power companies amounting to ₱397.0 million (see Note 23).
- Issuance of 200 million of IMI Philippines' shares in exchange for EPIQ shares (see Note 23).
- Declaration of a 20% stock dividend on all common stockholders of the Company.
- Conversion of notes receivable amounting to ₱47.5 million into Series G Preferred shares of stock of an investee company classified as investments in bonds and other securities.
- Certain investment properties with an aggregate carrying value of ₱15.1 million were donated by the Group to various organizations.

Details of the decrease in consolidated net assets resulting from the deconsolidation of Integreon in 2010 follows:

	In US$	In Php*
	(In Thousands)	
Assets		
Cash and cash equivalents	US$1,262	₱58,691
Accounts receivable - net	17,182	798,947
Other current assets	3,905	181,573
Intangible assets	43,348	2,015,689
Property, plant and equipment	6,572	305,601
Other noncurrent assets	4,328	201,283
Total	76,597	3,561,784
Liabilities		
Accounts payable and accrued expenses	12,976	603,369
Short term debt	33,326	1,549,661
Long term debt	2,672	124,258
Other current liabilities	3,057	142,158
Total	52,031	2,419,446
Net assets	US$24,566	₱1,142,338

**Translated using the exchange rate at the transaction date (US$1:₱46.50)*

The Group's noncash investing activity in 2009 pertains to the loans receivable from EGS Corp. that were transferred to Stream as part of the Agreement amounting to ₱1,699.6 million (US$35.8 million).

34. **Interest in a Joint Venture**

MDC has a 51% interest in MDC-First BalFour, Inc. JV (the Joint Venture), a jointly controlled operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig.

The Project, which started on January 31, 2007, is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 square meters, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation. The project was completed on October 30, 2009. Activities in 2011 and 2010 mainly pertain to winding down operations and punch listing works.

The share in the assets, liabilities, income and expenses of the Joint Venture at December 31, 2011 and 2010 and for the years then ended, which are included in the consolidated financial statements follow:

	2011	2010
	(In Thousands)	
Current assets		
Cash and cash equivalents	**₱24,622**	₱30,384
Receivables	–	130,928
Amounts due from customers for contract work	**10,582**	8,415

(Forward)

	2011	2010
Other current assets	**₱54,809**	₱53,780
Property and equipment - net	**–**	1
Total assets	**₱90,013**	₱223,508
Total liabilities	**₱66,968**	₱109,349

The following is the share of the MDC on the net income (loss) of the Joint Venture:

	2011	2010
	(In Thousands)	
Revenue from construction contracts	**₱2,069**	₱20,841
Contract costs	**(9,687)**	(31,702)
Interest and other income	**2,490**	4,833
Income (loss) before income tax	**(5,128)**	(6,028)
Provision for income tax	**(148)**	(115)
Net income (loss)	**(₱5,276)**	(₱6,143)

The Joint Venture's Management Board declared and paid cash dividends amounting to ₱185.3 million in 2010. Based on 51% share, MDC received ₱94.5 million cash dividends in 2010.

Provision for income tax pertains to the final tax on interest income.

35. **Commitments**

The Company

On November 21, 2006, the Company acted as guarantor to a US$150 million transferable term loan facility between AYCFL as borrower and several lenders. The facility has an outstanding balance of US$105.0 million as of December 31, 2010 and was fully paid by AYCFL on November 21, 2011.

On April 15, 2008, the Company acted as guarantor to a US$50.0 million transferable term loan facility between AYCFL as borrower and several lenders. The facility was fully drawn and with outstanding balance of US$45.0 million and US$50.0 million as of December 31, 2011 and 2010.

On August 14, 2009, the Company acted as guarantor to a US$20.0 million revolving credit facility between AYCFL as borrower and a foreign bank. As of December 31, 2011, AYCFL has not made any drawdown from the credit facility with the foreign bank.

On February 2, 2010, the Company acted as guarantor to a US$150.0 million transferable term loan facility between AYCFL as borrower and a foreign bank. As of December 31, 2010, AYCFL has not made any drawdown from the term loan facility with the foreign bank. AYCFL's commitment to the facility was terminated on Februrary 2, 2011.

On December 16, 2010, the Company acted as guarantor to a US$260.0 million transferable term loan facility between AYCFL as borrower and several lenders. As of December 31, 2011, AYCFL has made a drawdown amounting to US$100.0 million from the term loan facility with the foreign bank.

On March 28, 2011, the Company acted as guarantor to a US$150 million transferable term loan facility between AYCFL as borrower and several lenders. As of December 31, 2011, AYCFL has not made any drawdown from the term loan facility with the foreign bank.

ALI

On January 28, 2011, a notice was given to the ALI for the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. ALI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for a 58,000 square meters another 25 years by mutual agreement. The project involves the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of Headquarter-and-BPO-type buildings with an estimated 8,000 square meters of office space.

ALI has signed a 50-year lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City.

On October 27, 2006, an ALI subsidiary entered into a land lease agreement with a third party for a term of 25 years. The lease generally provides for a monthly rent based on a certain percentage of gross revenue.

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to a subsidiary, in exchange for equity.

As part of the bid requirement, ALI procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the subsidiary obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

NTDCC was assigned development rights over certain areas of the MRT Depot in Quezon City by MRT Development Co. to construct and operate a commercial center under certain terms and conditions until the end of a 50-year development period renewable for another 25 years. NTDCC was primarily organized to own and operate the commercial center atop the MRT Depot. NTDCC officially started the construction of the shopping center, now known as TriNoma, in 2005 and became operational on May 16, 2007.

On October 18, 2010, ALI undertook to cause the planning, developing and construction of Anvaya Golf and Sports Club, Inc.'s leisure and recreational facilities. ALI shall ensure the development and construction by second quarter of the year 2013 for an estimated total development cost of ₱920.0 million.

MWC

<u>MWC's Concession Agreement (Agreement)</u>

The significant commitments of MWC under the Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS amounting to US$70.0 million in favor of MWSS as a bond for the full and prompt performance of MWC's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70
Second (January 1, 2003 - December 31, 2007)	70
Third (January 1, 2008 - December 31, 2012)	60
Fourth (January 1, 2013 - December 31, 2017)	60
Fifth (January 1, 2018 - December 31, 2022)	50
Sixth (January 1, 2013 - December 31, 2027)	50
Seventh (January 1, 2028 - December 31, 2032)	50
Eighth (January 1, 2033 - May 6, 2037)	50

Within 30 days from the commencement of each renewal date, MWC shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.

Upon not less than 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100 million to ₱395 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with MWC);

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. To ensure that at all times, MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

Failure of MWC to perform any of its obligations that is deemed material by MWSS-RO may cause the Agreement to be terminated.

LAWC's Concession Agreement
The significant commitments of LAWC under its concession agreement with POL are as follows:

a. To pay POL concession fees;

b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;

c. To design, construct and commission the new facilities during the cooperation period;

d. To provide and manage the services;

e. To bill and collect payment from the customer for all services;

f. To extract raw water exclusively from all sources of Raw Water; and

g. To negotiate in good faith with POL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

BIWC's Concession Agreement
The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. To pay concession fees, subject to the following provisions:

    i. Assumption of all liabilities of the BWSS as of Commencement Date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within the Boracay island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;

    ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;

iii. Provision of the amount of the TIEZA BOD's approved budget in 2010, payable in 4 installments at the first month of each quarter and not exceeding:

Month	Maximum Amount
January	₱5,000,000
April	4,000,000
July	3,000,000
October	3,000,000

iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	20,000,000, subject to annual CPI adjustments

c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;

d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

f. To operate, maintain, repair, improve, renew and as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);

g. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and

h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US$2.5 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.5
Second	2.5
Third	1.1
Fourth	1.1
Fifth	1.1

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

Upon not less than 10 days written notice to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

<u>CWC's Concession Agreement</u>
The significant commitments of CWC under its concession agreement with CDC are follows:

a. To pay franchise and rental fees of CDC;

b. Finance, design, and construct the New Facilities - defined as any improvement and extension works to (i) all Existing Facilities - defined as all fixed and movable assets specifically listed in the Concession Agreement; (ii) the Construction Work - defined as the scope of construction work set out in the Concession Agreement; and (iii) other new works that do not constitute refurbishment or repair of Existing Facilities undertaken after the Commencement Date;

c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the Existing Facilities, except for the private deep wells set out in the Concession Agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the Company; and manage, own, operate, repair, maintain, decommission and refurbish the New Facilities;

d. Treat raw water and wastewater in CFZ;

e. Provide and manage all water and wastewater related services (the Services) like assisting locator of relocating of pipes and assess internal leaks;

f. Bill and collect payment from all persons residing in CFZ (with the exception of SM City Clark) for the Services. SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

MWC Management Contracts

Vietnam Project
On July 22, 2008, MWC entered into a Performance-Based Leakage Reduction and Management Services Contract with Saigon Water Corporation. The contract involves the following components:

a. General requirements;
b. District Metering Area establishment;

c. Leakage reduction and management services;
d. System expansion work;
d. Emergency and unforseen works; and
e. Daywork schedule

In 2011 and 2010, total revenue from the Vietnam Project amounted to ₱162.5 million and ₱72.8 million, respectively. Total costs related to the Vietnam Project amounted to ₱171.7 million and ₱93.9 million in 2011 and 2010, respectively.

India Project
On May 25, 2007, MWC entered into a Secondment Agreement with Mahindra Water Utilities Limited relating to water management. Total revenue and costs related to the India Project in 2010 amounted to ₱2.1 million and ₱4.2 million, respectively.

Cebu Project
Following the execution of the Memorandum of Understanding on January 29, 2009, the Governor of Cebu Province has accepted the unsolicited proposal of the consortium of the MWC and Stateland, Inc. for a joint venture or investment with the Provincial Government of Cebu for the development of a treated bulk water supply project in the province of Cebu.

On February 3, 2012, Provincial Government of Cebu awarded the project. The project aims to deliver in bulk to the province of Cebu treated surface water extracted from the Luyang River in the town of Carmen (see Note 38).

MWC contracts with the Maynilad Water Services, Inc. (Maynilad)

In relation to the Concession Agreement with MWSS, MWC entered into the following contracts with Maynilad:

a. Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.

b. Joint Venture Arrangement that will operate, maintain, renew, and as appropriate, decommission common purpose facilities, and perform other functions pursuant to and in accordance with the provisions of the Agreement and perform such other functions relating to the concession (and the concession of the West Zone Concessionaire) as the Concessionaires may choose to delegate to the joint venture, subject to the approval of MWSS.

c. In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Project). Total loan facility is US$116,602,000 with maturity of 20 years including 5 years grace period. Interest rate is 3% per annum. MWSS then entered into a Memorandum of Agreement with MWC and Maynilad for MWC and Maynilad to shoulder equally the repayment of the loan, to be part of the concession fees.

36. **Contingencies**

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations.

MWC
On October 13, 2005, the Municipality of Norzagaray, Bulacan jointly assessed the MWC and Maynilad Water Services, Inc. (the "Concessionaires") for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. It is the position of the Concessionaires that these properties are owned by the Republic of the Philippines and that the same are exempt from taxation.

Total provisions for real property taxes arising from the property in Bulacan and other municipalities, based on the delinquency notice received, amounted to ₱570.0 million for the year 2011.

The Group is contingently liable for lawsuits or claims filed by third parties (substantially labor-related and civil cases) which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. The Group has been advised by its internal and outside counsels that it is possible, but not probable, that the actions will succeed and accordingly, no provision for probable losses on these cases was recognized.

37. **Assets Held in Trust**

MWSS
MWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or MWC.

The Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to MWC on Commencement Date based on MWSS' closing audit report amounted to ₱4.6 billion with a sound value of ₱10.4 billion.

A re-appraisal of the MWSS facilities mentioned above as of December 31, 2004 was conducted by Cuervo Appraisers. The final appraisal report was submitted last November 2006 showing a total reproduction cost of ₱27.0 billion with a sound value of ₱17.2 billion.

In 2009, MWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of the MWSS assets on record as of December 31, 2008. Total reproduction cost as of December 31, 2008 amounted to ₱37.7 billion with a sound value of ₱22.9 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On October 27, 2006, MWC has renewed the lease for 5 years, with expiry of October 27, 2011. Rent expense amounted to ₱16.80 million in 2010. These are included under "Rental and utilities" in the consolidated statement of income.

POL
LAWC is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with POL. The legal title of all property in existence at the commencement date shall be retained by POL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to POL in its then condition at no charge to POL or LAWC.

TIEZA
BIWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to TIEZA in its then-current condition at no charge to TIEZA or MWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.3 million.

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38. **Renewable Energy Act of 2008**

Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective on January 30, 2009. The Act aims to:
(a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to

almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems,and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, Renewable Energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the Department of Energy (DOE), in consultation with the Board of Investments, shall be entitled to the following incentives, among others:

i. Income Tax Holiday (ITH) - For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;

ii. Duty-free Importation of RE Machinery, Equipment and Materials - Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;
iii. Special Realty Tax Rates on Equipment and Machinery - Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed one and a half percent (1.5%) of their original cost less accumulated normal depreciation or net book value;
iv. NOLCO - the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;
v. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of ten percent (10%) on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;
vi. Accelerated Depreciation - If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;
vii. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy shall be subject to zero percent (0%) VAT;
viii. Cash Incentive of RE Developers for Missionary Electrification - An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to fifty percent (50%) of the universal charge for power needed to service missionary areas where it operates the same;
ix. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and
x. Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass will be promulgated which shall include, but not limited to, the following:

a. Priority connections to the grid for electricity generated from emerging renewable energy resources;
b. The priority purchase and transmission of, and payment for, such electricity by the grid system operators; and
c. Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years.

The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in the Act and in accordance with the rules to be promulgated by ERC in consultation with the National Renewable Energy Board.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act. On May 25, 2009, the DOE issued the Implementing Rules and Regulations of the Act which became effective on June 12, 2009.

ACEHI and its subsidiaries expect that the Act will impact their future operations and financial results. The impact of the Act will be disclosed as the need arises.

Northwind
On January 18, 2010, Northwind filed its intent with the REMB for the conversion of its Negotiated Commercial Contract into Wind Energy Service Contract and Registration as RE Developer as provided for under the Act. On November 9, 2010, the DOE issued a Provisional Certificate of Registration as an RE Developer in favor of Northwind, subject to negotiation and execution of a Wind Energy Service Contract to replace the Negotiated Commercial Contract.

On April 6, 2011, Northwind filed with the ERC an application for a FiT. The FiT will provide for a fixed rate per kilowatt of electricity produced over a period of fifteen years. On June 6, 2011, the ERC granted Northwind a provisional FiT rate of ₱9.30 per kilowatt hour which shall be effective and collected only upon the final approval of the FiT for emerging renewable energy technologies, specifically for wind energy.

39. Events after the Reporting Period

a. On January 4, 2012, MWC received a letter from JMWD stating that JMWD requires infusion of additional funding of INR5 million for meeting its existing liabilities. It was agreed that the further funding requirement shall be met through infusion of additional equity of Php 2.5 million each by MWC and JITF Water. On January 6 and 18, 2012, MWC infused additional equity to JMWD amounting to ₱2.04 million and ₱0.98 million, respectively.

b. On February 3, 2012, the Provincial Government of Cebu has awarded to Manila Consortium (composed of MWC, Vicsal Development Corporation and Stateland, Inc.) the development, operation, and maintenance of a bulk water system (“Project”) in the Province of Cebu.

   With the issuance of the award, the Provincial Government of Cebu and Manila Water Consortium shall negotiate and execute a joint investment agreement with 49% - 51% equity participation, respectively. The Project shall supply 35 million liters per day of potable bulk water sourced from the Luyang River in the Municipality of Carmen. The Project will partly provide for the water demands in the northern and central portions of the province.

   The Project is not more than 10% of the total assets of the MWC.

c. On February 20, 2012, the ALI’s BOD approved the following restructuring exercise in order to comply with the regulatory requirement on Filipino-ownership following the Supreme

Court's ruling that nonvoting shares do not count as equity when computing for a company's Filipino-ownership level:

i. Redemption and retirement of the 13.0 billion outstanding preferred shares.
ii. Reclassification of the 1.97 billion unissued preferred shares to voting preferred shares through an amendment of Article Seventh of the Articles of Incorporation.
iii. Increase in unauthorized capital stock by ₱1.3 billion through additional voting preferred shares and stock rights offer of 13.0 billion voting preferred share from the increase in the authorized capital stock.

ALI's BOD also approved the issuance of bonds in the amount of up to ₱15.0 billion which are to be registered with SEC. It will have tenors of seven and ten years. Net proceeds will be used to partially finance the Group's planned capital expenditure for 2012.

d. On March 14, 2012, the Company's BOD approved the offer and issuance of Fixed Rate Bonds with the principal amount of ₱8.0 billion up to ₱10.0 billion subject to the registration requirements of the SEC.

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Ayala Corporation
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ayala Corporation and its Subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated March 14, 2012. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Schedules A to K listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174587, January 2, 2012, Makati City

March 14, 2012

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS (part 1)
As of December 31, 2011
(in thousand Pesos)

Name of Issuing entity & association of each issue	Number of shares or principal amount of bonds & interest	Amount shown in the balance sheet	Valued based on market quotation at balance sheet date	Income received & accrued
A. OTHER SHORT-TERM CASH INVESTMENTS 1/				
Special Savings Account				
BPI		4,883,004		
Other Banks		4,321,993		
Sub-Total		**9,204,996**		
Time Deposits (FX)				
BPI		4,410		
Others		400,128		
Sub-Total		**404,537**		
Time Deposits (Peso)				
BPI		7,714,868		
Metrobank		23,145		
Unionbank		23,640		
Others		408,201		
Sub-Total		**8,169,855**		
Money Market Placements (FX)				
Banco de Oro		485,513		
BPI		3,553,623		
Union Bank		18,019		
RCBC		92,064		
Citibank		15,137		
Union Bancaire Privee		100,832		
Chinabank		140,288		
Bank of Tokyo		15,344		
Mizuho Bank		45,317		
OTHERS		206,628		
Sub-Total		**4,672,763**		
Money Market Placements (Peso)				
BPI		12,468,398		
Banco de Oro		2,383,465		
Metrobank		1,240,864		
Chinabank		117,741		
Security Bank		66,209		
RCBC		30,000		
Others		2,088,749		
Sub-Total		**18,395,426**		
Others		**3,944,934**		
Total		**44,792,512**		**2,490,388**
B. SHORT-TERM INVESMENTS 2/		**NOT APPLICABLE**		
C. CURRENT MARKETABLE SECURITIES 3/		**NOT APPLICABLE**		

1/ Short-term highly liquid investments with varying periods up to three months shown as part of the Cash and Cash Equivalents account in the Balance Sheet. Cash equivalents is 13% of the P357,626,596k total assets as of December 31, 2011.

2/ Money market placements with varying maturity periods of more than three months and up to six months amounting to P1,613,058k is 0.5% of the P357,626,596k total assets as of December 31, 2011. This is booked under the Short-term investment account.

3/ Current marketable securities are composed of financial assets at FVPL amounting to P1,470,829k. This is shown under the other current assets account and is 0.4% of the P357,626,596k total assets as of December 31, 2011.

SCHEDULE A - FINANCIAL ASSETS **(part 2)**

NAME OF COMPANY	BEG BALANCE	ADDITIONS	DEDUCTIONS	ENDING BALANCE	Income received/ accrued
INVESTMENTS IN BONDS & OTHER SECURITIES					
AFS financial assets:					
Quoted equity investments:					
IMA	683,186		(3,095)	680,091	
Others	1,019,366		(706,845)	312,521	
	1,702,552	-	(709,940)	992,612	
Unquoted equity investments:					
Rohatyn Group (SOF & GOF)	1,279,985		(603,338)	676,647	
City Sports Club Cebu, Inc.	164,611			164,611	
Tech Ventures	37,338		(1,180)	36,158	
Red River Holdings	393,579		(110,924)	282,655	
Glory High	25,970			25,970	
Isuzu Philippines Inc.	69,049	320		69,369	
Anvaya Golf Club	149,345		(147,391)	1,954	
Anvaya Beach Club	204,984		(204,984)	-	
Others	368,099		(186,139)	181,960	
	2,692,960	320	(1,253,956)	1,439,324	
Quoted debt investments:					
Treasury bonds	228,754		(1,411)	227,343	
RTBN	-	31,060	(129)	30,931	
FXTN	-	583,144	(48,445)	534,699	
NATPOW		11,600		11,600	
Others	59,253	10,335		69,588	
	288,007	636,139	(49,985)	874,161	
Unquoted debt investments:					
BPI-LTNCD	104,436		(5,205)	99,231	
Globe Bonds	104,181		(2,780)	101,401	
Napocor Bond 2011	99,660		(99,660)	-	
Tier 2 Note	85,110	158		85,268	
SMIC Bond	53,862	792		54,654	
United Utilities	78,101		(1,065)	77,036	
Others	2,597	18,884		21,481	
	527,947	19,834	(108,710)	439,071	
TOTAL Current and Noncurrent Portion	**5,211,466**	**656,293**	**(2,122,591)**	**3,745,168**	
Less current portion:	**(357,129)**	**-**	**357,129**	**-**	
TOTAL-INVESTMENTS IN BONDS & OTHER SECURITIES	**4,854,337**	**656,293**	**(1,765,462)**	**3,745,168**	

AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

As of December 31, 2011

(in thousand Pesos)

Account Type	Beginning Balance	Additions	Deductions	Ending Balance	Current	Non-current	Payment period
Advances To Employees	414,649	411,509	597,345	228,814	228,814	-	30 days to 1 year
Special Loan (e.g. Calamity loan)	129,178	84,707	95,165	118,721	96,319	22,402	6 months to 1 year
Computer/Appliance Loan	23,038	60,206	48,408	34,836	34,836	-	6 months to 1 year
Housing and Related Loan	5,968	15,574	17,189	4,353	4,018	335	1 year to 15 years
Salary Loan	7,470	40,859	46,096	2,233	2,233	-	6 months to 1 year
Others	168,049	244,298	142,583	269,763	163,329	106,435	6 months to 1 year
Car and Related Loan	105,961	247,665	273,796	79,829	44,903	34,927	1 year to 5 years
TOTAL	**854,313**	**1,104,819**	**1,220,582**	**738,549**	**574,451**	**164,098**	

Receivable from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 6% to 13.5% per annum and have various maturity dates ranging from 2012 to 2026.

AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE C-a - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

As of December 31, 2011

(In thousand pesos)

Creditor	Creditor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Other Receivables
AC		Other receivable	-	-	-	Rental fees, with interest on overdue accounts
AC		Other receivable	733,333	-	733,333	Advances to purchase MWCI shares, non-interest bearing
AC		Dividends receivable	5,000	-	5,000	
AC		Other receivable	36,471	(22,339)	14,132	Advances, non-interest bearing
AC		Other receivable	36,307	6,695	43,001	Deposits on future subscriptions, non-interest bearing
AC		Other receivable	46,383	71,985	118,368	Deposits on future subscriptions, non-interest bearing
AC		Other receivable	-	21,247	21,247	Deposits on future subscriptions, non-interest bearing
AC		Dividends receivable	-	220,000	220,000	
ACIFL	Subsidiary	Other receivable	3,501,931	-	3,501,931	Non-interest bearing receivable, due and demandable
AGCC	Subsidiary	Trade receivable	2,339	(1,685)	654	Legal service fees, non-interest bearing
AGCC	Subsidiary	Trade receivable	66	(2)	64	Legal service fees, non-interest bearing
ALI	Subsidiary	Other receivable	-	6	6	
ALI	Subsidiary	Other receivable	-	-	-	Advances for projects, interest-bearing
ALI	Subsidiary	Other receivable	-	1,835	1,835	Reimbursement of communication costs
ALI	Subsidiary	Other receivable	46,407	(1,644)	44,763	Advances, non-interest bearing
ALI	Subsidiary	Other receivable	222,823	123,967	346,790	Retention accounts for construction projects
AYC	Subsidiary	Other receivable	1,207,880	(687,850)	520,030	Non-interest bearing receivable, due and demandable
AYC	Subsidiary	Other receivable	2,577,262	6,751	2,584,014	Non-interest bearing receivable, due and demandable
IMI	Subsidiary	Other receivable	-	411	411	Rental fees
MWCI	Subsidiary	Advances to contractors	255,101	(159,297)	95,804	
TOTAL			**8,671,302**	**(419,919)**	**8,251,382**	

AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE C-b - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

As of December 31, 2011

(In thousand pesos)

Debtor	Debtor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Accounts and Other Payables
AC		Other payables	3,501,931	-	3,501,931	Non-interest bearing payable, due and demandable
AC		Accounts payable	1,207,880	(687,850)	520,030	Non-interest bearing payable, due and demandable
AC		Accounts payable	46,407	(1,644)	44,763	Advances, non-interest bearing
AAHC	Subsidiary	Accounts payable	-	6	6	
AAHC	Subsidiary	Accounts payable	-	-	-	Rental fees, with interest on overdue accounts
AC Energy	Subsidiary	Accounts payable	-	21,247	21,247	Deposits on future subscriptions, non-interest bearing
ACIFL	Subsidiary	Accounts payable	2,577,262	6,751	2,584,014	Non-interest bearing payable, due and demandable
AGCC	Subsidiary	Dividends payable-Affiliates	5,000	-	5,000	
AGCC	Subsidiary	Customers' and tenants deposits	-	1,835	1,835	Reimbursement of communication costs
AIVPL	Subsidiary	Accounts payable	2,339	(1,685)	654	Legal service fees, non-interest bearing
AIVPL	Subsidiary	Accounts payable	36,307	6,695	43,001	Deposits on future subscriptions, non-interest bearing
ALI	Subsidiary	Other payables	36,471	(22,339)	14,132	Advances, non-interest bearing
ALI	Subsidiary	Other payables	255,101	(159,297)	95,804	Advances-contractors (for construction projects)
AzTech	Subsidiary	Accounts payable	66	(2)	64	Legal service fees, non-interest bearing
Bestfull	Subsidiary	Current portion of LTD-foreign	-	-	-	Advances for projects, interest-bearing
Bestfull	Subsidiary	Accounts payable	46,383	71,985	118,368	Deposits on future subscriptions, non-interest bearing
MWCI	Subsidiary	Retention payable	222,823	123,967	346,790	
PHI	Subsidiary	Accounts payable	733,333	-	733,333	Advances to purchase MWCI shares, non-interest bearing
TLI	Subsidiary	Accounts payable	-	411	411	Rental fees
MHI	Subsidiary	Dividends payable-Affiliates	-	220,000	220,000	
TOTAL			**8,671,302**	**(419,919)**	**8,251,382**	

AYALA CORPORATION AND SUBSIDIARIES
Schedule D - INTANGIBLE ASSETS AND OTHER ASSETS (DEFERRED CHARGES)
As of December 31, 2011
(In Thousand Pesos)

DESCRIPTION	BEGINNING BALANCE	ADDITIONS AT COST	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	OTHER CHANGES ADD/(DED)	ENDING BALANCE
INTANGIBLE ASSETS:						
Goodwill	2,934,428	782,072		(139,170)	8,338	3,585,668
Customer relationship	10,747	402,674	(35,913)		13,968	391,476
Developed software	-	172,912	(11,791)		4,107	165,228
Licenses	112,753	61,128	(82,694)		607	91,794
Development cost		78,047	(8,191)		722	70,578
Trademarks		8,560	(1,335)		194	7,419
Technical service agreement	56,010		(56,010)			-
	3,113,938	**1,505,393**	**(195,934)**	**(139,170)**	**27,936**	**4,312,163**
OTHER ASSETS - DEFERRED CHARGES	**317,063**	**-**		**(73,617)**		**243,446**

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
As of December 31, 2011
(in thousand pesos)

TITLE OF ISSUE & TYPE OF OBLIGATION	CURRENT PORTION OF LONG-TERM DEBT	LONG-TERM DEBT	TOTAL
PARENT COMPANY:			
Bank loans - with interest rates ranging from 1.7% to 3.82% per annum in 2011 and 1.7% to 1.8% per annum in 2010 and varying maturity dates up to 2013	246,497	6,218,494	6,464,991
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 6.7% to 8.4% per annum and varying maturiy dates up to 2016	3,993,323	5,326,845	9,320,169
Bonds, due 2017	-	9,914,149	9,914,149
Bonds, due 2021	-	9,907,987	9,907,987
Syndicated term loan	420	1,485,510	1,485,929
	4,240,239	32,852,985	37,093,225
SUBSIDIARIES:			
Loans from banks and other institutions:			
Foreign Currency - with interest rates ranging from 0.4% to 13.5% per annum due in 2011 and 0.8% to 13.5% per annum in 2010	1,554,837	18,636,545	20,191,382
AIVPL	3,634	12,395	16,029
AYC FINANCE	210,149	6,107,325	6,317,475
IMI	20,004	2,686,754	2,706,758
MWCI	957,209	9,830,070	10,787,279
Bestful	363,842	-	363,842
Philippine peso - with interest rates ranging from 6.7% to 17.0% per annum in 2011 and 5.0% to 9.7% per annum in 2010	805,440	13,614,390	14,419,831
AIVPL	-	2,495	2,495
AAHC	-	19,500	19,500
MWC	57,820	3,040,094	3,097,914
ALI	747,621	10,552,301	11,299,922
	2,360,278	32,250,935	34,611,213
Bonds:			
Due 2012	325,390	-	325,390
Due 2013	483,750	3,844,150	4,327,900
Due 2014	-	173,715	173,715
	809,140	4,017,865	4,827,005
Floating Rate Corporate Notes (FRCNs)		1,000,000	1,000,000
Fixed Rate Corporate Notes (FXCNs)	50,000	22,470,583	22,520,583
TOTAL	**7,459,657**	**92,592,368**	**100,052,026**

AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)

As of December 31, 2011

(in thousand Pesos)

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
N O T A P P L I C A B L E		
Indebtedness to related parties (long-term loans from related parties) amounting to P7,430,486k is only 2% of the total assets of P357,626,596k.		

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS
As of December 31, 2011

Name of issuing entity of securities guaranteed by the company for which this	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guaranty
AYC Finance Limited	US$20M Revolving Credit Facility	Undrawn facility as of 12/31/11		Unconditional and irrevocable guarantee for the proper and punctual payment of indebtedness. The Guarantor shall be liable as if it were the sole principal debtor.
	US$50M Transferable Term Loan Facility Agreement	US$45M (Guaranteed and Outstanding as of 12/31/11)		Unconditional & irrevocable guarantee for the punctual payment of the guaranteed indebtedness. The guarantor shall be liable as if it is the sole princiapl debtor and note merely a surety. The guaranty likewise includes compliance with financial ratios, semi-annual submission of financial statements, 100% ownership of AYC Finance's issued voting share capital, among others.
	US$229,230,769.23 Term Loan Facility Agreement (Originally $260Mn)	US$100M (Guaranteed and Outstanding as of 12/31/11)		Unconditional & irrevocable guarantee for the punctual payment of the guaranteed indebtedness. The guarantor shall be liable as if it is the sole princiapl debtor and note merely a surety. The guaranty likewise includes compliance with financial ratios, semi-annual submission of financial statements, 100% ownership of AYC Finance's issued voting share capital, among others.
	US$150M Transferable Term Loan Facility Agreement	Undrawn facility as of 12/31/11		Unconditional & irrevocable guarantee for the punctual payment of the guaranteed indebtedness. The guarantor shall be liable as if it is the sole princiapl debtor and note merely a surety. The guaranty likewise includes compliance with financial ratios, semi-annual submission of financial statements, 100% ownership of AYC Finance's issued voting share capital, among others.

AYALA CORPORATION
SCHEDULE H - CAPITAL STOCK
As of December 31, 2011

TITLE OF ISSUE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED/ SUBSCRIBED	NUMBER OF SHARES RESERVED FOR OPTIONS, WARRANTS, CONVERSION & RIGHTS	NUMBER OF SHARES HELD BY AFFILIATES	DIRECTORS, OFFICERS & EMPLOYEES	OTHERS
Common Stock issued & subscribed a/	900,000,000	597,441,000			**6,032,170**	
Less: Treasury Shares	-	(20,183,740)				
Common shares outstanding	**900,000,000**	**577,257,260**				
Preferred A shares b/	**12,000,000**	**12,000,000**		500,000 c/	**70,230**	
Preferred B shares issued & subscribed d/	58,000,000	58,000,000				
Less: Treasury Shares		(58,000,000)				
Preferred B shares outstanding	**58,000,000**	**0**				
Preferred C shares	**40,000,000**					
Voting preferreds e/	**200,000,000**	**200,000,000**				

a/ Ayala Corporation has stock option plans for the key officers (Executive Stock Option Plan-ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3% of the Company's capital stock.

b/ Cumulative, nonvoting and redeemable with a par value of P100 per share and is listed and traded at the Philippine Stock Exchange. It may be redeemed at the option of Ayala Corporation starting in the fifth year. The offering price is P500 per share with a dividend rate of 8.9% per annum.

c/ 200,000 and 300,000 Preferred A shares are held by Ayala Land, Inc. and Manila Water Company, Inc., respectively.

d/ Cumulative, nonvoting and redeemable with a par value of P100 per share. It is listed and traded at the Philippine Stock Exchange B2and may redeemed at the option of Ayala Corporation starting in the fifth year. The offering price is P100 per share with a dividend rate of 9.5% per annum.

e/ Cumulative, voting and redeemable at the option of Ayala Corporation with a par value of P1 per share and dividend rate of 5.3% per annum.

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE I - RECONCILIATION OF RETAINED EARNINGS FOR DIVIDEND DISTRIBUTION
As of December 31, 2011
(in thousand Pesos)

	2010		2011	
Unappropriated retained earnings, *as adjusted to available for dividend distribution, beginning* *		**31,059,682**		**27,523,590**
Add Net income actually earned/realized during the period		3,496,501		1,421,660
Add (Less):				
Dividend declarations during the period	(2,889,044)		(7,520,247)	
Treasury shares	(4,143,548)		(7,576,624)	
		(7,032,592)		(15,096,871)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND*		**27,523,590**		**13,848,379**

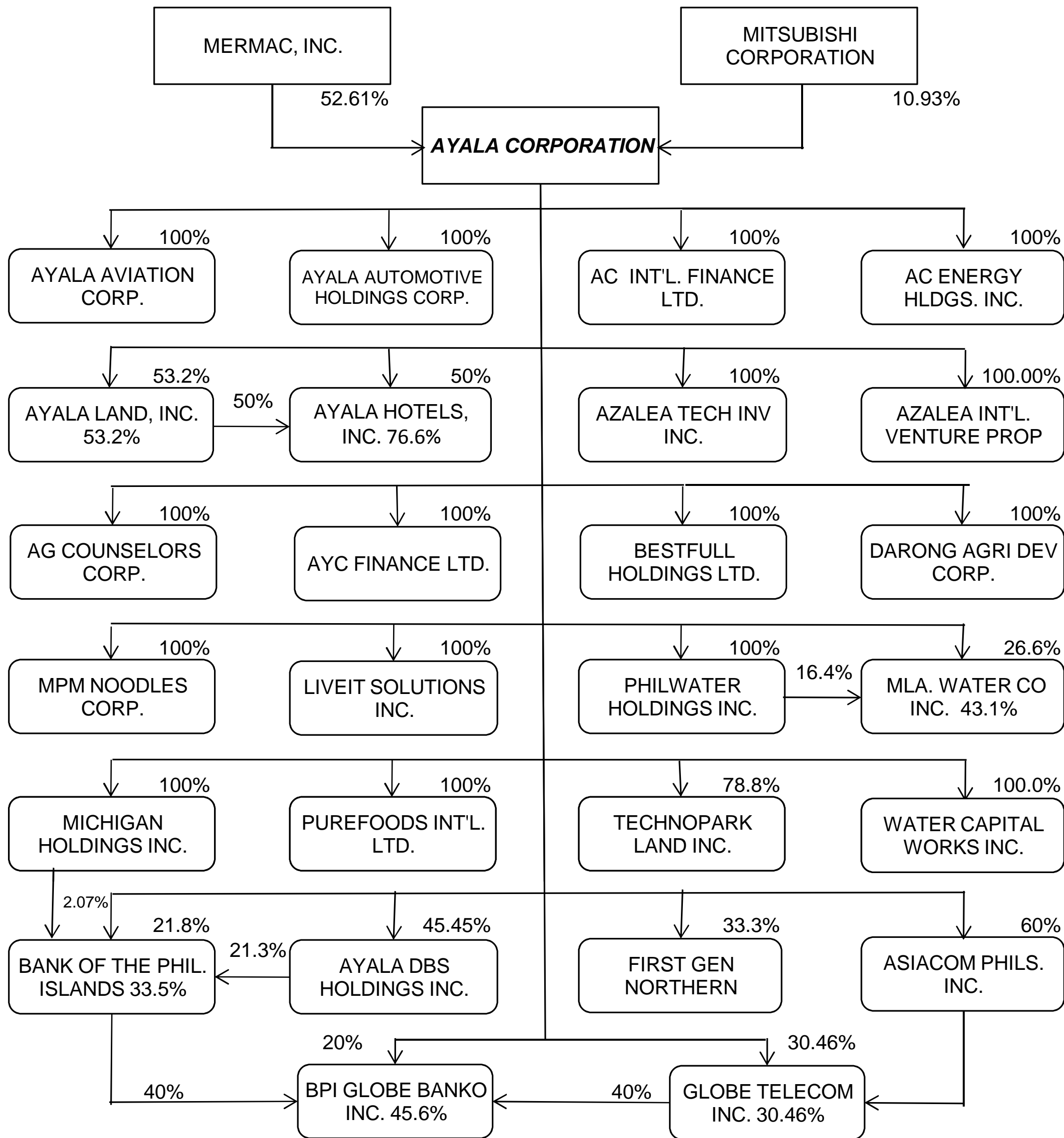
*Reconciliation of consolidated retained earnings to retained earnings available for dividend follows:

	January 1, 2010	December 31, 2010	January 1, 2011	December 31, 2011
Consolidated ratained earnings balance	65,739,096	74,011,144	74,011,144	75,885,784
Accumulated equity in net earnings of subsidiaries, associates and joint ventures	(33,990,701)	(41,655,292)	(41,655,292)	(49,628,518)
Treasury shares	(688,714)	(4,832,262)	(4,832,262)	(12,408,886)
Retained Earnings available for dividends	**31,059,682**	**27,523,590**	**27,523,590**	**13,848,379**

AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 1)

As of December 31, 2011

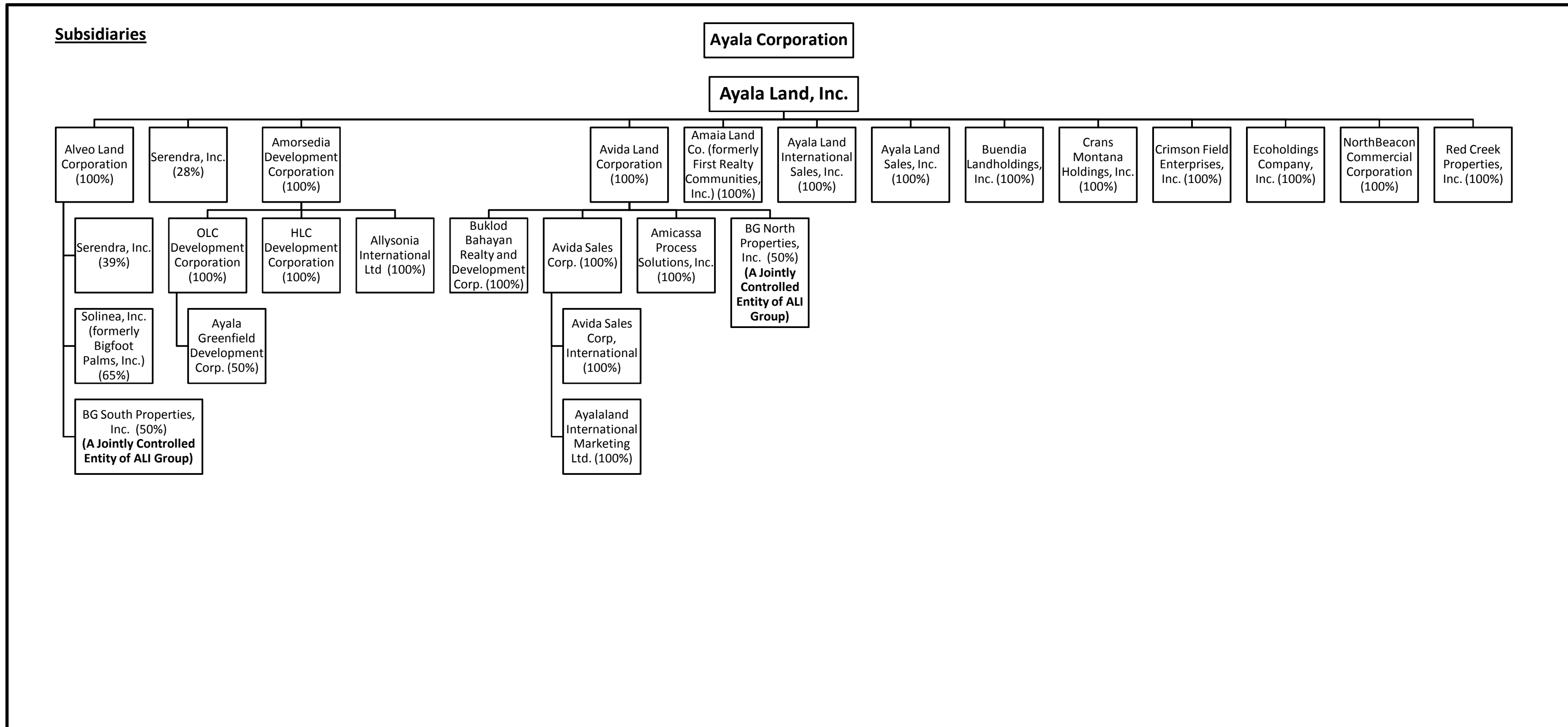


Legend:

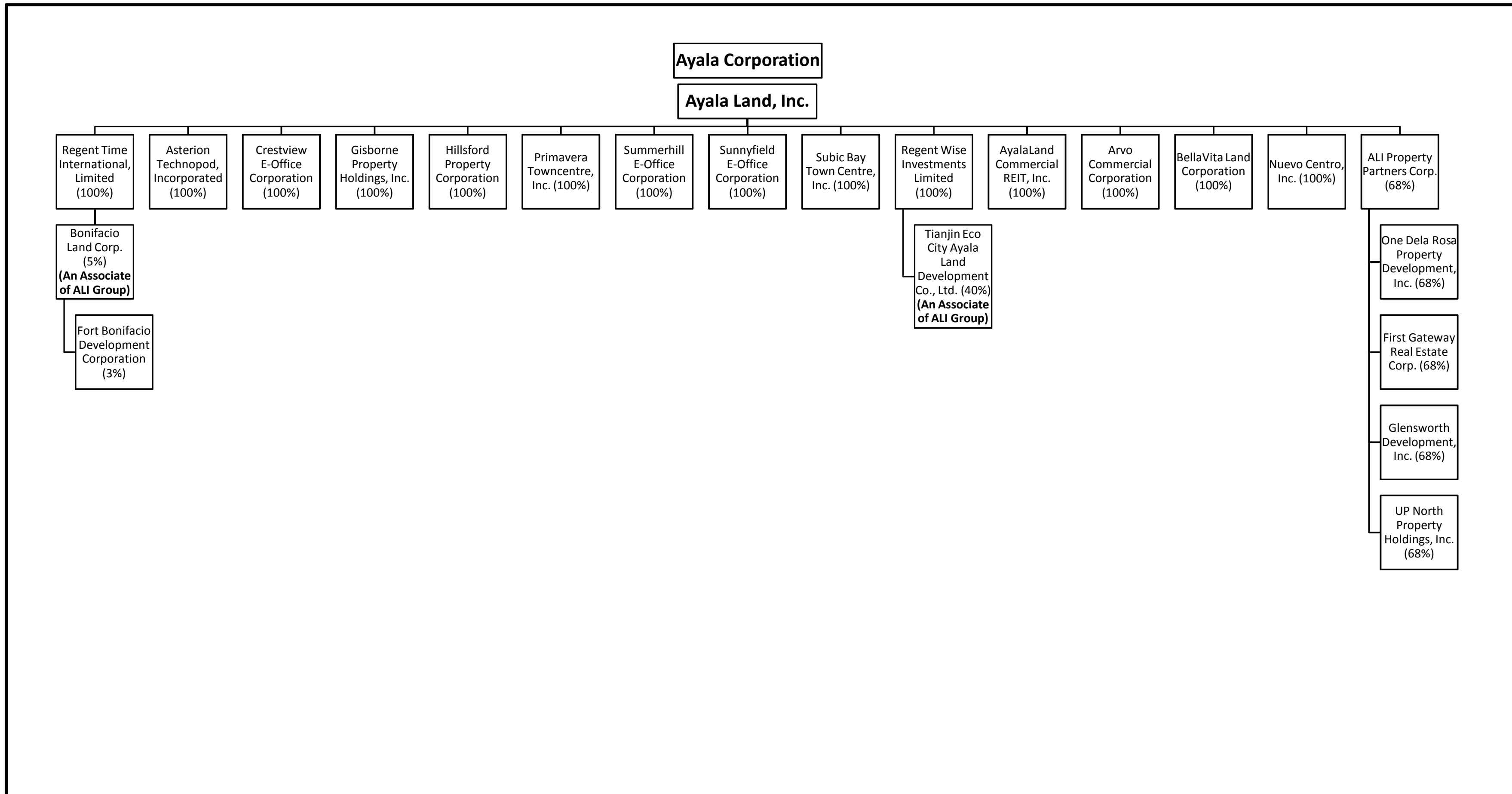
% of ownership appearing on top of the box - direct % of ownership

% of ownership appearing inside the box - effective % of ownership

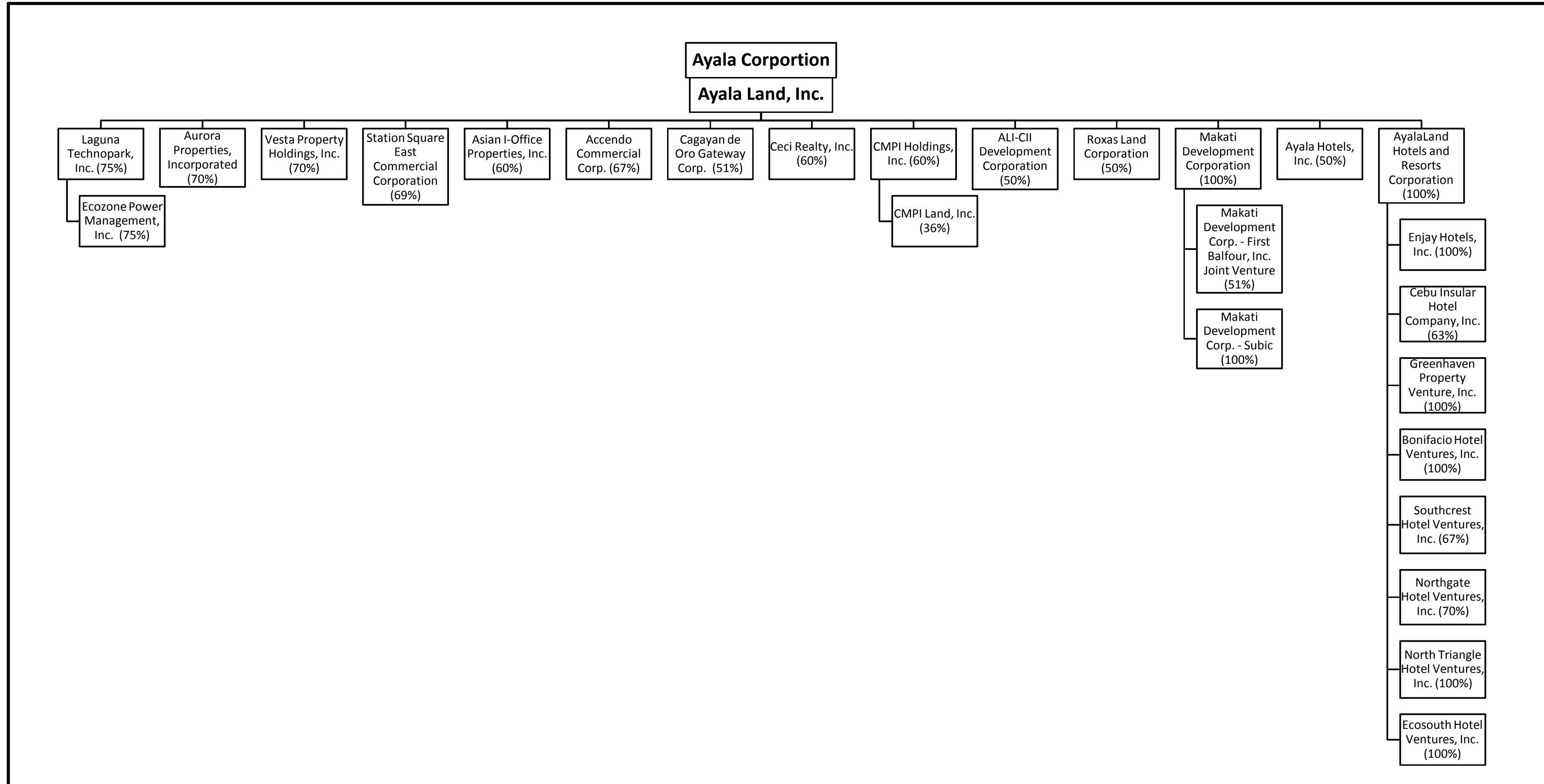
SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 2)



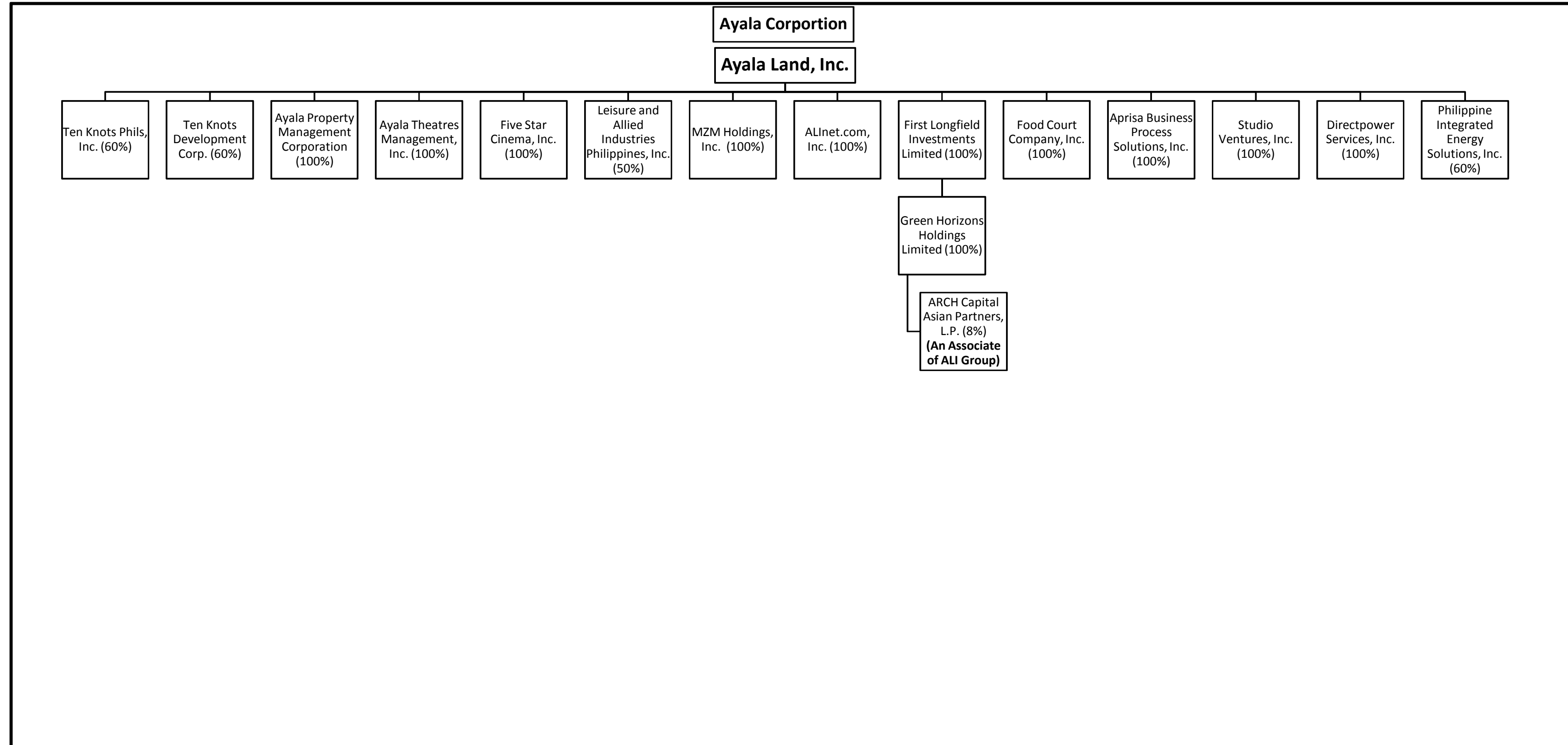
SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 2)



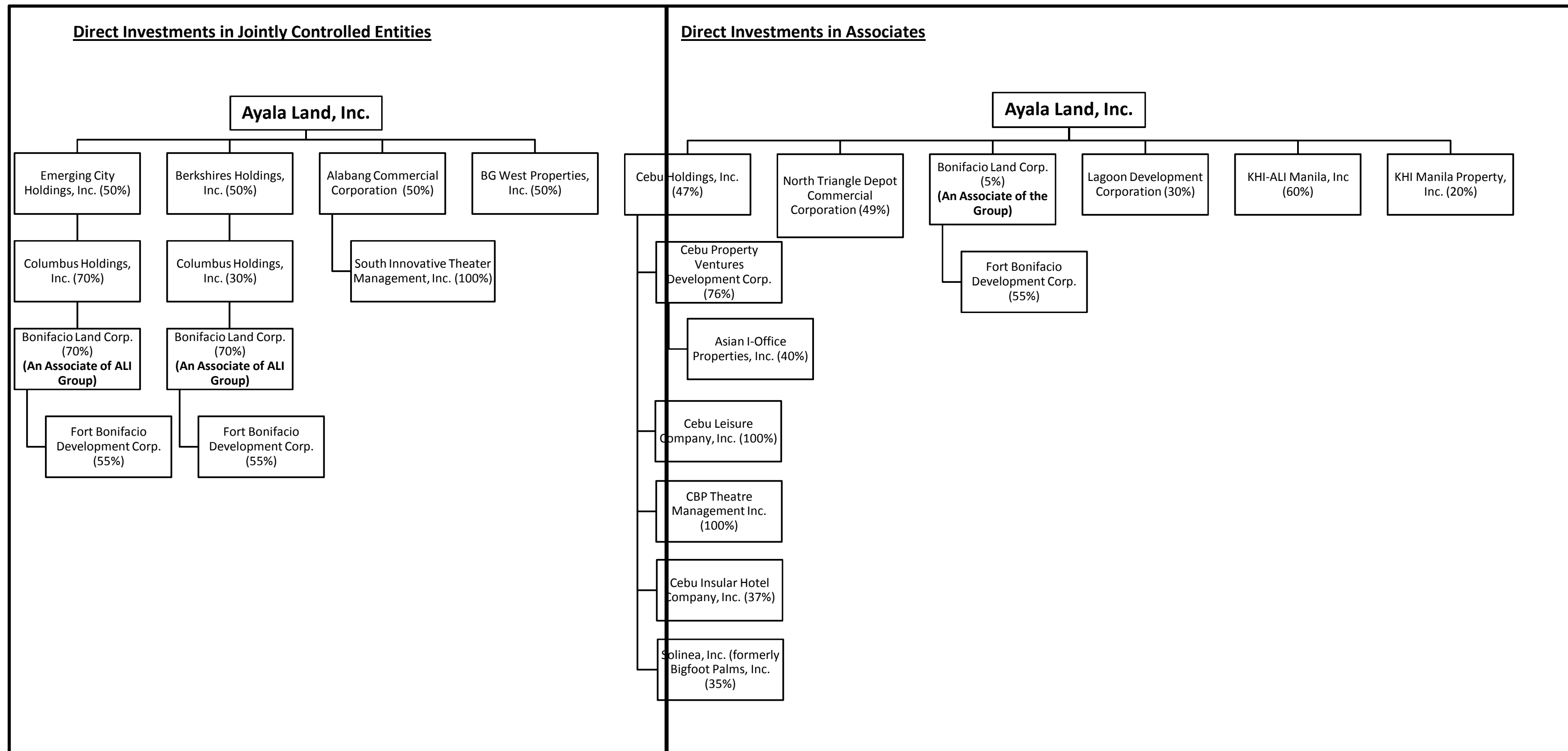
SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 2)



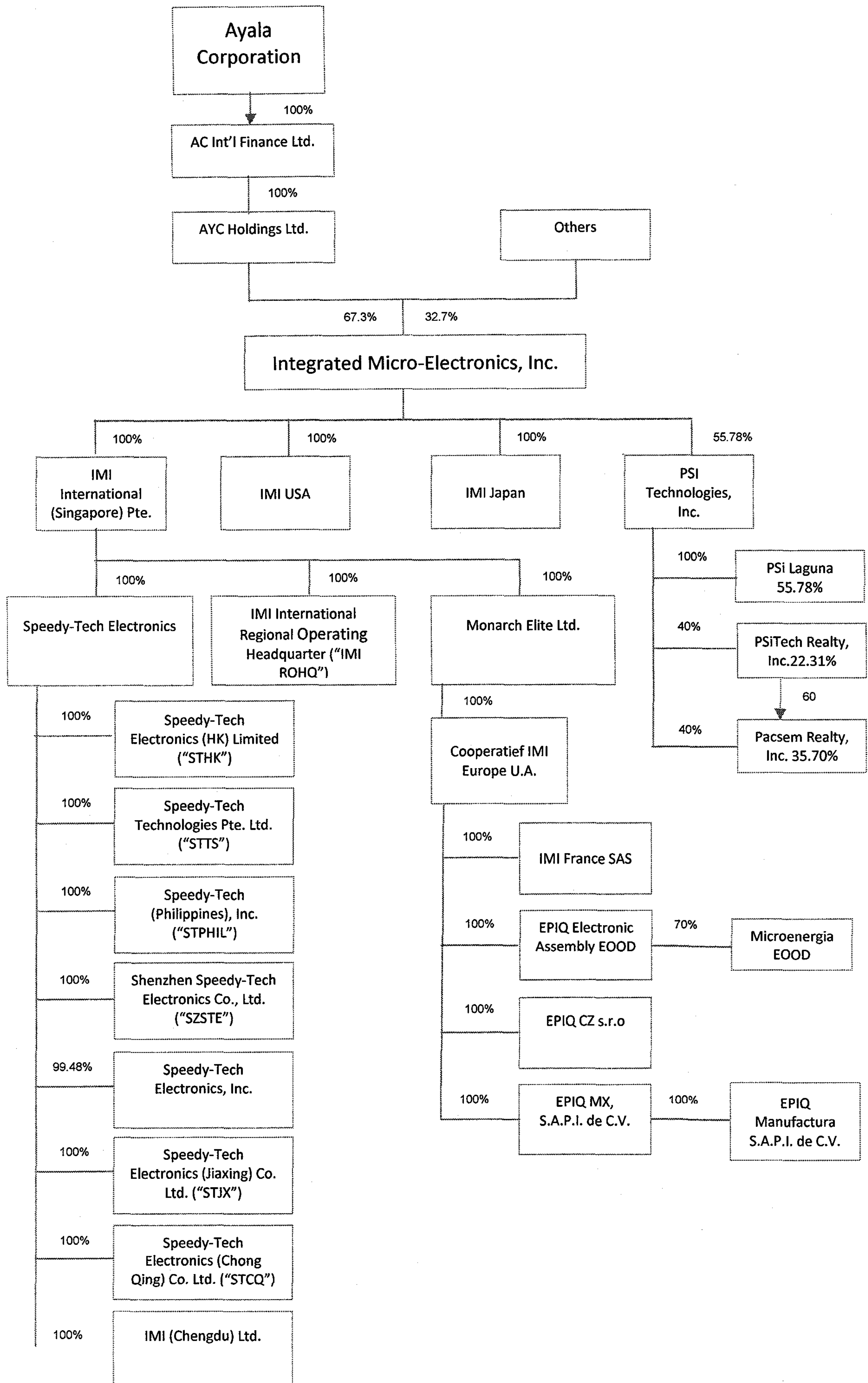
SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 2)



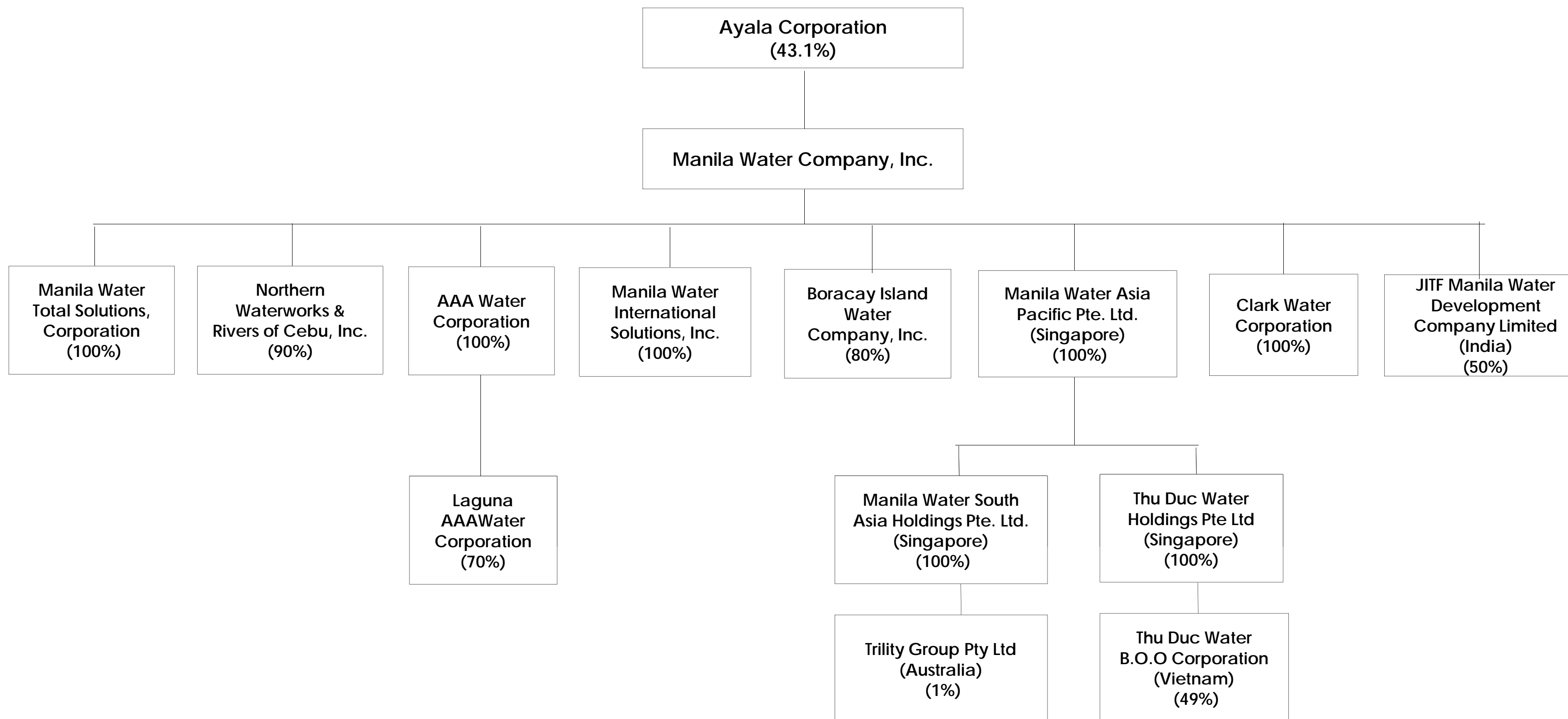
SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 2)



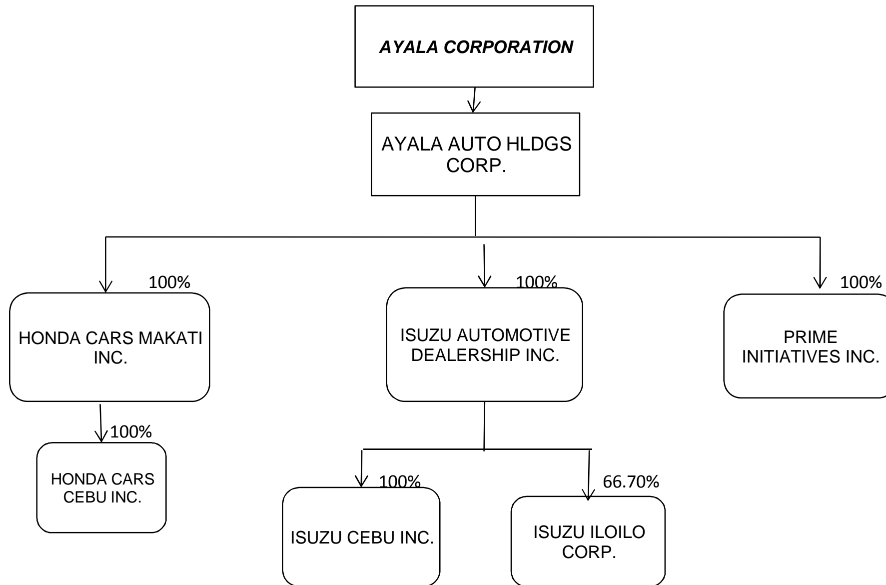
SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 3)

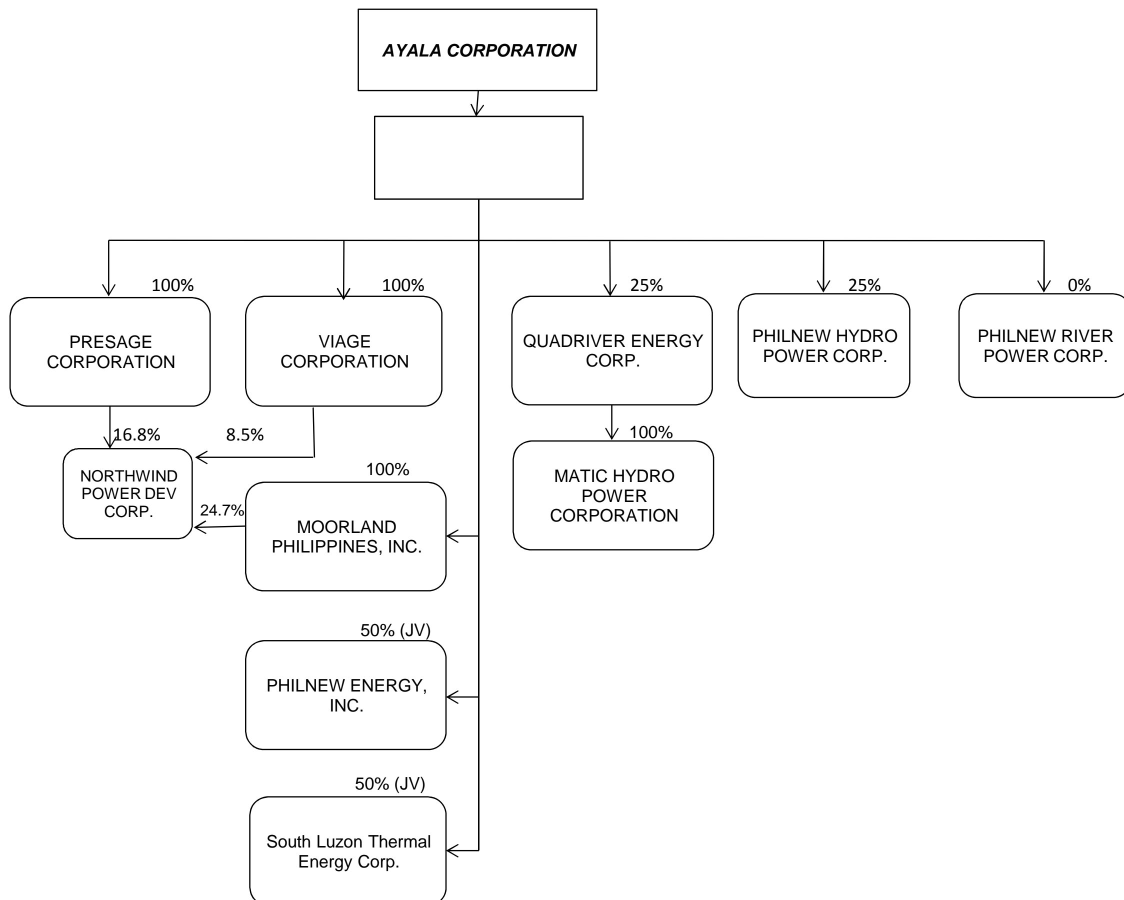


SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 4)

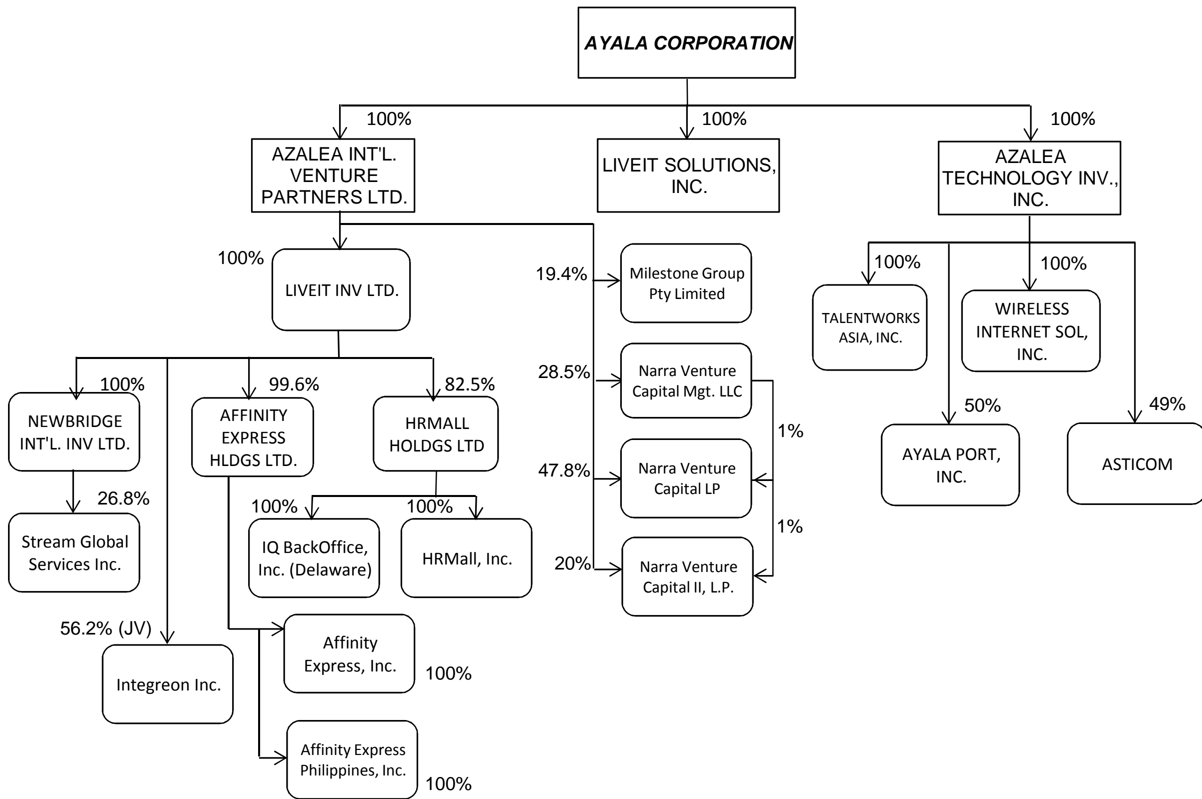


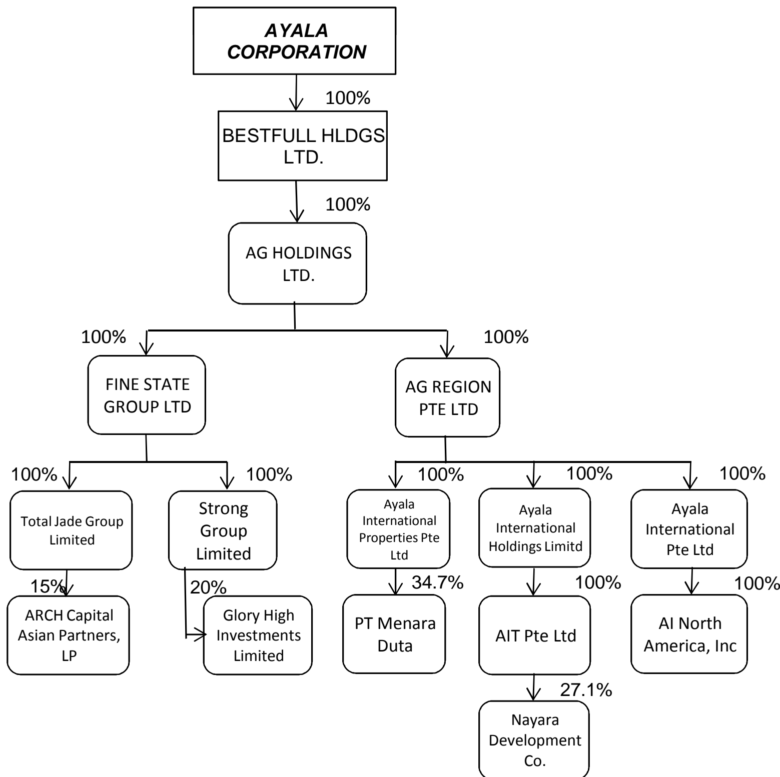
SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 5)





SCHEDULE J - MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (part 6)





AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE K - SCHEDULE OF ALL THE EFFECTIVE STANDARDS and INTERPRETATIONS

As of December 31, 2011 **(part 1)**

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2011:

PFRSs and PIC Q&As	Adopted/Not adopted/ Not applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Adopted
PFRS 2, *Share-based Payment*	Adopted
PFRS 3, *Business Combinations*	Adopted
PFRS 4, *Insurance Contracts*	Adopted
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Adopted
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Adopted
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Adopted
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not applicable
PAS 27, *Consolidated and Separate Financial Statements*	Adopted
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Adopted
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Adopted
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Adopted
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Adopted
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable

SCHEDULE K - SCHEDULE OF ALL THE EFFECTIVE STANDARDS and INTERPRETATIONS (part 2)

PFRSs and PIC Q&As	Adopted/Not adopted/ Not applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not applicable
Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*	Adopted
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Adopted
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Adopted
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Adopted
Philippine Interpretation IFRIC–14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Adopted
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Adopted
Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners*	Adopted
Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers*	Adopted
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Adopted
Philippine Interpretation SIC–7, *Introduction of the Euro*	Not applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities*	Adopted
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Adopted
Philippine Interpretation SIC–15, *Operating Leases – Incentives*	Adopted
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Adopted
Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Adopted
Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Adopted
Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures*	Adopted
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Adopted
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Adopted
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts	Adopted

SCHEDULE K - SCHEDULE OF ALL THE EFFECTIVE STANDARDS and INTERPRETATIONS (part 3)

PFRSs and PIC Q&As	Adopted/Not adopted/ Not applicable
PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements	Adopted
PIC Q&A No. 2007-03: PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)	Adopted
PIC Q&A No. 2008-01 (Revised): PAS 19.78 – Rate used in discounting post-employment benefit obligations	Adopted
PIC Q&A No. 2008-02: PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20	Not applicable
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern	Adopted
PIC Q&A No. 2010-01: PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines	Adopted
PIC Q&A No. 2010-02: PAS 1R.16 – Basis of preparation of financial statements	Adopted
PIC Q&A No. 2011-01: PAS 1.10(f) – Requirements for a Third Statement of Financial Position	Adopted

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE L - FINANCIAL RATIOS
As of December 31, 2011

Ratio	Formula	2011	2010
Liquidity	Cash/ Cash equivalents + Short-term cash investments / Current Liabilities	0.80	1.00
Solvency	After-Tax Net Profit + (Depreciation + Amortization)+ Allowance for Bad Debts / Long-term Liabilites + Short Term Liabilities	0.09	0.11
Debt-to-Equity	Long-term Loans + Short Term Loans / Equity Attributable to Owners of the Parent	1.00	0.77
Assets- to-Equity	Total Assets / Equity Attributable to Owners of the Parent	3.34	2.93
Interest Rate Coverage	EBITDA / Interest Expense	5.25	6.07
Return on Equity	Net Income to Owners of Parent / Equity Attributable to Owners of the Parent	0.09	0.10
Return on Assets	Net Income / Total Assets	0.04	0.05

AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE M - NON-CURRENT INVESTMENTS

As of December 31, 2011

(in thousand Pesos except number of shares)

NAME OF COMPANY	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE			Dividends received/accrued fr investments not accounted for by the equity method
	Number of Shares	Amount in Pesos	Equity in Earnings (Losses) of Investees for the period	Others (Cost & Equity Adj)	Distribution of Earnings by Investees	Others-Cost (& equity adj)	Number of Shares	Effective % of Ownership	Amount in Pesos	
INVESTMENTS IN ASSOCIATES & JOINT VENTURES										
Domestic:										
Bank of the Philippine Islands and subsidiaries	848,494,569	24,644,678	3,059,072	396,191	(1,527,290)		848,494,569	23.9%	26,572,651	
Globe Telecom, Inc. and subsidiaries	40,312,268	17,053,476	2,970,104	5,812	(2,499,361)	(177,084)	40,312,268	30.5%	17,352,947	
Bank Ayala DBS Holdings, Inc. (ADHI)	151,744,585	9,649,419	1,242,698	160,839	(310,022)		151,744,585	45.5%	10,742,934	
Emerging City Holdings, Inc.	72,150,000	3,491,810	190,431				72,150,000	50.0%	3,682,241	
Cebu Holdings, Inc.and subsidiaries	907,350,948	2,105,148	232,018		(72,316)		907,350,948	47.0%	2,264,850	
Berkshires Holdings, Inc.	31,000,000	1,496,466	81,613				31,000,000	50.0%	1,578,079	
South Luzon Thermal Energy Corp.			(21,774)	1,511,080			499,997	50.0%	1,489,306	
North Triangle Depot Commercial Corp.	15,138,634	1,435,912	144,108		(95,770)	(147,861)	2,875,846	49.3%	1,336,389	
Bonifacio Land Corporation	4,229,323	1,133,133	75,788			(48,198)	2,227,542	10.1%	1,160,723	
Asiacom Philippines, Inc.	10,269,000	918,434	74,473			600	10,269,000	60.0%	993,507	
Alabang Commercial Corporation	408,504	616,809	143,595		(143,842)		408,504	50.0%	616,562	
Northwind Power Development Corp.			877	456,791			1,823,597	50.0%	457,668	
BG West Properties, Inc.			(2,799)	250,000			1,249,997	50.0%	247,201	
BG South Properties, Inc.			419	195,000			767,514	50.0%	195,419	
Foreign:										
Stream Global Services, Inc.	20,524,270	3,882,146	(237,060)			(666,254)	20,524,270	25.8%	2,978,832	
Integreon, Inc.	1,337,706	1,833,848	(418,857)			100,332	1,337,706	56.4%	1,515,323	
Arch Capital Asian Partners L.P.		2,022,255	170,979	325,102		(115,448)		23.0%	2,402,888	
Thu Doc Water BOO Corp.				1,800,102		(12,100)	2,450,000	49.0%	1,788,002	
Tian-Jin Eco City Ayala Land Devt Co.			(47,637)	777,011			139,990,000	40.0%	729,374	
Others	-	1,721,160	69,167	156,866	(98,017)	(294,993)			1,554,183	
TOTAL-INVESTMENTS IN ASSOCIATES & JOINT VENTURES		**72,004,694**	**7,727,215**	**6,034,794**	**(4,746,618)**	**(1,361,006)**			**79,659,079**	

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE N - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES & RELATED PARTIES
As of December 31, 2011

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
N O T A P P L I C A B L E *Receivables from related parties amounting to P2,700,765k is only 0.76% of the total assets of P357,626,596k.*		

Bank of the Philippine Islands

Financial Statements
As at December 31, 2011 and 2010
and for each of the three years
in the period ended December 31, 2011

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
BPI Building, Ayala Avenue
Makati City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bank of the Philippine Islands and Subsidiaries (the BPI Group) and the parent financial statements of Bank of the Philippine Islands (the Parent Bank), which comprise the consolidated and parent statements of condition as at December 31, 2011 and 2010, and the consolidated and parent statements of income, statements of total comprehensive income, statements of changes in capital funds and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and parent 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 and parent financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated and parent 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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Isla Lipana & Co.

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 accompanying consolidated and parent financial statements present fairly, in all material respects, the financial position of the BPI Group and of the Parent Bank as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

Report on Bureau of Internal Revenue Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 34 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Isla Lipana & Co.

Blesilda A. Pestaño
Partner
CPA Cert. No. 40446
P.T.R. No. 0007713, January 2, 2012, Makati City
SEC A.N. (Individual) as general auditors 0049-AR-2
SEC A.N. (Firm) as general auditors 0009-FR-2
TIN 112-071-927
BIR A.N. 08-000745-7-2010, issued on May 31, 2010; effective until May 30, 2013
BOA/PRC Reg. No. 0142, effective until December 31, 2013

Makati City
February 23, 2012

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2011 AND 2010
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2011	2010	**2011**	2010
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**22,395**	18,151	**21,661**	17,573
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**83,759**	128,487	**70,807**	117,805
DUE FROM OTHER BANKS	7	**9,297**	6,548	**5,567**	3,209
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	7, 8	**35,277**	66,834	**24,867**	56,237
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	9	**5,389**	6,059	**5,389**	6,059
- TRADING SECURITIES	10	**12,275**	11,449	**11,638**	10,293
AVAILABLE-FOR-SALE SECURITIES, net	11	**74,084**	112,523	**64,500**	98,910
HELD-TO-MATURITY SECURITIES, net	12	**89,742**	95,474	**79,723**	85,136
LOANS AND ADVANCES, net	13	**454,499**	378,728	**337,425**	276,494
ASSETS HELD FOR SALE, net	4	**9,148**	11,774	**6,431**	8,775
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	14	**12,322**	11,606	**8,199**	7,847
INVESTMENT PROPERTIES, net	15	**2,637**	2,706	**2,630**	2,696
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	16	**3,069**	2,508	**7,008**	6,969
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	5, 7	**12,240**	11,916	**-**	-
DEFERRED INCOME TAX ASSETS, net	17	**4,335**	5,023	**2,958**	3,802
OTHER RESOURCES, net	18	**12,148**	8,360	**8,099**	5,432
Total resources		**842,616**	878,146	**656,902**	707,237

(forward)

BANK OF THE PHILIPPINE ISLANDS
STATEMENTS OF CONDITION
DECEMBER 31, 2011 AND 2010
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2011	2010	**2011**	2010
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	19	**681,101**	719,766	**544,414**	591,936
DERIVATIVE FINANCIAL LIABILITIES	9	**4,814**	5,329	**4,814**	5,329
BILLS PAYABLE	20	**19,136**	24,868	**9,887**	17,243
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**1,717**	2,000	**1,717**	2,003
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**4,131**	4,187	**3,389**	3,483
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**4,025**	5,119	**2,709**	3,874
UNSECURED SUBORDINATED DEBT	21	**5,000**	5,000	**5,000**	5,000
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	5	**9,937**	9,213	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	22	**22,225**	20,389	**18,569**	16,915
Total liabilities		**752,086**	795,871	**590,499**	645,783
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	23				
Share capital		**35,562**	35,562	**35,562**	35,562
Share premium		**8,317**	8,317	**8,317**	8,317
Reserves		**1,462**	1,367	**1,462**	1,336
Surplus		**41,643**	35,318	**19,870**	16,542
Accumulated other comprehensive income (loss)		**2,168**	467	**1,192**	(303)
		89,152	81,031	**66,403**	61,454
NON-CONTROLLING INTEREST		**1,378**	1,244	**-**	-
Total capital funds		**90,530**	82,275	**66,403**	61,454
Total liabilities and capital funds		**842,616**	878,146	**656,902**	707,237

(The notes on pages 1 to 91 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			**Parent**		
	Notes	**2011**	2010	2009	**2011**	2010	2009
INTEREST INCOME							
On loans and advances		**27,156**	25,270	24,440	**16,762**	15,944	16,059
On held-to-maturity securities		**6,023**	5,787	5,285	**5,383**	5,017	4,542
On available-for-sale securities		**3,592**	3,333	2,127	**3,374**	3,113	2,006
On deposits with BSP and other banks		**2,488**	3,409	3,018	**2,001**	2,952	2,602
On trading securities		**812**	582	361	**767**	539	330
Gross receipts tax		**(1,382)**	(1,394)	(1,344)	**(1,009)**	(1,063)	(1,040)
		38,689	36,987	33,887	**27,278**	26,502	24,499
INTEREST EXPENSE							
On deposits	19	**11,721**	12,069	11,229	**7,601**	8,081	7,299
On bills payable and other borrowings	20, 21	**1,102**	1,290	1,256	**668**	971	983
		12,823	13,359	12,485	**8,269**	9,052	8,282
NET INTEREST INCOME		**25,866**	23,628	21,402	**19,009**	17,450	16,217
IMPAIRMENT LOSSES	4, 11, 13, 18	**2,150**	3,454	2,535	**1,583**	2,165	1,983
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**23,716**	20,174	18,867	**17,426**	15,285	14,234
OTHER INCOME							
Fees and commissions		**4,607**	4,160	3,430	**3,777**	2,834	2,254
Income from foreign exchange trading		**1,770**	2,204	1,693	**1,596**	2,089	1,564
Trading gain on securities		**2,948**	2,946	1,527	**2,712**	2,652	1,354
Income attributable to insurance operations	5	**949**	802	798	-	-	-
Other operating income	25	**6,688**	5,825	6,417	**5,917**	4,430	7,905
Gross receipts tax		**(1,070)**	(1,158)	(872)	**(943)**	(1,039)	(740)
		15,892	14,779	12,993	**13,059**	10,966	12,337
OTHER EXPENSES							
Compensation and fringe benefits	30	**10,379**	9,137	9,155	**7,994**	6,664	6,631
Occupancy and equipment-related expenses	14, 15, 26	**6,476**	6,083	5,645	**5,080**	4,714	4,370
Other operating expenses	27	**6,610**	5,734	4,876	**5,296**	4,407	3,882
		23,465	20,954	19,676	**18,370**	15,785	14,883
INCOME BEFORE INCOME TAX		**16,143**	13,999	12,184	**12,115**	10,466	11,688
PROVISION FOR INCOME TAX	28						
Current		**3,570**	2,866	2,597	**2,556**	2,033	1,880
Deferred	17	**(440)**	(346)	922	**(297)**	127	1,055
		3,130	2,520	3,519	**2,259**	2,160	2,935
NET INCOME FOR THE YEAR		**13,013**	11,479	8,665	**9,856**	8,306	8,753
Attributable to:							
Equity holders of BPI		**12,822**	11,312	8,516	**9,856**	8,306	8,753
Non-controlling interest		**191**	167	149	-	-	-
		13,013	11,479	8,665	**9,856**	8,306	8,753
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	23	**3.61**	3.38	2.62	**2.77**	2.48	2.69

(The notes on pages 1 to 91 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF TOTAL COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2011**	2010	2009	**2011**	2010	2009
NET INCOME FOR THE YEAR		13,013	11,479	8,665	**9,856**	8,306	8,753
OTHER COMPREHENSIVE INCOME	23						
Net change in fair value reserve on available-for-sale securities, net of tax effect		**1,420**	1,207	390	**1,495**	1,021	395
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**(63)**	323	929	**-**	-	-
Share in other comprehensive income (loss) of associates		**351**	830	(134)	**-**	-	-
Currency translation differences		**(5)**	(215)	79	**-**	-	-
Total other comprehensive income, net of tax effect		**1,703**	2,145	1,264	**1,495**	1,021	395
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**14,716**	13,624	9,929	**11,351**	9,327	9,148
Attributable to:							
Equity holders of BPI		**14,523**	13,414	9,732	**11,351**	9,327	9,148
Non-controlling interest		**193**	210	197	-	-	-
		14,716	13,624	9,929	**11,351**	9,327	9,148

(The notes on pages 1 to 91 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011
(In Millions of Pesos)

	Consolidated						
	Attributable to equity holders of BPI (Note 23)						
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, January 1, 2009	**32,456**	**1,374**	**1,296**	**30,659**	**(2,851)**	**938**	**63,872**
Comprehensive income							
Net income for the year	-	-	-	8,516	-	149	8,665
Other comprehensive income for the year	-	-	-	-	1,216	48	1,264
Total comprehensive income for the year	**-**	**-**	**-**	**8,516**	**1,216**	**197**	**9,929**
Transactions with owners							
Employee stock option plan:							
Exercise of options	11	38	(74)	-	-	-	(25)
Cash dividends	-	-	-	(5,843)	-	-	(5,843)
Transfer from surplus to reserves	-	-	172	(172)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	(168)	(168)
Total transactions with owners	**11**	**38**	**98**	**(6,015)**	**-**	**(168)**	**(6,036)**
Balance, December 31, 2009	**32,467**	**1,412**	**1,394**	**33,160**	**(1,635)**	**967**	**67,765**
Comprehensive income							
Net income for the year	-	-	-	11,312	-	167	11,479
Other comprehensive income for the year	-	-	-	-	2,102	43	2,145
Total comprehensive income for the year	-	-	-	11,312	2,102	210	13,624
Transactions with owners							
Issuance of shares	3,077	6,829	-	-	-	-	9,906
Employee stock option plan:							
Exercise of options	18	76	(137)	-	-	-	(43)
Cash dividends	-	-	-	(9,044)	-	-	(9,044)
Transfer from surplus to reserves	-	-	110	(110)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	67	67
Total transactions with owners	3,095	6,905	(27)	(9,154)	-	67	886
Balance, December 31, 2010	**35,562**	**8,317**	**1,367**	**35,318**	**467**	**1,244**	**82,275**
Comprehensive income							
Net income for the year	-	-	-	12,822	-	191	13,013
Other comprehensive income for the year	-	-	-	-	1,701	2	1,703
Total comprehensive income for the year	-	-	-	**12,822**	**1,701**	**193**	**14,716**
Transactions with owners		-	-				
Employee stock option plan:							
Expiration of options	-	-	(42)	42	-	-	-
Cash dividends	-	-	-	(6,402)	-	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	(59)	(59)
Total transactions with owners	-	-	95	**(6,497)**	**-**	**(59)**	**(6,461)**
Balance, December 31, 2011	**35,562**	**8,317**	**1,462**	**41,643**	**2,168**	**1,378**	**90,530**

(The notes on pages 1 to 91 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011
(In Millions of Pesos)

	Parent (Note 23)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2009	**32,456**	**1,374**	**1,241**	**14,652**	**(1,719)**	**48,004**
Comprehensive income						
Net income for the year	-	-	-	8,753	-	8,753
Other comprehensive income for the year	-	-	-	-	395	395
Total comprehensive income for the year	**-**	**-**	**-**	**8,753**	**395**	**9,148**
Transactions with owners						
Employee stock option plan:						
Exercise of options	11	38	(62)	-	-	(13)
Cash dividends	-	-	-	(5,843)	-	(5,843)
Transfer from surplus to reserves	-	-	172	(172)	-	-
Total transactions with owners	**11**	**38**	**110**	**(6,015)**	**-**	**(5,856)**
Balance, December 31, 2009	**32,467**	**1,412**	**1,351**	**17,390**	**(1,324)**	**51,296**
Comprehensive income						
Net income for the year	-	-	-	8,306	-	8,306
Other comprehensive income for the year	-	-	-	-	1,021	1,021
Total comprehensive income for the year	**-**	**-**	**-**	**8,306**	**1,021**	**9,327**
Transactions with owners						
Issuance of shares	3,077	6,829	-	-	-	9,906
Employee stock option plan:						
Exercise of options	18	76	(125)	-	-	(31)
Cash dividends	-	-	-	(9,044)	-	(9,044)
Transfer from surplus to reserves	-	-	110	(110)	-	-
Total transactions with owners	**3,095**	**6,905**	**(15)**	**(9,154)**	**-**	**831**
Balance, December 31, 2010	**35,562**	**8,317**	**1,336**	**16,542**	**(303)**	**61,454**
Comprehensive income						
Net income for the year	-	-	-	9,856	-	9,856
Other comprehensive income for the year	-	-	-	-	1,495	1,495
Total comprehensive income for the year	**-**	**-**	**-**	**9,856**	**1,495**	**11,351**
Transactions with owners						
Employee stock option plan:						
Expiration of options	-	-	(11)	11	-	-
Cash dividends	-	-	-	(6,402)	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-
Total transactions with owners	**-**	**-**	**126**	**(6,528)**	**-**	**(6,402)**
Balance, December 31, 2011	**35,562**	**8,317**	**1,462**	**19,870**	**1,192**	**66,403**

(The notes on pages 1 to 91 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011
(In Millions of Pesos)

		Consolidated			**Parent**		
	Notes	**2011**	2010	2009	**2011**	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		**16,143**	13,999	12,184	**12,115**	10,466	11,688
Adjustments for:							
Impairment losses	4, 11,13, 18	**2,150**	3,454	2,535	**1,583**	2,165	1,983
Depreciation and amortization	14, 15	**3,040**	2,586	2,421	**1,920**	1,549	1,416
Share in net loss (income) of associates		**(216)**	(195)	21	**-**	-	-
Dividend income	25	**(47)**	(85)	(124)	**(1,210)**	(206)	(2,906)
Interest income		**(40,071)**	(38,381)	(35,231)	**(28,287)**	(27,565)	(25,539)
Interest expense		**12,823**	13,359	12,485	**8,269**	9,052	8,282
Operating loss before changes in operating assets and liabilities		**(6,178)**	(5,263)	(5,709)	**(5,610)**	(4,539)	(5,076)
Changes in operating assets and liabilities							
(Increase) decrease in:							
Due from Bangko Sentral ng Pilipinas		**54,303**	(12,731)	(5,074)	**52,010**	(12,300)	(4,895)
Interbank loans receivable and securities purchased under agreements to resell		**3,859**	20,403	(15,839)	**3,861**	20,958	(16,393)
Trading securities, net		**(721)**	41,760	(18,776)	**(1,236)**	41,829	(19,071)
Loans and advances, net		**(77,418)**	(54,907)	(10,064)	**(62,188)**	(38,573)	(1,907)
Assets held for sale		**2,327**	2,467	466	**2,136**	2,260	1,043
Assets attributable to insurance operations		**(328)**	(209)	15,154	**-**	-	-
Other resources		**(4,185)**	(539)	171	**(3,006)**	(30)	1,862
Increase (decrease) in:							
Deposit liabilities		**(38,665)**	140,295	39,119	**(47,522)**	119,905	31,143
Due to Bangko Sentral ng Pilipinas and other banks		**(283)**	67	438	**(285)**	68	473
Manager's checks and demand drafts outstanding		**(56)**	1,128	336	**(95)**	977	342
Accrued taxes, interest and other expenses		**(536)**	341	388	**(654)**	226	382
Liabilities attributable to insurance operations		**724**	450	(10,051)	**-**	-	-
Derivative financial instruments		**154**	(176)	(918)	**154**	(176)	(918)
Deferred credits and other liabilities		**(1,364)**	(35)	2,632	**(1,547)**	(859)	2,791
Cash (used in) generated from operations		**(68,367)**	133,051	(7,727)	**(63,982)**	129,746	(10,224)
Interest received		**40,467**	37,099	35,808	**28,623**	26,485	24,678
Interest paid		**(13,380)**	(13,029)	(12,574)	**(8,780)**	(8,703)	(8,386)
Income taxes paid		**(2,442)**	(2,670)	(2,735)	**(1,415)**	(1,824)	(2,036)
Net cash (used in) generated from operating activities		**(43,722)**	154,451	12,772	**(45,554)**	145,704	4,032
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	11	**39,147**	(38,596)	(7,743)	**35,311**	(36,533)	(9,550)
Held-to-maturity securities, net	12	**5,693**	(20,259)	(2,056)	**5,363**	(20,187)	(1,556)
Bank premises, furniture, fixtures and equipment, net	14	**(3,246)**	(2,531)	(2,476)	**(1,784)**	(1,376)	(1,478)
Investment properties, net		**3**	(10)	66	**(1)**	(10)	66
Investment in subsidiaries and associates, net		**(120)**	407	(247)	**(39)**	(17)	(240)
Assets attributable to insurance operations		**183**	(787)	(4,032)		-	-
Dividends received		**47**	85	124	**1,210**	436	3,584
Net cash generated from (used in) investing activities		**41,707**	(61,691)	(16,364)	**40,060**	(57,687)	(9,174)

(forward)

BANK OF THE PHILIPPINE ISLANDS
STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2011**	2010	2009	**2011**	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid		**(3,201)**	(9,044)	(5,843)	**(3,201)**	(9,044)	(5,843)
Proceeds from stock rights offering	23	**-**	9,906	-	**-**	9,906	-
Increase (decrease) in bills payable		**(5,733)**	(7,141)	22,074	**(7,357)**	(7,372)	19,242
Net cash (used in) generated from financing activities		**(8,934)**	(6,279)	16,231	**(10,558)**	(6,510)	13,399
NET(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(10,949)**	86,481	12,639	**(16,052)**	81,507	8,257
CASH AND CASH EQUIVALENTS	7						
January 1		**161,910**	75,429	62,790	**138,954**	57,447	49,190
December 31		**150,961**	161,910	75,429	**122,902**	138,954	57,447

(The notes on pages 1 to 91 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2011

Note 1 - General Information

Bank of the Philippine Islands (BPI or the "Parent Bank") is a domestic commercial bank with an expanded banking license and with principal office at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2011, the BPI Group has 12,355 employees (2010 - 12,035 employees) and operated 814 branches and 1,868 ATMs to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The BPI shares have been traded in the Philippine Stock Exchange since October 12, 1971. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on February 15, 2012. There are no material events that occurred subsequent to February 15, 2012 until February 23, 2012.

Note 2 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC), and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC.

The financial statements comprise the statement of condition, statement of income and statement of total comprehensive income shown as two statements, statement of changes in capital funds, the statement of cash flows and the notes.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of trading securities, available-for-sale financial assets, and all derivative contracts.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the BPI Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 New standards, interpretations and amendments to published standards

The BPI Group adopted the following revised standard, amendments to existing standards and interpretations approved by the FRSC which are effective for the BPI Group beginning January 1, 2011:

- *PAS 24 (Revised), Related Party Disclosures* (effective January 1, 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The BPI Group has applied the revised standard from January 1, 2011. As a result of adoption of the revised standard, BPI Group has identified additional related parties and made additional disclosures with respect to those parties (Note 32).

- *PAS 32 (Amendment), Financial Instruments: Presentation - Classification of Rights Issues* (effective February 1, 2010). The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The BPI Group has applied this amendment from January 1, 2011 but the adoption did not have a significant impact on the financial statements as there were no rights issues.

- *Philippine Interpretation IFRIC 14, PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendment)* (effective January 1, 2011). The amendment corrects an unintended consequence of Philippine Interpretation IFRIC 14. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when Philippine Interpretation IFRIC 14 was issued, and the amendment corrects this. The amendment should be applied retrospectively to the earliest comparative period presented. The BPI Group has applied this amendment from January 1, 2011 but the adoption did not have a significant impact on the financial statements as BPI Group's retirement plan does not have minimum funding requirements.

- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* (effective July 1, 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The BPI Group has applied the interpretation from January 1, 2011 but the adoption did not have a significant impact on the financial statements as there were no renegotiated financial liabilities.

2010 Improvements to PFRS (effective for annual period on or after January 1, 2011)

The following are the relevant amendments to PFRS which contains amendments that result in accounting changes, presentation, recognition and measurement. It also includes amendments that are terminology or editorial changes only which have either minimal or no effect on accounting (effective January 1, 2011). These amendments are part of the IASB's annual improvements project published in August 2009. Unless otherwise stated, these improvements did not have a significant impact on the financial statements of the BPI Group.

- *PFRS 1 (Revised), First-time Adoption of Philippine Financial Reporting Standards* (effective January 1, 2011). The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in PFRS 1 after it has published an interim financial report in accordance with PAS 34, Interim Financial Reporting, it should explain those changes and update the reconciliations between previous GAAP and PFRS. The amendment also allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first PFRS financial statements are issued. When such re-measurement occurs after the date of transition to PFRS, but during the period covered by its first PFRS financial statements, any subsequent adjustment to that event-driven fair value is recognized in equity.

  It also clarifies that entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under PAS 36 at the date of transition.

- *PFRS 3, Business Combinations* (effective July 1, 2010). The amendment clarifies that the amendments to PFRS 7, Financial Instruments: Disclosures, PAS 32, Financial Instruments: Presentation, and PAS 39, Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

  The amendment also clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS.

  It also clarifies that the application guidance in PFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards.

- *PFRS 7, Financial Instruments: Disclosures* (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- *PAS 1, Presentation of Financial Statements* (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The BPI Group has applied this amendment by presenting the analysis of other comprehensive income in Note 23.

- *PAS 27, Consolidated and Separate Financial Statements* (effective July 1, 2010). The amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, The Effect of Changes in Foreign Exchange Rates, PAS 28, Investments in Associates, and PAS 31, Interests in Joint Ventures, apply prospectively for annual periods beginning on or after July 1, 2009, or earlier when PAS 27 is applied earlier.

- *PAS 34, Interim Financial Reporting* (effective January 1, 2011). The amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:

  - The circumstances likely to affect fair values of financial instruments and their classification;
  - Transfers of financial instruments between different levels of the fair value hierarchy;
  - Changes in classification of financial assets; and
  - Changes in contingent liabilities and assets

- *Philippine Interpretation IFRIC 13, Customer Loyalty Programs* (effective January 1, 2011). The amendment clarifies the meaning of 'fair value' in the context of measuring award credits under customer loyalty program.

New standards, amendments and interpretations to existing standards that are not yet effective and not early adopted by the BPI Group

- *PAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income* (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income. The BPI Group will apply the amendment beginning January 1, 2013. The adoption is not expected to have a significant impact on the financial statements but will result in changes in presentation in the statement of total comprehensive income.

- *PAS 12 (Amendment), Income Taxes - Deferred Tax* (effective January 1, 2012). PAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in PAS 40, Investment Property. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value.

  The amendments also incorporate into PAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The BPI Group will apply the amendments beginning January 1, 2012 but the adoption is not expected to have an impact on the financial statements as investment properties are measured using the cost model.

- *PAS 19 (Amendment), Employee Benefits* (effective January 1, 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in the profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). As at December 31, 2011, the BPI Group has unrecognized actuarial loss of P 3.1 billion (Note 30). Upon adoption of these amendments, the BPI Group will recognize the actuarial loss in other comprehensive income.

- *PAS 27 (Revised), Separate Financial Statements* (effective January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of PAS 27 have been included in the new PFRS 10. The BPI Group will apply the revised standard beginning January 1, 2013 but the adoption is not expected to have an impact on the financial statements.

- *PAS 28 (Revised), Investments in Associates and Joint Ventures* (effective January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using the equity method following the issuance of PFRS 11. The BPI Group will apply the revised standard beginning January 1, 2013 but the adoption is not expected to have an impact on the financial statements as there are currently no investments in joint ventures.

- *PFRS 1 (Amendment), First-time Adoption of PFRS - Fixed Dates and Hyperinflation* (effective July 1, 2011). These amendments include two changes to PFRS 1, First-time adoption of PFRS. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRS', thus eliminating the need for entities adopting PFRS for the first time to restate derecognition transactions that occurred before the date of transition to PFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRS after a period when the entity was unable to comply with PFRS because its functional currency was subject to severe hyperinflation. The BPI Group will apply the amendment beginning January 1, 2012 but the adoption is not expected to have an impact on the financial statements as the BPI Group is not a first-time adopter.

- *PFRS 7 (Amendment), Financial Instruments: Disclosures - Derecognition* (effective July 1, 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The BPI Group will adopt the amendment beginning January 1, 2012 and provide the additional disclosures required by the amendment upon adoption.

- *PFRS 9, Financial Instruments* (effective January 1, 2015). This standard is the first step in the process to replace PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the BPI Group's accounting for its financial assets. The adoption of PFRS 9 will affect the BPI Group's accounting for its debt available for sale financial assets as the standard will only allow the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments will therefore have to be recognized directly in the profit or loss. The BPI Group is currently assessing the full impact of PFRS 9 and intends to adopt PFRS 9 beginning January 1, 2015.

- *PFRS 10, Consolidated Financial Statements* (effective January 1, 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The BPI Group is currently assessing PFRS 10's full impact and intends to adopt PFRS 10 beginning January 1, 2013.

- *PFRS 11, Joint Arrangements* (effective January 1, 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The BPI Group will adopt the standard beginning January 1, 2013 but the adoption is not expected to have a significant impact on the financial statements as the BPI Group is currently not engaged in joint arrangements or joint ventures.

- *PFRS 12, Disclosures of Interests in Other Entities* (effective January 1, 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The BPI Group is currently assessing PFRS 12's full impact and intends to adopt PFRS 12 beginning January 1, 2013.

- PFRS 13, Fair Value Measurement (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The BPI Group is currently assessing PFRS13's full impact and intends to adopt PFRS 13 beginning January 1, 2013.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Parent Bank and all its consolidated subsidiaries. The subsidiaries' financial statements are prepared for the same reporting periods as the Parent Bank. The percentages of effective ownership of BPI in consolidated subsidiaries at December 31, 2011 and 2010 are as follows:

Name	Country of incorporation	Principal activities	% of ownership	
			2011	2010
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation (BPICC)	Philippines	Investment house	**100**	100
BPI Leasing Corporation	Philippines	Leasing	**100**	100
BPI Direct Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI International Finance Limited	Hong Kong	Financing	**100**	100
BPI Europe Plc.	England and Wales	Banking (deposit)	**100**	100
BPI Securities Corp.	Philippines	Securities dealer	**100**	100
BPI Card Finance Corp.	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Rental Corporation.	Philippines	Rental	**100**	100
BPI Investment Management Inc.	Philippines	Investment management	**100**	100
Santiago Land Dev. Corp.	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Foreign Exchange Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Express Remittance Center HK (Ltd.)	Hong Kong	Remittance	**100**	100
BPI Express Remittance Europe, S.p.A.	Italy	Remittance	**100**	100
FEB Insurance Brokers, Inc.	Philippines	Insurance brokers	**-**	100
Prudential Investments, Inc.	Philippines	Investment house	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
Citytrust Securities Corporation	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
BPI Bancassurance, Inc. (BPIBI)	Philippines	Bancassurance	**-**	100
Ayala Plans, Inc.	Philippines	Pre-need	**100**	100
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
Prudential Venture Capital Corporation	Philippines	Venture capital	**-**	100
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85
BPI Globe BanKO	Philippines	Banking	**40**	40

On August 18 and August 20, 2010, the respective Board of Directors of BPICC and of BPIBI resolved to approve the statutory merger between the two companies with BPICC as the surviving entity. The articles of merger of BPICC and BPIBI were approved by SEC on May 20, 2011. As at this date, BPIBI ceased its corporate existence and all of its assets and liabilities were transferred to BPICC.

BPI has control over BPI Globe BanKO since BPI is largely involved in key decisions concerning financial and operating policies and activities of, and provision of technological support and technical know-how to BPI Globe BanKO.

Subsidiaries are all entities over which the BPI Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the BPI Group controls another entity. The BPI Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the BPI Group's voting rights relative to the size and dispersion of holdings of other shareholders give the BPI Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date on which control ceases.

The BPI Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the BPI Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BPI Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and unrealized gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

(b) Transactions with non-controlling interests

The BPI Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the BPI Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in the profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the BPI Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for by the equity method of accounting and are initially recognized at cost. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, it does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intragroup gains on transactions between the BPI Group and its associates are eliminated to the extent of its interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

2.4 Investments in subsidiaries and associates

The financial statements include the consolidated financial statements of the BPI Group and the separate financial statements of the Parent Bank.

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for at cost method in accordance with PAS 27. Under the cost method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated net income of the investee arising subsequent to the date of acquisition.

The Parent Bank recognizes a dividend from a subsidiary or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

The BPI Group determines at each reporting date whether there is any indicator of impairment that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who allocates resources to and assesses the performance of the operating segments of the BPI Group.

All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated upon consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with PFRS 8, the BPI Group has the following main banking business segments: consumer banking, corporate banking and investment banking. Its insurance business is assessed separately from these banking business segments (Note 5).

2.6 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from Bangko Sentral ng Pilipinas (BSP), Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

2.7 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are treated as loans and advances and included in the statement condition under "Interbank loans receivable and securities purchased under agreements to resell" account. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

2.8 Financial assets

2.8.1 Classification

The BPI Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities, and available-for-sale securities. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading (other than derivatives) are shown as "Trading securities" in the statement of condition.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group entity's key management personnel. The BPI Group has no financial assets that are specifically designated at fair value through profit or loss.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments (i) that are not quoted in an active market, (ii) with no intention of trading, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category are Loans and advances, Due from BSP (liquidity and statutory reserve account) and other banks, Interbank loans receivable and securities purchased under agreements to resell and other receivables under Other resources.

(c) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the BPI Group's management has the positive intention and ability to hold to maturity. If the BPI Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(d) Available-for-sale securities

Available-for-sale securities are non-derivatives financial assets that are either designated in this category or not classified in any of the other categories.

2.8.2 Recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade-date, the date on which the BPI Group commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in profit or loss (as "Trading gain/loss on securities") in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in other comprehensive income should be recognized in profit or loss. However, interest calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the profit or loss. Dividends on equity instruments are recognized in profit or loss when the BPI Group's right to receive payment is established.

2.8.3 Reclassification

The BPI Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the BPI Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the BPI Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.8.4 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the BPI Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

2.9 Impairment of financial assets

(a) Assets carried at amortized cost

The BPI Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the BPI Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

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

The amount of impairment loss is measured as the difference between the financial 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 asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the BPI Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the BPI Group and historical loss experience for assets with credit risk characteristics similar to those in the BPI Group. 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 currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss as a reduction of impairment losses for the year. Subsequent recoveries of amounts previously written-off are credited to operating income in profit or loss.

(b) Assets classified as available-for-sale

The BPI Group assesses at each reporting date whether there is an objective evidence that a security classified as available-for-sale is impaired. For debt securities, the BPI Group uses the criteria refer to (a) above. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. The cumulative loss (difference between the acquisition cost and the current fair value) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

2.10 Financial liabilities

2.10.1 Recognition, classification and measurement

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss, and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the profit or loss. The BPI Group has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, amounts due to BSP, subordinated notes and other financial liabilities under deferred credits and other liabilities.

2.10.2 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or expires). Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for de-recognition are therefore not met.

2.11 Determination of fair value of financial instruments

The BPI Group classifies its fair value measurements using fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The BPI Group uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the BPI Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates. Structured interest rate derivatives are measured using appropriate option pricing models (for example, the Black-Scholes model) or other procedures such as Monte Carlo simulation.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.12 Classes of financial instruments

The BPI Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

	Categories (as defined by PAS 39)	Classes (as determined by the BPI Group)		
		Main classes	Sub-classes	
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities - Equity securities	
		- Derivative financial assets		
	Loans and receivables	- Loans and advances to banks		
		- Loans and advances to customers	- Loans to individuals (retail)	- Real estate mortgages - Auto loans - Credit cards - Others
			- Loans to corporate entities	- Large corporate customers - Small and medium enterprises
	Held-to-maturity investments	- Investment securities (debt securities)	- Government - Others	
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others	
		- Investment securities (equity securities)	- Listed - Unlisted	
Financial Liabilities	Financial liabilities at fair value through profit or loss	Derivative financial liabilities		
	Financial liabilities at amortized cost	- Deposits from customers	- Demand - Savings - Time	
		- Deposits from banks		
		- Unsecured subordinated debts		
		- Bills payable		
		- Other liabilities		
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.14 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The assessment of whether an embedded derivative is required to be separated from the host contract is done when the BPI Group first becomes a party to the contract. Reassessment of embedded derivative is only done when there are changes in the contract that significantly modify the contractual cash flows. The embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

The BPI Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the profit or loss under "Trading gain/loss on securities".

2.15 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	25-50 years
Furniture and equipment	3-5 years
Equipment for lease	2-8 years

Leasehold improvements are depreciated over the shorter of the lease term (normally ranging from 5 - 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

2.16 Investment properties

Properties that are held either to earn rental income or for capital appreciation or for both and that are not significantly occupied by the BPI Group are classified as investment properties. Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Transfers to investment property do not result in gain or loss.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation. Depreciation on investment property is determined using the same policy as applied to Bank premises, furniture, fixtures, and equipment. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher of the property's fair value less costs to sell and value in use.

An item of investment properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset is included in profit or loss in the period the item is derecognized.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit or loss.

2.17 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

(a) Investment property is accounted for using the cost model under PAS 40;

(b) Bank-occupied property is accounted for using the cost model under PAS 16; and

(c) Financial assets are classified as available-for-sale.

2.18 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Miscellaneous assets" under Other resources. Goodwill on acquisitions of associates is included in Investments in subsidiaries and associates. Separately recognized goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationship have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful lives (three to five years). Computer software is included in "Miscellaneous assets" under Other resources.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the BPI Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

2.19 Impairment of non-financial assets

Assets that have indefinite useful lives – for example, goodwill or intangible assets not ready for use, are not subject to amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.20 Borrowings and borrowing costs

The BPI Group's borrowings consist mainly of bills payable and unsecured subordinated debt. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred.

2.21 Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

2.22 Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (i.e. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognized on completion of underlying transactions. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided.

2.23 Dividend income

Dividend income is recognized in profit or loss when the BPI Group's right to receive payment is established.

2.24 Credit card income

Credit card income is recognized upon receipt from merchants of charges arising from credit card transactions. These are computed based on rates agreed with merchants and are deducted from the payments to establishments.

2.25 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of each entity in the BPI Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rate as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at reporting date;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component (Translation adjustments) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

2.26 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the BPI Group is established.

2.27 Provisions for legal or contractual obligations

Provisions are recognized when the BPI Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

2.28 Income taxes

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax related to items (for example, current tax on available-for-sale investments) that are charged or credited in other comprehensive income or directly to capital funds.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the tax paid or withheld is included in Current provision for income tax.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The BPI Group reassesses at each balance sheet date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(c) Recent tax laws and significant regulations

Republic Act 9337 (the Act), which was passed into law in May 2005, amended certain provisions of the National Internal Revenue Code of 1997. The more salient provisions of the Act included: 1) change in normal corporate income tax from 32% to 35% effective November 1, 2005 and from 35% to 30% effective January 1, 2009; 2) change in allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and from 42% to 33% beginning January 1, 2009; and 3) revision of gross receipts tax (GRT) rates.

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements, income tax returns and information on taxes, duties and license fees paid or accrued during the year.

Revenue Regulation No. 19-2011, issued in December 2011, prescribed the New Income Tax Form No. 1702. This regulation further requires the inclusion of supplementary schedules of sales/receipts/fees, costs of sales/services, non-operating and taxable other income, itemized deduction (if the taxpayer did not avail of OSD), taxes and licenses, and other information in the notes to the financial statements.

2.29 Employee benefits

(a) Pension obligations

The BPI Group operates various pension schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to profit or loss over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Where the calculation results in a benefit to the BPI Group, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs, and the present value of any reductions in future contributions to the plan.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(b) Share-based compensation

The BPI Group engages in equity settled share-based payment transaction in respect of services received from certain of its employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of employee services received in respect of the shares or share options granted is recognized in the profit or loss (with a corresponding increase in reserve in capital funds) over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to capital stock (par value) and paid-in surplus for the excess of exercise price over par value. There are no share-based compensation schemes existing at reporting date.

(c) Profit sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank's shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.30 Capital funds

Common shares and preferred shares are classified as share capital.

Share premium includes any premiums or consideration received in excess of par value on the issuance of share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

2.31 Earnings per share (EPS)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

2.32 Dividends on common shares

Dividends on common shares are recognized as a liability in the BPI Group's financial statements in the year in which they are approved by the Board of Directors and the BSP.

2.33 Fiduciary activities

The BPI Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 31).

2.34 Leases

(a) BPI Group is the lessee

(i) Operating lease - leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease - leases of assets where the BPI Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) BPI Group is the lessor

(i) Operating lease - properties (land and building) leased out under operating leases are included in "Investment properties" in the statement of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease - when assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

2.35 Insurance and pre-need operations

(a) Life insurance

The BPI's life insurance subsidiary issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risks include the possibility of having to pay benefits on the occurrence of an insured event such as death, accident, or disability. The subsidiary may also transfer insurance risk in insurance contracts through its reinsurance arrangements; to hedge against a greater possibility of claims occurring than expected. As a general guideline, the subsidiary defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

The more significant of the accounting principles of the life insurance subsidiary follow: (a) premiums arising from insurance contracts are recognized as revenue when received and on the issue date of the insurance policies for the first year premiums; (b) commissions and other acquisition costs are expensed as incurred; (c) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39; and (d) a liability adequacy test is performed at each balance sheet date which compares the subsidiary's reported insurance contract liabilities against current best estimates of future cash flows and claims handling, and policy administration expenses as well as investment income from assets backing such liabilities, with any deficiency immediately charged to income by establishing a provision for losses arising from liability adequacy tests.

In September 2009, the BPI Group lost control over a life insurance subsidiary following the sale of its majority stake in the said subsidiary (see Note 16).

(b) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiary follow: (a) gross premiums written from short term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiary's reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to income; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39.

(c) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) premium income from sale of pre-need plans is recognized as earned when collected; (b) costs of contracts issued and other direct costs and expenses are recognized as expense when incurred; (c) pre-need reserves which represent the accrued net liabilities of the subsidiary to its planholders are actuarially computed based on standards and guidelines set forth by the Insurance Commission; the increase or decrease in the account is charged or credited to other costs of contracts issued in the profit or loss; and (d) insurance premium reserves which represent the amount that must be set aside by the subsidiary to pay for premiums for insurance coverage of fully paid planholders, are actuarially computed based on standards and guidelines set forth by the Insurance Commission.

2.36 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

2.37 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

2.38 Subsequent events (or Events after the reporting date)

Post year-end events that provide additional information about the BPI Group's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 3 - Financial Risk and Capital Management

Risk management in the BPI Group covers all perceived areas of risk exposure, even as it continuously endeavors to uncover hidden risks. Capital management is understood to be a facet of risk management. The Board of Directors sets the BPI Group's management tone by specifying the parameters by which business risks are to be taken and by allocating the appropriate capital for absorbing potential losses from such risks.

The primary objective of the BPI Group is the generation of recurring acceptable returns to shareholders' capital. To this end, the BPI Group's policies, business strategies, and business activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various other funders and stakeholders.

To generate acceptable returns to its shareholders' capital, the BPI Group understands that it has to bear risk, that risk-taking is inherent in its business. Risk is understood by the BPI Group as the uncertainty in its future incomes - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected incomes. Risk-taking is, therefore, not entirely bad to be avoided. Risk-taking presents opportunities if risks are accounted, deliberately taken, and are kept within rationalized limits.

The Risk Management Office (RMO) and the Finance and Risk Management Committee (FRMC) are responsible for the management of market and liquidity risks. Their objective is to minimize adverse impacts on the BPI Group's financial performance due to the unpredictability of financial markets. Market and credit risks management is carried out through policies approved by the Risk Management Committee (RMC)/Executive Committee/Board of Directors. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The most important risks that the BPI Group manages are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency exchange risk, interest rate and other price risks.

3.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the BPI Group by failing to discharge an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the BPI Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements. The Credit Policy Group works with the Credit Committee in managing credit risk, and reports are regularly provided to the Board of Directors.

3.1.1 Credit risk management

(a) Loans and advances

In measuring credit risk of loans and advances at a counterparty level, the BPI Group considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations. In the evaluation process, the BPI Group also considers the conditions of the industry/sector to which the counterparty is exposed, other existing exposures to the group where the counterparty may be related, as well as the client and the BPI Group's fallback position assuming the worst-case scenario. Outstanding and potential credit exposures are reviewed to likewise ensure that they conform to existing internal credit policies.

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The BPI Group has internal credit risk rating systems designed for corporate, small and medium-sized enterprises (SMEs), and retail accounts. For corporate and SMEs, the rating system is a 10-point scale that measures the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual exposures may subsequently migrate between classes as the assessment of their probabilities of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. The BPI Group regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary. The BPI Group's internal ratings are mapped to the following standard BSP classifications:

- *Unclassified* - these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.
- *Loans especially mentioned* - these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the BPI Group.

- *Substandard* - these are loans which appear to involve a substantial degree of risk to the BPI Group because of unfavorable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.

- *Doubtful* - these are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.

- *Loss* - these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalents are used by the BPI Group for managing credit risk exposures. Investments in these securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

3.1.2 Risk limit control and mitigation policies

The BPI Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, to industries and sovereigns.

The BPI Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Exposure to credit risk is also managed through regular analysis of the ability of existing and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

The BPI Group employs a range of policies and practices to mitigate credit risk. Some of these specific control and mitigation measures are outlined below.

(a) Collateral

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels; and
- Hold-out on financial instruments such as debt securities deposits, and equities

In order to minimize credit loss, the BPI Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

(b) Derivatives

The BPI Group maintains strict market limits on net open derivative positions (i.e., the difference between purchase and sale contracts). Credit risk is limited to the net current fair value of instruments, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the BPI Group's market transactions on any single day. The introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

(c) Master netting arrangements

The BPI Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The BPI Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the BPI Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The BPI Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

As described in Note 3.1.1, the BPI Group's credit-quality mapping on loans and advances is based on the standard BSP loan classifications. Impairment provisions are recognized for financial reporting purposes based on objective evidence of impairment (Note 2.8).

The table below shows the percentage of the BPI Group's loans and advances and the related allowance for impairment.

	Consolidated			
	2011		2010	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**96.48**	**0.52**	95.81	0.45
Loans especially mentioned	**0.57**	**5.18**	0.70	5.04
Substandard	**1.11**	**22.98**	1.34	23.98
Doubtful	**0.96**	**66.14**	0.91	65.94
Loss	**0.88**	**100.00**	1.24	100.00
	100.00		100.00	

	Parent			
	2011		2010	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**96.90**	**0.50**	95.99	0.42
Loans especially mentioned	**0.60**	**5.17**	0.80	5.03
Substandard	**0.61**	**16.62**	0.87	16.09
Doubtful	**1.04**	**64.81**	0.99	63.78
Loss	**0.85**	**100.00**	1.35	100.00
	100.00		100.00	

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Due from BSP	**83,759**	128,487	**70,807**	117,805
Due from other banks	**9,297**	6,548	**5,567**	3,209
Interbank loans receivable and securities purchased under agreements to resell (SPAR)	**35,277**	66,834	**24,867**	56,237
Financial assets at fair value through profit or loss				
Derivative financial assets	**5,389**	6,059	**5,389**	6,059
Trading securities - debt securities	**11,933**	11,172	**11,638**	10,293
Available-for-sale - debt securities	**72,906**	111,453	**64,283**	98,701
Held-to-maturity securities, net	**89,742**	95,474	**79,723**	85,136
Loans and advances, net	**454,499**	378,728	**337,425**	276,494
Other financial assets				
Sales contracts receivable, net	**462**	534	**237**	303
Accounts receivable, net	**2,377**	1,397	**1,669**	1,138
Other accrued interest and fees receivable	**664**	667	**594**	481
Rental deposits	**270**	216	**223**	170
Others, net	**108**	135	**136**	151
	766,683	807,704	**602,558**	656,177

Credit risk exposures relating to off-balance sheet items are as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Undrawn loan commitments	**154,248**	102,853	**147,801**	98,937
Bills for collection	**23,470**	18,521	**23,469**	18,513
Unused letters of credit	**11,003**	12,894	**11,003**	12,894
Others	**2,765**	707	**2,623**	606
	191,486	134,975	**184,896**	130,950

The preceding table represents the maximum credit risk exposure at December 31, 2011 and 2010, without taking into account any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of condition.

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk of the BPI Group resulting from its loan and advances portfolio based on the following:

- **97%** of the loans and advances portfolio is categorized in the top two classifications of the internal rating system in 2011 (2010 - 97%);
- Mortgage loans are backed by collateral;
- **96%** of the loans and advances portfolio is considered to be neither past due nor impaired (2010 - 95%); and
- The BPI Group continues to implement stringent selection process of granting loans and advances.

3.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Neither past due nor impaired	**445,355**	370,409	**331,698**	271,001
Past due but not impaired	**3,503**	2,250	**2,410**	1,398
Impaired	**16,301**	16,311	**10,682**	11,366
	465,159	388,970	**344,790**	283,765
Allowance for impairment	**(10,660)**	(10,242)	**(7,365)**	(7,271)
	454,499	378,728	**337,425**	276,494

Impaired category as shown in the table above includes loan accounts which are individually (Note 3.1.5c) and collectively assessed for impairment.

The total consolidated impairment provision for loans and advances is P1,786 million (2010 – P2,574 million), of which P1,251 million (2009 – P2,064 million) represents provision for individually impaired loans and the remaining amount of P535 million (2010 – P510 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 13.

When entering into new markets or new industries, the BPI Group focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

Collaterals held as security for Loans and advances are described in Note 13.

(a) Loans and advances neither past due nor impaired

Loans and advances that were neither past due nor impaired consist mainly of accounts with Unclassified rating and those loans accounts in a portfolio to which an impairment has been allocated on a collective basis. Details of these accounts follow:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	**271,394**	215,184	**261,883**	208,451
Small and medium enterprises	**76,655**	70,029	**51,524**	46,806
Retail customers:				
Mortgages	**76,317**	65,873	**62**	314
Credit cards	**17,506**	15,251	**17,506**	15,251
Others	**3,483**	4,072	**723**	179
	445,355	370,409	**331,698**	271,001

(b) Loans and advances past due but not impaired

The table below presents the gross amount of loans and advances that were past due but not impaired and classified by type of borrowers. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

Consolidated

	2011				2010			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	66	164	1,205	**1,435**	29	82	831	942
Past due 31 - 90 days	188	157	936	**1,281**	10	56	802	868
Past due 91 - 180 days	33	293	1	**327**	5	111	43	159
Over 180 days	224	236	-	**460**	26	253	2	281
	511	**850**	**2,142**	**3,503**	70	502	1,678	2,250
Fair value of collateral				**6,786**				5,381

Parent

	2011				2010			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	47	68	1,125	**1,240**	14	15	736	765
Past due 31 - 90 days	161	22	733	**916**	-	17	534	551
Past due 91 - 180 days	-	95	-	**95**	-	22	2	24
Over 180 days	128	31	-	**159**	1	57	-	58
	336	**216**	**1,858**	**2,410**	15	111	1,272	1,398
Fair value of collateral				**430**				338

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances (included in Impaired category) by class, along with the fair value of related collateral held by the BPI Group as security, are as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	**5,157**	5,150	**4,934**	5,103
Small and medium enterprises	**6,262**	6,613	**4,134**	4,546
Retail customers:				
Mortgages	**781**	703	**10**	45
Credit cards	**1,162**	1,305	**1,162**	1,305
Others	**18**	-	**13**	-
	13,380	13,771	**10,253**	10,999
Fair value of collateral	**10,913**	11,723	**9,151**	9,989

3.1.6 Credit quality of other financial assets

a. Due from Bangko Sentral ng Pilipinas

Due from BSP amounting to P83,759 million and P128,487 million as of December 31, 2011 and 2010, respectively, are made with a sovereign counterparty and are considered fully performing.

b. Due from other banks and interbank loans receivable

Due from other banks and interbank loans receivable are considered fully performing at December 31, 2011 and 2010. The table below presents the credit ratings of counterparty banks based on Standard and Poor's.

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
AAA	**-**	71	**-**	71
AA- to AA+	**2,409**	9,198	**2,288**	9,129
A- to A+	**2,436**	12,108	**2,304**	12,124
Lower than A-	**-**	-	-	-
Unrated	**4,956**	4,995	**3,201**	3,035
	9,801	26,372	**7,793**	24,359

Interbank loans receivable and securities purchased under agreements to resell includes reverse repurchase agreements amounting to P34,773 million (2010 - P47,010). These are made with a sovereign counterparty and are considered fully performing.

c. Derivative financial assets

The table below presents the Standard and Poor's credit ratings of counterparties for derivative financial assets presented in the consolidated and parent financial statements.

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
AAA	**-**	-	**-**	-
AA- to AA+	**1,348**	872	**1,348**	872
A- to A+	**2,192**	3,199	**2,192**	3,199
Lower than A-	**137**	880	**137**	880
Unrated	**1,712**	1,108	**1,712**	1,108
	5,389	6,059	**5,389**	6,059

d. Debt securities, treasury bills and other government securities

The table below presents the ratings of debt securities, treasury bills and other government securities at December 31, 2011 and 2010 based on Standard & Poor's:

At December 31, 2011

	Consolidated				**Parent**			
	Trading securities	Held-to-maturity	Available-for-sale	Total	Trading securities	Held-to-maturity	Available-for-sale	Total
	(In Millions of Pesos)							
AAA	488	-	1,253	**1,741**	488	-	1,253	**1,741**
AA- to AA+	3,076	6,267	16,580	**25,923**	3,076	6,135	11,361	**20,572**
A- to A+	-	207	3,460	**3,667**	-	-	3,460	**3,460**
Lower than A-	8,353	82,982	49,207	**140,542**	8,074	73,376	46,217	**127,667**
Unrated	16	286	2,406	**2,708**	-	212	1,992	**2,204**
	11,933	**89,742**	**72,906**	**174,581**	**11,638**	**79,723**	**64,283**	**155,644**

At December 31, 2010

	Consolidated				Parent			
	Trading securities	Held-to-maturity	Available-for-sale	Total	Trading securities	Held-to-maturity	Available-for-sale	Total
	(In Millions of Pesos)							
AAA	2,854	6,479	10,007	19,340	2,854	6,346	6,027	15,227
AA- to AA+	-	220	7,055	7,275	-	220	6,011	6,231
A- to A+	-	1,624	2,399	4,023	-	-	2,399	2,399
Lower than A-	8,313	87,151	89,429	184,893	7,439	78,570	81,755	167,764
Unrated	5	-	2,563	2,568	-	-	2,509	2,509
	11,172	95,474	111,453	218,099	10,293	85,136	98,701	194,130

e. Other financial assets

The BPI Group's other financial assets (shown under Other resources) as of December 31, 2011 and 2010 consist mainly of sales contracts receivable, accounts receivable, accrued interest and fees receivable from various unrated counterparties with good credit standing.

3.1.7 Repossessed or foreclosed collaterals

The BPI Group acquired assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2011, the BPI Group's foreclosed collaterals have carrying amount of P9,148 million (2010 – P11,774 million). The related foreclosed collaterals have aggregate fair value of P10,776 million (2010 – P13,962 million). Foreclosed collaterals include real estate (land, building, and improvements), auto or chattel, bond and stocks.

Repossessed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

3.1.8 Concentrations of risks of financial assets with credit risk exposure

The BPI Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

<u>Consolidated</u>

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less – allowance	Total
				(In Millions of Pesos)			
Due from BSP	83,759	-	-	-	-	-	**83,759**
Due from other banks	9,297	-	-	-	-	-	**9,297**
Interbank loans receivable and SPAR	35,277	-	-	-	-	-	**35,277**
Financial assets at fair value through profit or loss							
Derivative financial assets	5,326	-	12	-	51	-	**5,389**
Trading securities - debt securities	4	-	49	2	11,878	-	**11,933**
Available-for-sale - debt securities	14,848		305	465	57,288	-	**72,906**
Held-to-maturity securities	200	-	-	-	89,542	-	**89,742**
Loans and advances, net	29,243	50,318	105,724	120,540	159,334	(10,660)	**454,499**
Other financial assets							
Sales contracts receivable, net	-	-	-	-	467	(5)	**462**
Accounts receivable, net	-	-	-	-	3,059	(682)	**2,377**
Other accrued interest and fees receivable	-	-	-	-	664	-	**664**
Rental deposits	-	-	-	-	270	-	**270**
Others, net	-	-	-	-	130	(22)	**108**
At December 31, 2011	**177,954**	**50,318**	**106,090**	**121,007**	**322,683**	**(11,369)**	**766,683**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less – allowance	Total
				(In Millions of Pesos)			
Due from BSP	128,487	-	-	-	-	-	128,487
Due from other banks	6,548	-	-	-	-	-	6,548
Interbank loans receivable and SPAR	66,834	-	-	-	-	-	66,834
Financial assets at fair value through profit or loss							
Derivative financial assets	6,010	5	15	14	15	-	6,059
Trading securities - debt securities	123	-	34	-	11,015	-	11,172
Available-for-sale - debt securities	14,861	-	477	470	95,645	-	111,453
Held-to-maturity securities	1,635	-	-	-	93,839	-	95,474
Loans and advances, net	23,399	44,617	74,928	96,066	149,960	(10,242)	378,728
Other financial assets							
Sales contracts receivable, net	-	-	-	-	539	(5)	534
Accounts receivable, net	-	-	-	-	2,064	(667)	1,397
Other accrued interest and fees receivable	-	-	-	-	667	-	667
Rental deposits	-	-	-	-	216	-	216
Others, net	-	-	-	-	157	(22)	135
At December 31, 2010	247,897	44,622	75,454	96,550	354,117	(10,936)	807,704

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	70,807	-	-	-	-	-	**70,807**
Due from other banks	5,567	-	-	-	-	-	**5,567**
Interbank loans receivable and SPAR	24,867	-	-	-	-	-	**24,867**
Financial assets at fair value through profit or loss							
Derivative financial assets	5,326	-	12	-	51	-	**5,389**
Trading securities - debt securities	4	-	36	-	11,598	-	**11,638**
Available-for-sale - debt securities	13,671	-	305	465	49,842	-	**64,283**
Held-to-maturity securities	98	-	-	-	79,625	-	**79,723**
Loans and advances, net	26,634	21,216	102,542	53,859	140,539	(7,365)	**337,425**
Other financial assets							
Sales contracts receivable, net	-	-	-	-	242	(5)	**237**
Accounts receivable, net	-	-	-	-	2,322	(653)	**1,669**
Other accrued interest and fees receivable	-	-	-	-	594	-	**594**
Rental deposits	-	-	-	-	223	-	**223**
Others, net	-	-	-	-	150	(14)	**136**
At December 31, 2011	**146,974**	**21,216**	**102,895**	**54,324**	**285,186**	**(8,037)**	**602,558**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	117,805	-	-	-	-	-	117,805
Due from other banks	3,209	-	-	-	-	-	3,209
Interbank loans receivable and SPAR	56,237	-	-	-	-	-	56,237
Financial assets at fair value through profit or loss							
Derivative financial assets	6,010	5	15	14	15	-	6,059
Trading securities - debt securities	120	-	34	-	10,139	-	10,293
Available-for-sale - debt securities	14,230	-	477	470	83,524	-	98,701
Held-to-maturity securities	243	-	-	-	84,893	-	85,136
Loans and advances, net	21,583	18,359	72,202	42,275	129,346	(7,271)	276,494
Other financial assets							
Sales contracts receivable, net	-	-	-	-	308	(5)	303
Accounts receivable, net	-	-	-	-	1,765	(627)	1,138
Other accrued interest and fees receivable	-	-	-	-	481	-	481
Rental deposits	-	-	-	-	170	-	170
Others, net	-	-	-	-	165	(14)	151
At December 31, 2010	219,437	18,364	72,728	42,759	310,806	(7,917)	656,177

Trading, available-for-sale and held-to-maturity securities under “Others” category include local and US treasury bills. Likewise, Loans and advances under the same category pertain to loans granted to individual and retail borrowers belonging to various industry sectors.

3.2 Market risk management

The BPI Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the FRMC guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/Board of Directors.

The BPI Group reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the BPI Group’s market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group’s retail and commercial banking assets and liabilities.

As part of the management of market risk, the BPI Group undertakes various hedging strategies. The BPI Group also enters into interest rate swaps to match the interest rate risk associated with fixed-rate long-term debt securities.

The BPI Group uses the 1-day, 99% confidence, Value-at-Risk (VaR) as metric of its exposure to market risk. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios’ actual loss would be greater than the computed VaR.

VaR measurement is an integral part of the BPI Group’s market risk control system. Actual market risk exposures vis-à-vis market risk limits are reported daily to the FRMC. VaR limits for all trading portfolios are set by the RMC. The RMC has set a 1-day VaR limit for the BPI Group aggregate trading portfolio. The BPI Group also has a year-to-date mark-to-market plus trading loss limit at which management action would be triggered.

Stress tests indicate the potential losses that could arise in extreme conditions. Price risk and liquidity risk stress tests are conducted quarterly aside from the historical tests of the VaR models. Concluded tests indicate that BPI will be able to hurdle both stress scenarios. Results of stress tests are reviewed by senior management and by the RMC.

The average daily VaR for the trading portfolios follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Local fixed-income	**380**	198	**361**	184
Foreign fixed-income	**221**	112	**202**	108
Foreign exchange	**49**	51	**18**	15
Derivatives	**40**	21	**40**	21
Equity securities	**15**	8	**-**	-
Mutual fund	**8**	8	**-**	-
	713	398	**621**	328

The BPI Group uses a simple version of the Balance Sheet VaR (BSVaR) whereby only the principal and interest payments due and relating to the banking book as at particular valuation dates are considered. The BSVaR assumes a static balance sheet, i.e., it is assumed that there will be no new transactions moving forward, and no portfolio rebalancing will be undertaken in response to future changes in market rates.

The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate sensitive assets and the amounts of rate sensitive liabilities. An asset or liability is considered to be rate-sensitive if the interest rate applied to the outstanding principal balance changes (either contractually or because of a change in a reference rate) during the interval.

The BSVaR estimates the “riskiness of the balance sheet” and compares the degree of risk taking activity in the banking books from one period to the next. In consideration of the static framework, and the fact that income from the positions is accrued rather than generated from marking-to-market, the probable loss (that may be exceeded 1% of the time) that is indicated by the BSVaR is not realized in accounting income.

The cumulative BSVaR for the banking or non-trading book follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
BSVaR	**1,362**	**1,109**	**1,210**	**1,008**

3.2.1 Foreign exchange risk

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31, 2011 and 2010. Included in the table are the BPI Group's financial instruments at carrying amounts, categorized by currency.

Consolidated

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2011						
Financial Assets						
Cash and other cash items	1,750	47	127	19	-	1,943
Due from other banks	4,591	300	551	1,458	-	6,900
Interbank loans receivable and SPAR	1	220	283	-	-	504
Financial assets at fair value through profit or loss						
Derivative financial assets	1,707	-	46		-	**1,753**
Trading securities - debt Securities	3,777	-	302	234	-	**4,313**
Available-for-sale - debt securities	34,876	-	157	1,885	-	**36,918**
Held-to-maturity securities	32,138	-	1,594	170	-	**33,902**
Loans and advances, net	40,251	1,398	91	22	(580)	**41,182**
Others financial assets						
Accounts receivable, net	59	-	-	2	(7)	**54**
Other accrued interest and fees receivable	136	1	98	42	-	**277**
Others	1	-	1	-	-	**2**
Total financial assets	**119,287**	**1,966**	**3,250**	**3,832**	**(587)**	**127,748**
Financial Liabilities						
Deposit liabilities	107,808	1,099	2,722	713	-	**112,342**
Derivative financial liabilities	1,420	-	46	-	-	**1,466**
Due to BSP and other banks	66	-	-	-	-	**66**
Manager's checks and demand drafts outstanding	57	-	1	-	-	**58**
Other financial liabilities						
Accounts payable	89	-	85	3	-	**177**
Others	1,312	39	88	-	-	**1,439**
Total financial liabilities	**110,752**	**1,138**	**2,942**	**716**	**-**	**115,548**
Net on-balance sheet financial position (in Philippine Peso)	**8,535**	**828**	**308**	**3,116**	**(587)**	**12,200**

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2010						
Financial Assets						
Cash and other cash items	1,888	38	99	16	-	2,041
Due from other banks	1,629	39	351	1,239	-	3,258
Interbank loans receivable and SPAR	19,633	-	-	102	-	19,735
Financial assets at fair value through profit or loss						
Derivative financial assets	1,005	-	45	-	-	1,050
Trading securities - debt securities	3,624	-	58	-	-	3,682
Available-for-sale - debt securities	32,269	-	821	216	-	33,306
Held-to-maturity securities	33,781	-	1,663	238	-	35,682
Loans and advances, net	26,588	1,568	81	26	(270)	27,993
Others financial assets						
Accounts receivable, net	57	1	1	1	(4)	56
Other accrued interest and fees receivable	90	1	104	17	-	212
Others	1	-	-	1	-	2
Total financial assets	120,565	1,647	3,223	1,856	(274)	127,017
Financial Liabilities						
Deposit liabilities	104,344	1,070	2,841	530	-	108,785
Derivative financial liabilities	1,039	-	45	-	-	1,084
Due to BSP and other banks	95	-	-	-	-	95
Manager's checks and demand drafts outstanding	55	1	4	-	-	60
Other financial liabilities	3,625	188	345	30	-	4,188
Accounts payable	77	-	204	1	-	282
Others	1,033	11	71	-	-	1,115
Total financial liabilities	110,268	1,270	3,510	561	-	115,609
Net on-balance sheet financial position (in Philippine Peso)	10,297	377	(287)	1,295	(274)	11,408

Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2011						
Financial Assets						
Cash and other cash items	1,616	47	120	17	-	**1,800**
Due from other banks	3,667	298	447	208	-	**4,620**
Interbank loans receivable and SPAR	1	220	283	-	-	**504**
Financial assets at fair value through profit or loss						
Derivative financial assets	1,705	-	46	-	-	**1,751**
Trading securities - debt securities	3,777	-	302	234	-	**4,313**
Available-for-sale - debt securities	28,640		157	1,885	-	**30,682**
Held-to-maturity securities	27,954		1,594	-	-	**29,548**
Loans and advances, net	40,251	1,398	91	-	(579)	**41,161**
Other financial assets						
Accounts receivable, net	59	-	-	1	(7)	**53**
Other accrued interest and fees receivable	136	1	98	19	-	**254**
Total financial assets	**107,806**	**1,964**	**3,138**	**2,364**	**(586)**	**114,686**
Financial Liabilities						
Deposit liabilities	96,971	1,099	2,719	548	-	**101,337**
Derivative financial liabilities	1,420	-	46	-	-	**1,466**
Due to BSP and other banks	66	-	-	-	-	**66**
Manager's checks and demand drafts outstanding	21	-	1	-	-	**22**
Other financial liabilities						
Accounts payable	86	-	2	-	-	**88**
Others	1,398	39	91	-	-	**1,528**
Total financial liabilities	**99,962**	**1,138**	**2,859**	**548**	**-**	**104,507**
Net on-balance sheet financial position (in Philippine Peso)	**7,844**	**826**	**279**	**1,816**	**(586)**	**10,179**

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2010						
Financial Assets						
Cash and other cash items	1,756	38	63	15	-	1,872
Due from other banks	1,322	37	149	76	-	1,584
Interbank loans receivable and SPAR	19,633	-	-	102	-	19,735
Financial assets at fair value through profit or loss						
Derivative financial assets	1,005	-	45	-	-	1,050
Trading securities - debt securities	3,624	-	58	-	-	3,682
Available-for-sale - debt securities	27,031	-	821	216	-	28,068
Held-to-maturity securities	29,984	-	1,634	-	-	31,618
Loans and advances, net	26,588	1,568	80	-	(270)	27,966
Other financial assets						
Accounts receivable, net	56	1	-	1	(4)	54
Other accrued interest and fees receivable	89	1	102	3	-	195
Total financial assets	111,088	1,645	2,952	413	(274)	115,824
Financial Liabilities						
Deposit liabilities	95,387	1,070	2,814	399	-	99,670
Derivative financial liabilities	1,039	-	45	-	-	1,084
Due to BSP and other banks	95	-	-	-	-	95
Manager's checks and demand drafts outstanding	31	1	4	-	-	36
Other financial liabilities						
Accounts payable	68	-	2	1	-	71
Others	1,033	11	71		-	1,115
Total financial liabilities	97,653	1,082	2,936	400	-	102,071
Net on-balance sheet financial position (in Philippine Peso)	13,435	563	16	13	(274)	13,753

3.2.2 Interest rate risk

There are two types of interest rate risk - (i) fair value interest risk and (ii) cash flow interest risk. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. 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 BPI Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value which affects mainly the BPI Group's trading securities portfolio and cash flow risks on available for sale securities portfolio which is carried at market.

Interest rate risk in the banking book arises from the BPI Group's core banking activities. The main source of this type of interest rate risk is repricing risk, which reflects the fact that the BPI Group's assets and liabilities are of different maturities and are priced at different interest rates. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly by the FRMC.

The table below summarizes the BPI Group's exposure to interest rate risk, categorized by the earlier of contractual repricing or maturity dates.

Consolidated

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2011					
Financial Assets					
Due from BSP	-	-	-	83,759	**83,759**
Due from other banks	-	-	-	9,297	**9,297**
Interbank loans receivable and SPAR	-	-	-	35,277	**35,277**
Financial assets at fair value through profit or loss					
Derivative financial assets	2,005	969	2,415	-	**5,389**
Trading securities - debt securities	220	-	-	11,713	**11,933**
Available-for-sale - debt securities	5,276	-	-	67,630	**72,906**
Held-to-maturity securities	6	-	-	89,736	**89,742**
Loans and advances, net	357,324	18,527	44,892	33,756	**454,499**
Other financial assets					
Sales contracts receivable, net	-	-	-	462	**462**
Accounts receivable, net	-	-	-	2,377	**2,377**
Other accrued interest and fees receivable	-	-	-	664	**664**
Rental deposits	-	-	-	270	**270**
Others, net	-	-	-	108	**108**
Total financial assets	**364,831**	**19,496**	**47,307**	**335,049**	**766,683**
Financial Liabilities					
Deposit liabilities	374,615	68,390	106,847	131,249	**681,101**
Derivative financial liabilities	1,685	813	2,316	-	**4,814**
Bills payable	-	-	-	19,136	**19,136**
Due to BSP and other banks	-	-	-	1,717	**1,717**
Manager's checks and demand drafts outstanding	-	-	-	4,131	**4,131**
Unsecured subordinated debt	-	-	-	5,000	**5,000**
Other financial liabilities					
Accounts payable	-	-	-	2,918	**2,918**
Outstanding acceptances	-	-	-	1,390	**1,390**
Deposits on lease contract	-	-	-	2,050	**2,050**
Dividends payable	-	-	-	3,201	**3,201**
Others	-	-	-	610	**610**
Total financial liabilities	**376,300**	**69,203**	**109,163**	**171,402**	**726,068**
Total interest gap	**(11,469)**	**(49,707)**	**(61,856)**	**163,647**	**40,615**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2010					
Financial Assets					
Due from BSP	-	-	-	128,487	128,487
Due from other banks	-	-	-	6,548	6,548
Interbank loans receivable and SPAR	-	-	-	66,834	66,834
Financial assets at fair value through profit or loss					
Derivative financial assets	6,059	-	-	-	6,059
Trading securities - debt securities	-	-	-	11,172	11,172
Available-for-sale - debt securities	-	-	-	111,453	111,453
Held-to-maturity securities	-	-	-	95,474	95,474
Loans and advances, net	275,154	17,786	40,515	45,273	378,728
Other financial assets					
Sales contracts receivable, net	-	-	-	534	534
Accounts receivable, net	-	-	-	1,397	1,397
Other accrued interest and fees receivable	-	-	-	667	667
Rental deposits	-	-	-	216	216
Others, net	-	-	-	135	135
Total financial assets	281,213	17,786	40,515	468,190	807,704
Financial Liabilities					
Deposit liabilities	325,202	256,420	17,690	120,454	719,766
Derivative financial liabilities	5,329	-	-	-	5,329
Bills payable	-	-	-	24,868	24,868
Due to BSP and other banks	-	-	-	2,000	2,000
Manager's checks and demand drafts outstanding				4,187	4,187
Unsecured subordinated debt	-	-	-	5,000	5,000
Other financial liabilities					
Accounts payable	-	-	-	2,937	2,937
Outstanding acceptances	-	-	-	1,031	1,031
Deposits on lease contract	-	-	-	1,728	1,728
Others	-	-	-	537	537
Total financial liabilities	330,531	256,420	17,690	162,742	767,383
Total interest gap	(49,318)	(238,634)	22,825	305,448	40,321

Parent

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2011					
Financial Assets					
Due from BSP	-	-	-	70,807	**70,807**
Due from other banks	-	-	-	5,567	**5,567**
Interbank loans receivable and SPAR	-	-	-	24,867	**24,867**
Financial assets at fair value through profit or loss					
Derivative financial assets	2,005	969	2,415	-	**5,389**
Trading securities - debt securities	220	-	-	11,418	**11,638**
Available-for-sale - debt securities	5,276	-	-	59,007	**64,283**
Held-to-maturity securities	6	-	-	79,717	**79,723**
Loans and advances, net	308,040	4,371	14,859	10,155	**337,425**
Other financial assets					
Sales contracts receivable, net	-	-	-	237	**237**
Accounts receivable, net	-	-	-	1,669	**1,669**
Other accrued interest and fees receivable	-	-	-	594	**594**
Rental deposits	-	-	-	223	**223**
Others, net	-	-	-	136	**136**
Total financial assets	**315,547**	**5,340**	**17,274**	**264,397**	**602,558**
Financial Liabilities					
Deposit liabilities	287,883	53,253	79,830	123,448	**544,414**
Derivative financial liabilities	1,685	813	2,316	-	**4,814**
Bills payable	-	-	-	9,887	**9,887**
Due to BSP and other banks	-	-	-	1,717	**1,717**
Manager's checks and demand drafts outstanding	-	-	-	3,389	**3,389**
Unsecured subordinated debt	-	-	-	5,000	**5,000**
Other financial liabilities					
Accounts payable	-	-	-	2,020	**2,020**
Outstanding acceptances	-	-	-	1,390	**1,390**
Dividends payable	-	-	-	3,201	**3,201**
Others	-	-	-	494	**494**
Total financial liabilities	**289,568**	**54,066**	**82,146**	**150,546**	**576,326**
Total interest gap	**25,979**	**(48,726)**	**(64,872)**	**113,851**	**26,232**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2010					
Financial Assets					
Due from BSP	-	-	-	117,805	117,805
Due from other banks	-	-	-	3,209	3,209
Interbank loans receivable and SPAR	-	-	-	56,237	56,237
Financial assets at fair value through profit or loss					
Derivative financial assets	6,059	-	-	-	6,059
Trading securities - debt securities	-	-	-	10,293	10,293
Available-for-sale - debt securities	-	-	-	98,701	98,701
Held-to-maturity securities	-	-	-	85,136	85,136
Loans and advances, net	234,743	6,393	14,511	20,847	276,494
Other financial assets					
Sales contracts receivable, net	-	-	-	303	303
Accounts receivable, net	-	-	-	1,138	1,138
Other accrued interest and fees receivable	-	-	-	481	481
Rental deposits	-	-	-	170	170
Others, net	-	-	-	151	151
Total financial assets	240,802	6,393	14,511	394,471	656,177
Financial Liabilities					
Deposit liabilities	261,619	217,078	22	113,217	591,936
Derivative financial liabilities	5,329	-	-	-	5,329
Bills payable	-	-	-	17,243	17,243
Due to BSP and other banks	-	-	-	2,003	2,003
Manager's checks and demand drafts outstanding	-	-	-	3,483	3,483
Unsecured subordinated debt	-	-	-	5,000	5,000
Other financial liabilities					
Accounts payable	-	-	-	1,778	1,778
Outstanding acceptances	-	-	-	1,031	1,031
Others	-	-	-	535	535
Total financial liabilities	266,948	217,078	22	144,290	628,338
Total interest gap	(26,146)	(210,685)	14,489	250,188	27,839

3.3 Liquidity risk

Liquidity risk is the risk that the BPI Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

3.3.1 Liquidity risk management process

The BPI Group's liquidity management process, as carried out within the BPI Group and monitored by the RMC and the FRMC includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 and 3.3.4) and the expected collection date of the financial assets.

The BPI Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

3.3.3 Non-derivative cash flows

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, which the BPI Group uses to manage the inherent liquidity risk. The analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

Consolidated

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2011				
Financial Assets				
Cash and other cash items	22,395	-	-	**22,395**
Due from BSP	83,784	-	-	**83,784**
Due from other banks	9,297	-	-	**9,297**
Interbank loans receivable and securities under agreements to resell (SPAR)	36,971	-	-	**36,971**
Financial assets at fair value through profit or loss				
Trading securities	12,388	-	-	**12,388**
Available-for-sale	8,549	14,663	56,035	**79,247**
Held-to-maturity, net	18,267	31,079	52,172	**101,518**
Loans and advances, net	268,459	54,369	243,200	**566,028**
Other financial assets				
Sales contracts receivable, net	462	-	-	**462**
Accounts receivable, net	2,377	-	-	**2,377**
Other accrued interest and fees receivable	664	-	-	**664**
Rental deposits	270	-	-	**270**
Others, net	108	-	-	**108**
Total financial assets	**463,991**	**100,111**	**351,407**	**915,509**
Financial Liabilities				
Deposit liabilities	508,292	71,299	109,904	**689,495**
Bills payable	17,498	398	1,795	**19,691**
Due to BSP and other banks	1,717	-	-	**1,717**
Manager's checks and demand drafts outstanding	4,131	-	-	**4,131**
Unsecured subordinated debt	423	845	6,689	**7,957**
Other financial liabilities				
Accounts payable	2,918	-	-	**2,918**
Outstanding acceptances	1,390	-	-	**1,390**
Deposits on lease contract	2,050	-	-	**2,050**
Dividends payable	3,201	-	-	**3,201**
Others	610	-	-	**610**
Total financial liabilities	**542,230**	**72,542**	**118,388**	**733,160**
Total maturity gap	**(78,239)**	**27,569**	**233,019**	**182,349**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2010				
Financial Assets				
Cash and other cash items	18,151	-	-	18,151
Due from BSP	128,536	-	-	128,536
Due from other banks	6,548	-	-	6,548
Interbank loans receivable and securities under agreements to resell (SPAR)	68,159	-	-	68,159
Financial assets at fair value through profit or loss				
Trading securities	11,330			11,330
Available-for-sale	110,221	4,259	5,783	120,263
Held-to-maturity, net	23,611	40,749	57,025	121,385
Loans and advances, net	235,657	46,915	184,869	467,441
Other financial assets, net				
Sales contracts receivable, net	534	-	-	534
Accounts receivable, net	1,397	-	-	1,397
Other accrued interest and fees receivable	667	-	-	667
Rental deposits	216	-	-	216
Others, net	136	-	-	136
Total financial assets	605,163	91,923	247,677	944,763
Financial Liabilities				
Deposit liabilities	326,619	260,159	143,697	730,475
Bills payable	22,386	657	2,806	25,849
Due to BSP and other banks	2,000	-	-	2,000
Manager's checks and demand drafts outstanding	4,187	-	-	4,187
Unsecured subordinated debt	423	845	7,112	8,380
Other financial liabilities				
Accounts payable	2,937	-	-	2,937
Outstanding acceptances	1,031	-	-	1,031
Deposits on lease contract	1,728	-	-	1,728
Others	537	-	-	537
Total financial liabilities	361,848	261,661	153,615	777,124
Total maturity gap	243,315	(169,738)	94,062	167,639

Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2011				
Financial Assets				
Cash and other cash items	21,661	-	-	**21,661**
Due from BSP	70,829			**70,829**
Due from other banks	5,567			**5,567**
Interbank loans receivable and securities under agreements to resell (SPAR)	24,868	-	-	**24,868**
Financial assets at fair value through profit or loss				
Trading securities	12,082	-	-	**12,082**
Available-for-sale	7,831	11,446	49,295	**68,572**
Held-to-maturity, net	17,697	31,275	52,197	**101,169**
Loans and advances, net	257,357	30,021	105,251	**392,629**
Other financial assets, net				
Sales contracts receivable, net	237	-	-	**237**
Accounts receivable, net	1,669	-	-	**1,669**
Other accrued interest and fees receivable	594	-	-	**594**
Rental deposits	223	-	-	**223**
Others, net	136	-	-	**136**
Total financial assets	**420,751**	**72,742**	**206,743**	**700,236**
Financial Liabilities				
Deposit liabilities	413,081	53,707	80,508	**547,296**
Bills payable	8,441	319	1,432	**10,192**
Due to BSP and other banks	1,717	-	-	**1,717**
Manager's checks and demand drafts outstanding	3,389	-	-	**3,389**
Unsecured subordinated debt	423	845	6,689	**7,957**
Other financial liabilities				
Accounts payable	2,020	-	-	**2,020**
Outstanding acceptances	1,390	-	-	**1,390**
Dividends payable	3,201	-	-	**3,201**
Others	494	-	-	**494**
Total financial liabilities	**434,156**	**54,871**	**88,629**	**577,656**
Total maturity gap	**(13,405)**	**17,871**	**118,114**	**122,580**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2010				
Financial Assets				
Cash and other cash items	17,573	-	-	17,573
Due from BSP	117,882	-	-	117,882
Due from other banks	3,209	-	-	3,209
Interbank loans receivable and securities under agreements to resell (SPAR)	56,237	-	-	56,237
Financial assets at fair value through profit or loss				
Trading securities	10,438			10,438
Available-for-sale	97,269	4,102	4,242	105,613
Held-to-maturity, net	19,132	36,485	53,382	108,999
Loans and advances, net	210,806	23,476	88,601	322,883
Other financial assets, net				
Sales contracts receivable, net	303	-	-	303
Accounts receivable, net	1,138	-	-	1,138
Other accrued interest and fees receivable	481	-	-	481
Rental deposits	170	-	-	170
Others, net	151	-	-	151
Total financial assets	534,789	64,063	146,225	745,077
Financial Liabilities				
Deposit liabilities	262,584	219,664	113,243	595,491
Bills payable	15,161	549	2,148	17,858
Due to BSP and other banks	2,003	-	-	2,003
Manager's checks and demand drafts outstanding	3,483	-	-	3,483
Unsecured subordinated debt	423	845	7,112	8,380
Other financial liabilities				
Accounts payable	1,778	-	-	1,778
Outstanding acceptances	1,031	-	-	1,031
Others	535	-	-	535
	286,998	221,058	122,503	630,559
Total maturity gap	247,791	(156,995)	23,722	114,518

3.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

The BPI Group's derivatives that are settled on a net basis consist only of interest rate swaps and non-deliverable forwards. The table below presents the contractual undiscounted cash outflows of interest rate swaps based on the remaining period from December 31 to the contractual maturity dates.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
2011	**(8)**	**(644)**	**(2,316)**	**(2,968)**
2010	(52)	(307)	(1,920)	(2,279)
Non-deliverable forwards - held for trading				
2011	**(890)**	**(146)**	-	**(1,036)**
2010	(1,274)	(851)	-	(2,125)

(b) Derivatives settled on a gross basis

The BPI Group's derivatives that are settled on a gross basis include foreign exchange derivatives mainly, currency forwards, currency swaps and spot contracts. The table below presents the contractual undiscounted cash flows of foreign exchange derivatives based on the remaining period from reporting date to the contractual maturity dates.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Total
		(In Millions of Pesos)	
Foreign exchange derivatives - held for trading			
2011			
- Outflow	**(76,419)**	-	**(76,419)**
- Inflow	**75,631**	-	**75,631**
2010			
- Outflow	(66,715)	-	(66,715)
- Inflow	65,792	-	65,792

3.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statement of condition at fair value at December 31.

Consolidated

	Carrying amount		Fair value	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Financial assets				
Due from BSP	**83,759**	128,487	**83,759**	128,487
Due from other banks	**9,297**	6,548	**9,297**	6,548
Interbank loans receivable and SPAR	**35,277**	66,834	**35,277**	66,834
Held-to-maturity, net	**89,742**	95,474	**98,630**	101,302
Loans and advances, net	**454,499**	378,728	**473,092**	413,436
Other financial assets				
Sales contracts receivable, net	**462**	534	**462**	534
Accounts receivable, net	**2,377**	1,397	**2,377**	1,397
Other accrued interest and fees receivable	**664**	667	**664**	667
Rental deposits	**270**	216	**270**	216
Others, net	**108**	135	**108**	135
Financial liabilities				
Deposit liabilities	**681,101**	719,766	**681,101**	719,766
Bills payable	**19,136**	24,868	**19,136**	24,868
Due to BSP and other banks	**1,717**	2,000	**1,717**	2,000
Manager's checks and demand drafts outstanding	**4,131**	4,187	**4,131**	4,187
Unsecured subordinated debt	**5,000**	5,000	**5,607**	5,613
Other financial liabilities				
Accounts payable	**2,918**	2,937	**2,918**	2,937
Outstanding acceptances	**1,390**	1,031	**1,390**	1,031
Deposits on lease contract	**2,050**	1,728	**2,050**	1,728
Dividends payable	**3,201**	-	**3,201**	-
Others	**610**	537	**610**	537

Parent

	Carrying amount		Fair value	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Financial assets				
Due from BSP	**70,807**	117,805	**70,807**	117,805
Due from other banks	**5,567**	3,209	**5,567**	3,209
Interbank loans receivable and SPAR	**24,867**	56,237	**24,867**	56,237
Held-to-maturity, net	**79,723**	85,136	**87,909**	90,629
Loans and advances, net	**337,425**	276,494	**353,634**	299,780
Other financial assets				
Sales contracts receivable, net	**237**	303	**237**	303
Accounts receivable, net	**1,669**	1,138	**1,669**	1,138
Other accrued interest and fees receivable	**594**	481	**594**	481
Rental deposits	**223**	170	**223**	170
Others, net	**136**	151	**136**	151
Financial liabilities				
Deposit liabilities	**544,414**	591,936	**544,414**	591,936
Bills payable	**9,887**	17,243	**9,887**	17,243
Due to BSP and other banks	**1,717**	2,003	**1,717**	2,003
Manager's checks and demand drafts outstanding	**3,389**	3,483	**3,389**	3,483
Unsecured subordinated debt	**5,000**	5,000	**5,607**	5,613
Other financial liabilities				
Accounts payable	**2,020**	1,778	**2,020**	1,778
Outstanding acceptances	**1,390**	1,031	**1,390**	1,031
Dividends payable	**3,201**	-	**3,201**	-
Others	**494**	535	**494**	535

(i) Due from BSP and other banks and Interbank loans receivable and SPAR

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Investment securities

Fair value of held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iv) Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Other financial assets / liabilities

Carrying amounts of other financial assets / liabilities which have no definite repayment dates are assumed to be their fair values.

3.5 Fair value hierarchy

The following table presents the BPI Group's assets and liabilities that are measured at fair value at December 31, 2011.

Consolidated

	Level 1	Level 2	Total
December 31, 2011	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,389	**5,389**
Trading securities			
- Debt securities	11,933	-	**11,933**
- Equity securities	342	-	**342**
Available-for-sale financial assets			
- Debt securities	63,840	9,066	**72,906**
- Equity securities	344	-	**344**
	76,459	14,455	**90,914**
Financial liabilities			
Derivative financial liabilities	-	4,814	**4,814**

	Level 1	Level 2	Total
December 31, 2010	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	6,059	6,059
Trading securities			
- Debt securities	11,172	-	11,172
- Equity securities	277	-	277
Available-for-sale financial assets			-
- Debt securities	102,959	8,494	111,453
- Equity securities	318	-	318
	114,726	14,553	129,279
Financial liabilities			
Derivative financial liabilities	-	5,329	5,329

Parent

	Level 1	Level 2	Total
December 31, 2011	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,389	**5,389**
Trading securities – debt securities	11,638	-	**11,638**
Available-for-sale financial assets			
- Debt securities	55,241	9,042	**64,283**
- Equity securities	133	-	**133**
	67,012	14,431	**81,443**
Financial liabilities			
Derivative financial liabilities	-	4,814	**4,814**

	Level 1	Level 2	Total
December 31, 2010	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
- Derivative financial assets	-	6,059	6,059
- Trading securities - debt securities	10,293	-	10,293
Available-for-sale financial assets			
- Debt securities	92,158	6,543	98,701
- Equity securities	134	-	134
	102,585	12,602	115,187
Financial liabilities			
Derivative financial liabilities	-	5,329	5,329

The BPI Group has no financial instruments that fall under the Level 3 category as of December 31, 2011 and 2010. There were no transfers between Level 1 and Level 2 during the year.

3.6 Insurance risk management

The life and non-life insurance entities decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these entities arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require Board of Directors' approval.

In September 2009, the BPI Group lost control over a life insurance subsidiary following the sale of its majority stake in the said subsidiary (see Note 16).

3.7 Capital management

Cognizant of its exposure to risks, the BPI Group understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The BPI Group further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

The BPI Group manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, BPI currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Parent Bank consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves and minority interest less deductions such as deferred income tax, unsecured credit accommodations to DOSRI, goodwill and unrealized fair value losses on available-for-sale securities. Tier 2 capital includes unsecured subordinated debt (see Note 21), net unrealized fair value gains on available-for-sale investments, and general loan loss provisions for BSP reporting purposes.

The Basel II framework following BSP Circular 538 took into effect on July 1, 2007. The table below summarizes the CAR under the Basel II framework for the years ended December 31, 2011 and 2010.

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Tier 1 capital	**75,978**	68,133	**77,303**	69,430
Tier 2 capital	**9,461**	8,908	**8,554**	8,104
Gross qualifying capital	**85,439**	77,041	**85,857**	77,534
Less: Required deductions	**2,531**	2,473	**25,429**	22,722
Total qualifying capital	**82,908**	74,568	**60,428**	54,812
Risk weighted assets	**556,026**	482,788	**446,005**	386,150
CAR (%)	**14.91**	15.45	**13.55**	14.19

The BPI Group has fully complied with the CAR requirement of the BSP.

Likewise, the BPI Group manages the capital of its non-life insurance subsidiaries, pre-need subsidiary and securities dealer subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as Insurance Commission, Philippine Securities and Exchange Commission and Philippine Stock Exchange. These subsidiaries have fully complied with the relevant capital requirements.

Note 4 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

A. Critical accounting estimates

(i) Impairment losses on loans and advances (Note 13)

The BPI Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2011 would be an estimated P383 million (2010 - P393 million) higher or lower.

(ii) Fair value of derivatives and other financial instruments (Notes 3.4 and 9)

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are approved by the Board of Directors before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, the models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iii) Pension liability on defined benefit plan (Note 30)

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 30 and include, among others, the discount rate, expected return on plan assets and future salary increases. The present value of the defined benefit obligations of the BPI Group at December 31, 2011 and 2010 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are accumulated and amortized over future periods and therefore generally affect the BPI Group's recognized expense and recorded obligation in such future periods. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimation of pension liability.

(iv) Valuation of assets held for sale

In determining the fair value of assets held for sale, the BPI Group analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the profit or loss.

In 2011, the BPI Group has recognized an impairment loss on its foreclosed assets amounting to P299 million (2010 – P267 million).

B. Critical accounting judgments

(i) Impairment of available-for-sale securities (Note 11)

The BPI Group follows the guidance of PAS 39 to determine when an available-for-sale security is impaired. This determination requires significant judgment. In making this judgment, the BPI Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(ii) Held-to-maturity securities (Note 12)

The BPI Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the BPI Group evaluates its intention and ability to hold such investments to maturity. If the BPI Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

(iii) Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel), as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value

(iv) Realization of deferred income tax assets (Note 17)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 5 - Assets and Liabilities Attributable to Insurance Operations

Details of the assets and liabilities attributable to insurance operations as of December 31 are as follows:

	2011	2010
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 7)	**233**	54
Insurance balances receivable, net	**1,874**	1,680
Investment securities		
Available-for-sale	**4,745**	1,621
Held-to-maturity	**3,894**	7,180
Land, building and equipment	**153**	174
Accounts receivable and other assets, net	**1,341**	1,207
	12,240	11,916
Liabilities		
Reserves and other balances	**9,325**	8,610
Accounts payable, accrued expenses and other payables	**612**	603
	9,937	9,213

Details of income attributable to insurance operations, before income tax and minority interest for the years ended December are as follows:

	2011	2010	2009
		(In Millions of Pesos)	
Premiums earned and related income	**2,410**	2,188	5,817
Investment and other income	**551**	410	910
	2,961	2,598	6,727
Benefits, claims and maturities	**1,093**	961	1,886
Increase in actuarial reserve liabilities	**30**	7	2,574
Management and general expenses	**429**	381	698
Commissions	**417**	418	515
Other expenses	**43**	29	256
	2,012	1,796	5,929
Income before income tax and minority interest	**949**	802	798

In September 2009, the BPI Group lost control over a life insurance subsidiary following the sale of its majority stake in the said subsidiary (see Note 16).

Note 6 - Business Segments

In 2009, segment reporting by the BPI Group was prepared for the first time in accordance with PFRS 8. Following the management approach of PFRS 8, operating segments are reported in accordance with the internal reporting provided to the chief executive officer, who is responsible for allocating resources to the reportable segments and assesses their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under PFRS 8.

The BPI Group has determined the operating segments based on the nature of the services provided and the different markets served representing a strategic business unit.

The BPI Group's main operating business segments follow:

- Consumer Banking - this segment addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. It includes the entire transaction processing and service delivery infrastructure consisting of the BPI and BPI Family Bank network of branches, ATMs and point-of-sale terminals as well as phone and Internet-based banking platforms.

- Corporate Banking - this segment consists of the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers. These customers include both high-end corporations as well as various middle market clients.

- Investment Banking - this segment includes the various business groups operating in the investment markets, and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the chief executive officer assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 5.

The BPI Group and the Parent Bank mainly derive revenue (more than 90%) within the Philippines, accordingly, no geographical segment is presented.

Revenues of the BPI Group's segment operations are derived from interest (net interest income). The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the year. Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the management is measured in a manner consistent with that in the profit or loss.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the BPI Group's cost of capital.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Inter-segment revenues however, are deemed insignificant for financial reporting purposes, thus, not reported in segment analysis below.

The BPI Group's management reporting is based on a measure of operating profit comprising net income, loan impairment charges, fee and commission income, other income and non-interest income.

Segment assets and liabilities comprise majority of operating assets and liabilities as shown in the statement of condition, but exclude items such as taxation.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as of and for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
Interest income	24,985	6,674	6,463	**38,122**
Interest expense	11,819	515	105	**12,439**
Net interest income	13,166	6,159	6,358	**25,683**
Impairment charge	1,643	475	33	**2,151**
Net interest income after impairment charge	11,523	5,684	6,325	**23,532**
Fees and commission income	3,845	518	455	**4,818**
Other income	3,834	1,410	6,059	**11,303**
Gross receipts tax	(468)	(54)	(532)	**(1,054)**
Other income, net	7,211	1,874	5,982	**15,067**
Compensation and fringe benefits	7,467	715	592	**8,774**
Occupancy and equipment - related expenses	3,882	1,036	121	**5,039**
Other operating expenses	6,217	1,248	986	**8,451**
Total operating expenses	17,566	2,999	1,699	**22,264**
Operating profit	1,168	4,559	10,608	**16,335**
Share in net income of associates				**216**
Provision for income tax				**3,130**
Total assets	288,598	324,863	226,427	**839,888**
Total liabilities	702,138	16,072	22,599	**740,809**

	2010			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Interest income	26,302	6,421	4,102	36,825
Interest expense	12,177	793	12	12,982
Net interest income	14,125	5,628	4,090	23,843
Impairment charge	1,827	1,288	328	3,443
Net interest income after impairment charge	12,298	4,340	3,762	20,400
Fees and commission income	3,440	480	363	4,283
Other income	3,684	1,086	6,162	10,932
Gross receipts tax	(418)	(46)	(668)	(1,132)
Other income, net	6,706	1,520	5,857	14,083
Compensation and fringe benefits	6,570	575	396	7,541
Occupancy and equipment - related expenses	3,761	1,269	91	5,121
Other operating expenses	6,020	913	509	7,442
Total operating expenses	16,351	2,757	996	20,104
Operating profit	2,653	3,103	8,623	14,379
Share in net income of associates				195
Provision for income tax				2,520
Total assets	270,201	261,722	332,005	863,928
Total liabilities	746,969	18,681	18,099	783,749

	2009			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Interest income	23,712	7,107	3,113	33,932
Interest expense	11,282	804	57	12,143
Net interest income	12,430	6,303	3,056	21,789
Impairment charge	1,476	1,059	-	2,535
Net interest income after impairment charge	10,954	5,244	3,056	19,254
Fees and commission income	2,875	399	292	3,566
Other income	3,362	856	4,742	8,960
Gross receipts tax	(361)	(28)	(412)	(801)
Other income, net	5,876	1,227	4,622	11,725
Compensation and fringe benefits	6,456	548	382	7,386
Occupancy and equipment - related expenses	3,407	1,143	92	4,642
Other operating expenses	5,450	864	423	6,737
Total operating expenses	15,313	2,555	897	18,765
Operating profit	1,517	3,916	6,781	12,214
Share in net loss of associates				(21)
Provision for income tax				3,519
Total assets	239,711	221,206	249,471	710,388
Total liabilities	606,170	33,786	2,820	642,776

Reconciliation of segment results to consolidated results of operations:

	2011		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Interest income	38,122	567	**38,689**
Interest expense	12,439	384	**12,823**
Net interest income	25,683	183	**25,866**
Impairment charge	2,151	(1)	**2,150**
Net interest income after impairment charge	23,532	184	**23,716**
Fees and commission income	4,818	(211)	**4,607**
Other income	11,303	1,052	**12,355**
Gross receipts tax	(1,054)	(16)	**(1,070)**
Other income, net	15,067	825	**15,892**
Compensation and fringe benefits	8,774	1,605	**10,379**
Occupancy and equipment - related expenses	5,039	1,437	**6,476**
Other operating expenses	8,451	(1,841)	**6,610**
Total operating expenses	22,264	1,201	**23,465**
Operating profit	16,335	(192)	**16,143**
Share in net income of associates	216		**216**
Provision for income tax	3,130		**3,130**
Total assets	839,888	2,728	**842,616**
Total liabilities	740,809	11,277	**752,086**

	2010		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Interest income	36,825	162	36,987
Interest expense	12,982	377	13,359
Net interest income	23,843	(215)	23,628
Impairment charge	3,443	11	3,454
Net interest income after impairment charge	20,400	(226)	20,174
Fees and commission income	4,283	(123)	4,160
Other income	10,932	845	11,777
Gross receipts tax	(1,132)	(26)	(1,158)
Other income, net	14,083	696	14,779
Compensation and fringe benefits	7,541	1,596	9,137
Occupancy and equipment - related expenses	5,121	962	6,083
Other operating expenses	7,442	(1,708)	5,734
Total operating expenses	20,104	850	20,954
Operating profit	14,379	(380)	13,999
Share in net income of associates	195	-	195
Provision for income tax	2,520	-	2,520
Total assets	863,928	14,218	878,146
Total liabilities	783,749	12,122	795,871

	2009		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
		(In Millions of Pesos)	
Interest income	33,932	(45)	33,887
Interest expense	12,143	342	12,485
Net interest income	21,789	(387)	21,402
Impairment charge	2,535	-	2,535
Net interest income after impairment charge	19,254	(387)	18,867
Fees and commission income	3,566	(136)	3,430
Other income	8,960	1,475	10,435
Gross receipts tax	(801)	(71)	(872)
Other income, net	11,725	1,268	12,993
Compensation and fringe benefits	7,386	1,769	9,155
Occupancy and equipment - related expenses	4,642	1,003	5,645
Other operating expenses	6,737	(1,861)	4,876
Total operating expenses	18,765	911	19,676
Operating profit	12,214	(30)	12,184
Share in net loss of associates	(21)	-	(21)
Provision for income tax	3,519	-	3,519
Total assets	710,388	14,032	724,420
Total liabilities	642,776	13,879	656,655

"Consolidation adjustments/Others" pertains to balances of support units and inter-segment elimination in accordance with the BPI Group's internal reporting.

Note 7 - Cash and Cash Equivalents

This account at December 31 consists of:

	Consolidated			**Parent**		
	2011	2010	2009	**2011**	2010	2009
			(In Millions of Pesos)			
Cash and other cash items	**22,395**	18,151	18,780	**21,661**	17,573	17,987
Due from Bangko Sentral ng Pilipinas	**83,759**	74,184	21,172	**70,807**	65,795	14,755
Due from other banks	**9,297**	6,548	7,147	**5,567**	3,209	3,363
Interbank loans receivable and securities purchased under agreements to resell (Note 8)	**35,277**	62,973	28,282	**24,867**	52,377	21,342
Cash and cash equivalents attributable to insurance operations (Note 5)	**233**	54	48	-	-	-
	150,961	161,910	75,429	**122,902**	138,954	57,447

Note 8 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
BSP	**34,729**	46,904	**22,640**	35,000
BPI Leasing Corporation		-	**1,402**	1,132
Other banks	**503**	19,817	**781**	20,011
	35,232	66,721	**24,823**	56,143
Accrued interest receivable	**45**	113	**44**	94
	35,277	66,834	**24,867**	56,237

Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition are classified as cash equivalents in the statement of cash flows (Note 7).

Range of interest rates (%) of interbank loans receivable of the BPI Group for the year:

	2011	2010
Peso-denominated	**4.03 - 4.54**	2.04 - 3.07
US dollar-denominated	**0.31 - 0.34**	0.26 - 0.31

Note 9 - Derivative Financial Instruments

Derivatives held by the BPI Group for non-hedging purposes are as follows:

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.

- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an agreement to sell or purchase the same currency at an agreed forward rate in the future.

- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period of time.

- Cross currency swaps refer to spot exchange of notional amounts on two currencies at a given exchange rate and with an agreement to re-exchange the same notional amounts at a specified maturity date based on the original exchange rate. Parties on the transaction agree to pay a stated interest rate on the borrowed notional amount and receive a stated interest rate on the lent notional amount, payable or receivable periodically over the term of the transaction.

The BPI Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the BPI Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of condition. They do not necessarily represent the amounts of future cash flows involved or the current fair values of the instruments and therefore are not indicative of the BPI Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand and the extent at which the instruments can become favorable or unfavorable in fair values can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

Consolidated and Parent

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2011	2010	**2011**	2010	**2011**	2010
			(In Millions of Pesos)			
Freestanding derivatives						
Foreign exchange derivatives						
Currency swaps	**150,971**	173,123	**606**	1,700	**(772)**	(853)
Currency forwards	**61,755**	90,239	**1,449**	1,684	**(1,052)**	(2,195)
Interest rate swaps	**25,495**	24,206	**3,214**	2,651	**(2,967)**	(2,279)
Embedded credit derivatives	**19,185**	19,142	**120**	24	**(23)**	(2)
Total derivatives assets (liabilities) held for trading			**5,389**	6,059	**(4,814)**	(5,329)

Note 10 - Trading Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Debt securities				
Government securities	**11,433**	11,046	**11,157**	10,179
Commercial papers of private companies	**274**	5	**258**	-
	11,707	11,051	**11,415**	10,179
Accrued interest receivable	**226**	121	**223**	114
	11,933	11,172	**11,638**	10,293
Equity securities - listed	**342**	277	**-**	-
	12,275	11,449	**11,638**	10,293

Note 11 - Available-for-Sale Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	**2011**	2010
Debt securities	(In Millions of Pesos)			
Government securities	**54,169**	91,572	**47,128**	79,960
Others	**17,674**	18,104	**16,150**	17,141
	71,843	109,676	**63,278**	97,101
Accrued interest receivable	**1,063**	1,777	**1,005**	1,600
	72,906	111,453	**64,283**	98,701
Equity securities				
Listed	**344**	318	**133**	134
Unlisted	**1,431**	1,316	**297**	288
	1,775	1,634	**430**	422
	74,681	113,087	**64,713**	99,123
Allowance for impairment	**(597)**	(564)	**(213)**	(213)
	74,084	112,523	**64,500**	98,910

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Current	**6,856**	103,933	**6,487**	91,743
Non-current	**67,825**	9,154	**58,226**	7,380
	74,681	113,087	**64,713**	99,123

Range of interest rates (%) of available-for-sale debt securities of the BPI Group for the year:

	2011	2010
Peso-denominated	**5.13 - 5.54**	5.47 - 5.88
Foreign currency-denominated	**2.26 - 2.53**	1.03 - 1.41

The movement in available-for-sale securities is summarized as follows:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**112,523**	71,706	**98,910**	60,433
Additions	**297,343**	480,507	**266,203**	443,589
Disposals	**(339,449)**	(440,726)	**(304,304)**	(406,343)
Amortization of discount/(premium), net	**(189)**	(14)	**(159)**	(43)
Fair value adjustments (Note 23)	**1,683**	1,538	**1,782**	1,396
Exchange differences	**2,920**	(1,202)	**2,663**	(1,020)
Net change in allowance for impairment	**(33)**	(310)	**-**	5
Net change in accrued interest receivable	**(714)**	1,024	**(595)**	893
At December 31	**74,084**	112,523	**64,500**	98,910

On October 22, 2008, the BPI Group reclassified certain available-for-sale securities aggregating P19.1 billion to held-to-maturity category. Likewise, on November 12, 2008, an additional portfolio of US dollar-denominated available-for-sale securities totaling US$171.6 million (or peso equivalent of P9.2 billion) was further reclassified from available-for-sale to held-to-maturity.

The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to global economic downturn. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

The aggregate fair value loss of those securities at reclassification dates still recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P1,757 million. Unamortized fair value loss as of December 31, 2011 and 2010, amounts to P694 million and P1,111 million, respectively.

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**564**	254	**213**	218
Provision for (reversal of) impairment losses	**33**	310	**-**	(5)
At December 31	**597**	564	**213**	213

Note 12 - Held-to-Maturity Securities

This account at December 31 consists of:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Government securities	**84,709**	90,838	**76,080**	81,491
Commercial papers of private companies	**2,990**	2,560	**1,851**	1,804
	87,699	93,398	**77,931**	83,295
Accrued interest receivable	**2,043**	2,076	**1,792**	1,841
	89,742	95,474	**79,723**	85,136

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Current	**15,298**	15,664	**10,223**	11,147
Non-current	**74,444**	79,810	**69,500**	73,989
	89,742	95,474	**79,723**	85,136

Range of interest rates (%) of held-to-maturity securities of the BPI Group for the year:

	2011	2010
Peso-denominated	**7.46 - 8.00**	7.60 - 8.01
Foreign currency-denominated	**4.53 - 4.82**	4.62 - 5.98

The movement in held-to-maturity securities is summarized as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**95,474**	75,031	**85,136**	64,787
Additions	**31,517**	42,267	**29,920**	38,838
Maturities	**(38,591)**	(22,290)	**(35,616)**	(19,054)
Amortization of premium, net	**(1,417)**	(1,759)	**(1,434)**	(1,711)
Exchange differences	**2,792**	2,049	**1,766**	2,128
Net change in accrued interest receivable	**(33)**	176	**(49)**	148
At December 31	**89,742**	95,474	**79,723**	85,136

Note 13 - Loans and Advances

Major classifications of this account at December 31 are as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
Corporate entities	(In Millions of Pesos)			
Large corporate customers	**276,806**	231,231	**275,099**	223,161
Small and medium enterprise	**74,518**	66,129	**46,439**	40,700
Retail customers				
Credit cards	**21,571**	18,507	**21,571**	18,507
Mortgages	**83,451**	72,371	**146**	404
Others	**13,040**	4,594	**727**	202
	469,386	392,832	**343,982**	282,974
Accrued interest receivable	**1,667**	1,528	**1,230**	1,144
Unearned discount/income	**(5,894)**	(5,390)	**(422)**	(353)
	465,159	388,970	**344,790**	283,765
Allowance for impairment	**(10,660)**	(10,242)	**(7,365)**	(7,271)
	454,499	378,728	**337,425**	276,494

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Current	**262,020**	229,232	**251,138**	204,759
Non-current	**203,139**	159,738	**93,652**	79,006
	465,159	388,970	**344,790**	283,765

The amount of loans and advances above include finance lease receivables as follows:

	Consolidated	
	2011	2010
	(In Millions of Pesos)	
Total future minimum lease collections	**7,256**	5,918
Unearned finance income	**(1,113)**	(938)
Present value of future minimum lease collections	**6,143**	4,980
Allowance for impairment	**(74)**	(63)
	6,069	4,917

Details of future minimum lease collections follow:

	Consolidated	
	2011	2010
	(In Millions of Pesos)	
Not later than one year	**4,268**	2,320
Later than one year but not later than five years	**2,988**	3,598
	7,256	5,918
Unearned finance income	**(1,113)**	(938)
	6,143	4,980

The Parent Bank has no finance lease receivables as of December 31, 2011 and 2010.

Details of the loans and advances portfolio of the BPI Group at December 31 are as follows:

1) As to industry/economic sector (in %)

	Consolidated		Parent	
	2011	2010	**2011**	2010
Consumer	**27.96**	29.80	**6.60**	6.88
Manufacturing	**22.19**	18.71	**29.77**	25.47
Real estate, renting and other related activities	**12.53**	10.68	**15.63**	13.82
Agriculture and forestry	**2.67**	10.50	**3.56**	14.37
Wholesale and retail trade	**14.26**	11.94	**18.85**	16.01
Financial institutions	**6.22**	5.82	**7.70**	7.58
Others	**14.17**	12.55	**17.89**	15.87
	100.00	100.00	**100.00**	100.00

2) As to collateral

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**152,314**	132,958	**77,219**	67,286
Chattel mortgage	**30,506**	24,536	**3,732**	1,470
Others	**100,630**	85,431	**96,695**	80,155
	283,450	242,925	**177,646**	148,911
Unsecured loans	**180,042**	144,517	**165,914**	133,710
	463,492	387,442	**343,560**	282,621

Other collaterals include hold-out deposits, mortgage trust indentures, government securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Loans and advances aggregating P3,312 million (2010 – P15,564 million) and P1,283 million (2010 – P7,939 million) are used as security for bills payable (Note 20) of the BPI Group and Parent Bank, respectively.

Range of interest rates (%) of loans and advances of the BPI Group for the year:

	2011	2010
Commercial loans		
Peso-denominated loans	**5.08 - 5.89**	6.39 - 6.59
Foreign currency-denominated loans	**2.16 - 2.25**	2.11 - 2.32
Real estate mortgages	**8.70 - 9.52**	9.62 - 10.15
Auto loans	**10.45 - 10.60**	10.46 - 10.84

Non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of accounts in the “loss” category and covered with 100% reserves (excluded under BSP Circular 351), are as follows:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	**12,095**	12,288	**7,270**	8,036
“Loss” category loans with 100% reserves	**2,559**	2,771	**1,921**	2,134
Net NPL 30	**9,536**	9,517	**5,349**	5,902

Reconciliation of allowance for impairment by class at December 31 follows:

Consolidated

	2011					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	**Total**
	(In Millions of Pesos)					
At January 1	2,641	3,537	975	1,945	1,144	**10,242**
Provision for impairment losses	629	2	180	921	54	**1,786**
Write-off/disposal	(86)	(112)	(7)	(872)	(9)	**(1,086)**
Unwind of discount	(68)	(97)	-	-	-	**(165)**
Others	(25)	(7)	(46)	(21)	(18)	**(117)**
At December 31	3,091	3,323	1,102	1,973	1,171	**10,660**

	2010					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	2,154	3,323	855	1,694	930	8,956
Provision for impairment losses	947	365	179	852	231	2,574
Write-off/disposal	(335)	(154)	(60)	(601)	(21)	(1,171)
Unwind of discount	(51)	(52)	-	-	-	(103)
Others	(74)	55	1	-	4	(14)
At December 31	2,641	3,537	975	1,945	1,144	10,242

Parent

	2011					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	**Total**
	(In Millions of Pesos)					
At January 1	2,752	2,501	60	1,945	13	**7,271**
Provision for (reversal of) impairment losses	489	(78)	1	921	11	**1,344**
Write-off/disposal	(86)	(98)	-	(872)	(2)	**(1,058)**
Unwind of discount	(68)	(97)	-	-	-	**(165)**
Others	(62)	61	(21)	(21)	16	**(27)**
At December 31	3,025	2,289	40	1,973	38	**7,365**

	2010					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	2,272	2,747	67	1,694	14	6,794
Provision for (reversal of) impairment losses	892	(54)	52	852	1	1,743
Write-off/disposal	(335)	(154)	(60)	(601)	-	(1,150)
Unwind of discount	(51)	(50)	-	-	-	(101)
Others	(26)	12	1	-	(2)	(15)
At December 31	2,752	2,501	60	1,945	13	7,271

Note 14 - Bank Premises, Furniture, Fixtures and Equipment

This account at December 31 consists of:

Consolidated

	2011				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2011	3,263	5,501	11,974	4,215	**24,953**
Additions	22	538	2,423	3,031	**6,014**
Disposals	(126)	(19)	(2,998)	(2,778)	**(5,921)**
Amortization	-	(187)	-	-	**(187)**
Transfers	-	(2)	(11)	-	**(13)**
December 31, 2011	3,159	5,831	11,388	4,468	**24,846**
Accumulated depreciation					
January 1, 2011	-	2,022	9,761	1,564	**13,347**
Depreciation	-	221	1,187	934	**2,342**
Disposals/transfers	-	(18)	(2,141)	(1,006)	**(3,165)**
December 31, 2011	-	2,225	8,807	1,492	**12,524**
Net book value, December 31, 2011	**3,159**	**3,606**	**2,581**	**2,976**	12,322

	2010				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2010	3,372	5,118	11,586	3,896	23,972
Additions	-	656	1,181	1,990	3,827
Disposals	(106)	(61)	(786)	(1,671)	(2,624)
Amortization	-	(196)	-	-	(196)
Transfers	(3)	(16)	(7)	-	(26)
December 31, 2010	3,263	5,501	11,974	4,215	24,953
Accumulated depreciation	-				
January 1, 2010		1,865	9,278	1,419	12,562
Depreciation	-	203	1,042	847	2,092
Disposals/transfers	-	(46)	(559)	(702)	(1,307)
December 31, 2010	-	2,022	9,761	1,564	13,347
Net book value, December 31, 2010	3,263	3,479	2,213	2,651	11,606

Parent

	2011			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2011	2,827	4,771	11,075	**18,673**
Additions	1	442	2,291	**2,734**
Disposals	(126)	(18)	(2,861)	**(3,005)**
Amortization	-	(145)	-	**(145)**
Transfers	-	-	(4)	**(4)**
December 31, 2011	2,702	5,050	10,501	**18,253**
Accumulated depreciation				
January 1, 2011	-	1,777	9,049	**10,826**
Depreciation	-	197	1,091	**1,288**
Disposals/transfers	-	(18)	(2,042)	**(2,060)**
December 31, 2011	-	1,956	8,098	**10,054**
Net book value, December 31, 2011	2,702	**3,094**	**2,403**	**8,199**

	2010			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2010	2,933	4,444	10,717	18,094
Additions	-	547	1,048	1,595
Disposals	(106)	(61)	(690)	(857)
Amortization	-	(159)	-	(159)
Transfers	-	-	-	-
December 31, 2010	2,827	4,771	11,075	18,673
Accumulated depreciation				
January 1, 2010	-	1,643	8,618	10,261
Depreciation	-	177	941	1,118
Disposals/transfers	-	(43)	(510)	(553)
December 31, 2010	-	1,777	9,049	10,826
Net book value, December 31, 2010	2,827	2,994	2,026	7,847

Depreciation is included in Occupancy and equipment-related expenses in the profit or loss.

Note 15 - Investment Properties

This account at December 31 consists of:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Land	**3,208**	3,208	**3,202**	3,202
Buildings	**1,759**	1,764	**1,758**	1,757
	4,967	4,972	**4,960**	4,959
Accumulated depreciation	**(1,077)**	(1,013)	**(1,077)**	(1,010)
Allowance for impairment	**(1,253)**	(1,253)	**(1,253)**	(1,253)
	2,637	2,706	**2,630**	2,696

The movement in investment properties is summarized as follows:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**2,706**	2,762	**2,696**	2,751
Additions	**1**	10	**1**	10
Disposals	**(4)**	-	**-**	-
Depreciation	**(66)**	(66)	**(67)**	(65)
At December 31	**2,637**	2,706	**2,630**	2,696

Investment properties have aggregate fair value of P5,899 million as of December 31, 2011 (2010 - P12,365 million). Fair value of investment property is determined on the basis of appraisal made by an internal or an external appraiser duly certified by the BPI Group's credit policy group. Valuation methods employed by the appraisers include the cost approach, market data approach, reproduction cost approach, development cost approach and income approach.

Depreciation is included in Occupancy and equipment-related expenses in the profit or loss.

Rental income earned from investment properties amount to P245 million for the year ended December 31, 2011 (2010 – P216 million; 2009 – P195 million).

Note 16 - Investments in Subsidiaries and Associates

This account at December 31 consists of investments in shares of stock:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**3,069**	2,508	**-**	-
Investments at cost method	**-**	-	**7,008**	6,969
	3,069	2,508	**7,008**	6,969

Investments in associates carried at equity method in the consolidated statement of condition follow:

Name of entity	Percentage of ownership interest (%)		Acquisition cost	
	2011	2010	**2011**	2010
			(In Millions of Pesos)	
BPI - Philamlife Assurance Corporation*	**47.67**	47.67	**371**	371
National Reinsurance Corporation**	**15.74**	15.74	**204**	204
Beacon Properties	**20.00**	20.00	**100**	100
Victoria 1552 Investments, LP	**35.00**	35.00	**7**	7
Citytrust Realty Corporation	**40.00**	40.00	**2**	2
			684	684
Allowance for impairment			**(7)**	(7)
			677	677

**Became an associate due to loss of control in 2009*
***BPI Group has significant influence*

Details and movements of investments in associates carried at equity method in the consolidated financial statements follow:

	2011	2010
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**677**	884
Effect of consolidation of BPI Globe BanKO, Inc.	**-**	(200)
Allowance for impairment	**-**	(7)
At December 31	**677**	677
Accumulated equity in net income		
At January 1	**1,066**	820
Share in net income for the year	**216**	195
Dividends received	**(6)**	(14)
Effect of consolidation of BPI Globe BanKO, Inc.	**-**	65
At December 31	**1,276**	1,066
Accumulated share in other comprehensive income (loss)		
At January 1	**765**	(65)
Share in other comprehensive income for the year	**351**	830
At December 31	**1,116**	765
	3,069	2,508

Summarized unaudited financial information of associates follows:

	2011	2010
	(In Millions of Pesos)	
Total assets	**40,222**	33,278
Total liabilities	**28,446**	23,947
Total revenues	**8,730**	9,106

The details of equity investments at cost method in the separate financial statements of the Parent Bank follow:

	Acquisition cost		Allowance for impairment		Carrying value	
	2011	2010	**2011**	2010	**2011**	2010
			(In Millions of Pesos)			
Subsidiaries						
BPI Europe Plc.	**1,910**	1,910	-	-	**1,910**	1,910
Ayala Plans, Inc. (API)	**863**	863	-	-	**863**	863
BPI Leasing Corporation	**644**	644	-	-	**644**	644
BPI Capital Corporation	**623**	573	-	-	**623**	573
BPI Direct Savings Bank	**392**	392	-	-	**392**	392
FGU Insurance Corporation	**303**	303	-	-	**303**	303
Prudential Investments	**300**	300	-	-	**300**	300
BPI Globe BanKO	**279**	200	-	-	**279**	200
BPI Foreign Exchange Corporation	**195**	195	-	-	**195**	195
BPI Express Remittance Corporation	**191**	191	-	-	**191**	191
BPI Family Savings Bank, Inc.	**150**	150	-	-	**150**	150
First Far-East Development Corp.	**91**	91	-	-	**91**	91
BPI-Rome Remittance Center	**54**	54	-	-	**54**	54
BPI Card Finance Corp.	**50**	50	-	-	**50**	50
BPI Bancassurance	**-**	50	-	-	**-**	50
FEB Stock Brokers	**25**	25	-	-	**25**	25
BPI Computer Systems Corp.	**23**	23	-	-	**23**	23
Speed Spain	**20**	20	-	-	**20**	20
FEB Insurance Brokers, Inc.	**-**	33	-	-	**-**	33
Others	**322**	329	**(104)**	(104)	**218**	225
Associates (see above)	**684**	684	**(7)**	(7)	**677**	677
	7,119	7,080	**(111)**	(111)	**7,008**	6,969

In November 2009, ALAI declared its entire equity holdings in API as property dividend to its shareholders, which include the Parent Bank. Consequently, the Parent Bank recognized dividend income of P863 million on its separate financial statements (see Note 25) and API became a direct subsidiary of the Parent Bank with 100% equity interest.

In September 2009, BPI and the Philippine American Life and General Insurance Company (Philamlife) signed a strategic bancassurance joint venture (the Joint Venture), wherein Philamlife agreed to acquire a 51% stake in ALAI. Proceeds from the sale calculated based on the initial net worth valuation amounted to P1,696 million which allowed BPI to generate a gain of P680 million in 2009. In 2010, BPI received an amount of P119 million as an additional consideration for the sale following the finalization of the net worth valuation.

The Joint Venture is expected to benefit from the combined synergies, first-class resources and strength of the two leading companies in the Philippines' financial industry. Following the sale, BPI's ownership in ALAI was reduced to 47.67% and the latter ceased to be a subsidiary of BPI due to loss of control. As a result, ALAI became an associate and is accounted for at equity method in the BPI Group's December 31, 2009 consolidated financial statements. Further, ALAI, as joint venture between Philamlife and BPI was renamed as BPI-Philamlife Assurance Corporation.

Also, in relation to the joint venture, BPI and Philamlife entered into a Distribution Agreement (the "Agreement") whereby Philamlife will have access to BPI's customer base for life insurance products and BPI will have reciprocal access to Philamlife's customers for banking products. The Agreement shall take effect for a period of 10 years starting in November 2009 and may be extended for another 5 years upon mutual agreement by the parties. Subject to performance of its obligations and meeting certain conditions, BPI will get a total distribution fee of P465 million under the said Agreement, of which a sum of P232.5 million was received in 2010.

Note 17 - Deferred Income Taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	**5,130**	4,995	**3,793**	3,810
Net operating loss carry over (NOLCO)	**4**	11	**-**	-
Minimum corporate income tax (MCIT)	**3**	668	**-**	623
Others	**604**	1,179	**496**	735
Total deferred income tax assets	**5,741**	6,853	**4,289**	5,168
Deferred income tax liabilities				
Revaluation gain on properties acquired from a business combination	**(799)**	(1,017)	**(798)**	(1,017)
Fair value gain on available-for-sale securities	**(393)**	(130)	**(391)**	(104)
Excess pension asset contribution	**(4)**	(8)	**-**	-
Others	**(210)**	(675)	**(142)**	(245)
Total deferred income tax liabilities	**(1,406)**	(1,830)	**(1,331)**	(1,366)
	4,335	5,023	**2,958**	3,802

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Deferred income tax assets				
Amount to be recovered within 12 months	**848**	797	**768**	729
Amount to be recovered after 12 months	**4,500**	5,926	**3,130**	4,335
	5,348	6,723	**3,898**	5,064
Deferred income tax liabilities				
Amount to be settled within 12 months	**282**	187	**282**	187
Amount to be settled after 12 months	**731**	1,513	**658**	1,075
	1,013	1,700	**940**	1,262

The movement in the deferred income tax account is summarized as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**5,023**	4,872	**3,802**	4,138
Income statement charge	**440**	346	**297**	(127)
Fair value adjustment on available-for-sale securities	**(263)**	(331)	**(287)**	(375)
MCIT	**(665)**	201	**(623)**	162
Others	**(200)**	(65)	**(231)**	4
At December 31	**4,335**	5,023	**2,958**	3,802

The deferred tax charge in the profit or loss comprises the following temporary differences:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Allowance for impairment	**(135)**	(465)	(438)	**17**	(106)	(291)
NOLCO	**7**	464	954	**-**	466	946
Pension	**79**	(113)	(229)	**63**	(77)	(176)
Leasing income differential	**-**	(6)	(5)	**-**	-	-
Others	**(391)**	(226)	640	**(377)**	(156)	576
	(440)	(346)	922	**(297)**	127	1,055

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
		(In Millions of Pesos)			
2011	2014	**3**	-	**-**	-
2010	2013	**11**	7	**-**	-
2009	2012	**27**	110	**-**	92
2008	2011	**4**	3	**-**	-
2007	2010	**-**	1,469	**-**	1,462
		45	1,589	**-**	1,554
Used portion during the year		**(31)**	(1,554)	**-**	(1,554)
		14	35	**-**	-
Tax rate		**30%**	30%	**30%**	30%
Deferred income tax asset on NOLCO		**4**	11	**-**	-

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
		(In Millions of Pesos)			
2011	2014	**3**	-	**-**	-
2010	2013	**194**	194	**190**	190
2009	2012	**234**	234	**232**	232
2008	2011	**240**	268	**201**	229
		671	696	**623**	651
Used portion during the year		**(668)**	-	**(623)**	**-**
Derecognized MCIT		**-**	(28)	**-**	(28)
		3	668	**-**	623

Note 18 - Other Resources

The account at December 31 consists of the following:

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
	(In Millions of Pesos)			
Intangible assets	**3,048**	1,050	**3,019**	1,034
Accounts receivable	**3,528**	2,603	**2,566**	2,074
Residual value of equipment for lease	**1,855**	1,471	**-**	-
Sundry debits	**1,284**	1,068	**1,224**	1,057
Accrued trust and other fees	**1,012**	908	**910**	714
Creditable withholding tax	**733**	738	**457**	547
Prepaid expenses	**533**	400	**385**	311
Rental deposits	**270**	216	**223**	170
Miscellaneous assets	**1,218**	1,238	**604**	805
	13,481	9,692	**9,388**	6,712
Allowance for impairment	**(1,333)**	(1,332)	**(1,289)**	(1,280)
	12,148	8,360	**8,099**	5,432

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Current	**5,532**	3,909	**4,275**	3,236
Non-current	**7,949**	5,783	**5,113**	3,476
	13,481	9,692	**9,388**	6,712

On December 8, 2010, BPI signed an agreement with ING Bank N.V. – Manila Branch ("ING") to purchase the latter's trust business. On February 16, 2011, BPI and ING received the approval of the transaction from the BSP subject to certain conditions. Subsequently, the amendment of the Plan Rules of the Unit Investment Trust Funds ("UITF") managed by ING was approved by the Monetary Board in its meeting on March 25, 2011 allowing BPI to act as Trustee of these UITFs which shall be renamed Odyssey Funds.

The acquisition was finally completed on March 30, 2011. The purchase of ING's trust department was accounted for as an acquisition of business under PFRS 3. The main assets acquired from this transaction consist of intangible asset in the form of contractual customer relationships which have an aggregate fair value of P2,775 million and certain IT and transportation equipment valued at P25 million. The contractual customer relationships are expected to have a useful life of 10 years. There were no liabilities assumed from the acquisition.

The provisional measurement of intangible asset is subject to change. The initial accounting for the acquisition has only been provisionally determined as the necessary market valuation and other calculations have not been finalized as of reporting date.

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**1,332**	1,020	**1,280**	976
Provision for impairment losses	**32**	357	**33**	343
Write-off	**(31)**	(45)	**(24)**	(39)
At December 31	**1,333**	1,332	**1,289**	1,280

Note 19 - Deposit Liabilities

This account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Demand	**131,249**	120,528	**123,448**	113,281
Savings	**291,511**	245,769	**253,015**	211,815
Time	**258,341**	353,469	**167,951**	266,840
	681,101	719,766	**544,414**	591,936

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Current	**505,864**	684,693	**411,331**	588,243
Non-current	**175,237**	35,073	**133,083**	3,693
	681,101	719,766	**544,414**	591,936

Related interest expense on deposit liabilities is broken down as follows:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Demand	**692**	628	607	**645**	583	563
Savings	**2,325**	1,608	1,136	**1,954**	1,345	938
Time	**8,704**	9,833	9,486	**5,002**	6,153	5,798
	11,721	12,069	11,229	**7,601**	8,081	7,299

Under existing BSP regulations, the BPI Group is subject to liquidity and statutory reserve requirements with respect to certain deposit liabilities. The BPI Group is in full compliance with all applicable liquidity and statutory reserve requirements.

The required liquidity and statutory reserves as reported to BSP as of December 31 comprise as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Due from BSP	**78,486**	80,878	**70,090**	74,179
Cash in vault	**21,330**	16,788	**20,707**	16,348
Available for sale securities	**-**	2,222	**-**	1,682
Due from local banks	**3**	3	**-**	-
	99,819	99,891	**90,797**	92,209

Note 20 - Bills Payable

This account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Bangko Sentral ng Pilipinas	**3,048**	9,252	**1,070**	7,363
Private firms	**5,100**	3,441	**-**	-
Local banks	**2,614**	2,870	**444**	576
Foreign banks	**8,374**	9,305	**8,373**	9,304
	19,136	24,868	**9,887**	17,243

Range of interest rates (%) of bills payable of the BPI Group for the year:

	2011	2010
Bangko Sentral ng Pilipinas	**3.95 - 4.29**	3.69 - 3.79
Private firms and Local banks – peso-denominated	**6.37 - 7.12**	6.32 - 6.53
Foreign banks	**0.82 - 1.01**	0.08 - 0.55

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Interest expense	**679**	867	833	**245**	548	561

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Social Security System (SSS) which were relent to customers of the BPI Group in accordance with the financing programs of LBP, DBP and SSS and credit balances of settlement bank accounts. The average payment terms of these bills payable is 1.12 years. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 13).

Note 21 - Unsecured Subordinated Debt

On December 12, 2008 (issue date), the Parent Bank issued P5,000 million worth of unsecured subordinated notes (the "Notes") eligible as Lower Tier 2 capital pursuant to BSP Circular No. 280, series of 2001, as amended. The Notes will at all times, rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Bank, except obligations mandatorily preferred by law. The Notes bear interest at the rate of 8.45% per annum and will mature on December 12, 2018 (maturity date). The interest is payable quarterly in arrears from December 12, 2008 until December 11, 2018. The Notes are redeemable in whole and not only in part at the exclusive option of the Parent Bank on December 13, 2013 (redemption date) subject to the satisfaction of certain regulatory approval requirements. Unless the Notes are earlier redeemed on December 13, 2013, the applicable interest rate will be increased to the rate equal to 80% multiplied by the 5-year on-the-run Philippine Treasury benchmark bid yield (benchmark rate) on the first day of the 21st interest period plus the step-up spread. The step-up spread is equal to 150% of 8.45% less 80% of the benchmark rate.

Interest expense on the unsecured subordinated notes recognized during the year is P423 million (2010 and 2009: P 423 million).

Note 22 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Bills purchased - contra	**9,150**	10,429	**9,141**	10,422
Dividends payable	**3,201**	-	**3,201**	-
Accounts payable	**2,918**	2,937	**2,020**	1,778
Deposit on lease contract	**2,050**	1,728	**-**	-
Outstanding acceptances	**1,390**	1,031	**1,390**	1,031
Other deferred credits	**1,007**	923	**761**	813
Withholding tax payable	**464**	809	**361**	704
Vouchers payable	**423**	459	**423**	459
Due to the Treasurer of the Philippines	**288**	238	**260**	218
Miscellaneous liabilities	**1,334**	1,835	**1,012**	1,490
	22,225	20,389	**18,569**	16,915

Bills purchased – contra represents liabilities arising from the outright purchases of checks before actual clearing as a means of immediate financing offered by the BPI Group. Miscellaneous liabilities include insurance and other employee-related payables.

	Consolidated		**Parent**	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Current	**18,002**	17,392	**16,559**	13,690
Non-current	**4,223**	2,997	**2,010**	3,225
	22,225	20,389	**18,569**	16,915

Note 23 - Capital Funds

Details of authorized capital stock of the Parent Bank follow:

	2011	2010	2009
	(In Millions of Pesos Except Par Value Per Share)		
Authorized capital (at P10 par value per share)			
Common shares	49,000	49,000	49,000
Preferred A shares	600	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

	2011	2010	2009
	(In Number of Shares)		
Issued common shares			
At January 1	3,556,328,003	3,246,770,334	3,245,711,238
Issuance of shares during the year	28,170	309,557,669	1,059,096
At December 31	3,556,356,173	3,556,328,003	3,246,770,334
Subscribed common shares	-	28,170	28,170

In August 2010, the Parent Bank offered for subscription a total of 307,692,307 of its common shares to eligible shareholders on a pre-emptive rights basis at P32.50 per share. The net proceeds from the rights offer amounting to P9.91 billion have augmented further the Parent Bank's capital base and have been fully invested in loans at December 31, 2010.

As of December 31, 2011 and 2010, the Parent Bank has 12,921 and 13,291 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2011 and 2010.

Details of and movements in Accumulated other comprehensive income (loss) for the years ended December 31 follow:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	**328**	(879)	(1,269)	**(303)**	(1,324)	(1,719)
Unrealized fair value gain before tax (Note 11)	**1,683**	1,538	487	**1,782**	1,396	414
Deferred income tax effect	**(263)**	(331)	(97)	**(287)**	(375)	(19)
At December 31	**1,748**	328	(879)	**1,192**	(303)	(1,324)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**202**	(78)	(959)	**-**	-	-
Share in other comprehensive income (loss) for the year, before tax	**(48)**	341	676	**-**	-	-
Impact of sale of investment in a subsidiary	**-**	-	185	**-**	-	-
Deferred income tax effect	**(17)**	(61)	20	**-**	-	-
At December 31	**137**	202	(78)	**-**	-	-
Share in other comprehensive income (loss) of associates						
At January 1	**765**	(65)	69	**-**	-	-
Share in other comprehensive Income (loss) for the year	**351**	830	(134)	**-**	-	-
At December 31	**1,116**	765	(65)	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(828)**	(613)	(692)	**-**	-	-
Translation differences	**(5)**	(215)	79	**-**	-	-
At December 31	**(833)**	(828)	(613)	**-**	-	-
	2,168	467	(1,635)	**1,192**	(303)	(1,324)

Details of and movements in Reserves for the years ended December 31 follow:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Stock option scheme (Note 24)						
At January 1	**42**	179	253	**11**	136	198
Exercise of options	**-**	(137)	(74)	**-**	(125)	(62)
Expiration of options	**(42)**	-	-	**(11)**	-	-
Value of employee services	**-**	-	-	**-**	-	-
At December 31	**-**	42	179	**-**	11	136
Surplus reserves						
At January 1	**1,325**	1,215	1,043	**1,325**	1,215	1,043
Transfer from surplus	**137**	110	172	**137**	110	172
At December 31	**1,462**	1,325	1,215	**1,462**	1,325	1,215
	1,462	1,367	1,394	**1,462**	1,336	1,351

Surplus reserves consist of:

	2011	2010	2009
	(In Millions of Pesos)		
Reserve for trust business	**1,428**	1,291	1,181
Reserve for self-insurance	**34**	34	34
	1,462	1,325	1,215

In compliance with existing BSP regulations, 10% of the Parent Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the Parent Bank's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of personnel and third parties.

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2008 to 2011 follow:

		Amount of dividends	
Date declared	Date approved by the BSP	Per share	Total (In Millions of Pesos)
December 17, 2008	February 18, 2009	0.90	2,921
June 17, 2009	August 3, 2009	0.90	2,922
December 16, 2009	January 25, 2010	0.90	2,922
May 20, 2010	June 22, 2010	0.90	2,922
October 22, 2010	November 15, 2010	0.90	3,200
May 18, 2011	June 8, 2011	0.90	3,201
November 16, 2011	December 8, 2011	0.90	3,201

Cash dividends declared are payable to common shareholders of record as of 15th day from receipt by the Parent Bank of the approval by the Bangko Sentral and distributable on the 15th day from the said record date.

The calculation of earnings per share (EPS) is shown below:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions, Except Earnings Per Share Amounts)					
a) Net income attributable to equity holders of the Parent Bank	**12,822**	11,312	8,516	**9,856**	8,306	8,753
b) Weighted average number of common shares outstanding during the year after retroactive effect of stock dividends	**3,556**	3,350	3,246	**3,556**	3,350	3,246
c) Basic EPS (a/b)	**3.61**	3.38	2.62	**2.77**	2.48	2.69

The equivalent common shares arising from potential exercise of stock options (Note 24) have insignificant effect on the calculation of diluted EPS thus, basic and diluted EPS are the same for the years presented.

Note 24 - Stock Option Plan

Movements in the number of share options are as follows:

	2011	2010
At January 1	**-**	7,617,387
Granted	**-**	-
Exercised	**-**	(7,438,864)
Cancelled	**-**	(178,523)
At December 31	**-**	-
Exercisable	**-**	-

Note 25 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Trust and asset management fees	**2,569**	1,816	1,685	**2,199**	1,709	1,556
Rental income	**1,627**	1,505	1,411	**397**	388	356
Credit card income	**1,332**	1,180	1,063	**1,332**	1,180	1,063
Gain on sale of assets	**527**	617	1,759	**310**	453	1,800
Dividend income	**47**	85	124	**1,210**	206	2,906
Others	**586**	622	375	**469**	494	224
	6,688	5,825	6,417	**5,917**	4,430	7,905

Trust and asset management fees arise from the BPI Group's asset management and trust services and are based on agreed terms with various managed funds and investments.

Rental income is earned by the BPI Group by leasing out its investment properties (Note 15) and other assets which consist mainly of fleet of vehicles.

Gain on sale of assets arises mainly from disposals of properties (including equity investments), foreclosed collaterals and non-performing assets.

Dividend income recognized by the Parent Bank substantially pertains to dividend distribution of subsidiaries.

Note 26 - Leases

The BPI Group and the Parent Bank have various lease agreements which are mainly branch premises that are renewable under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2011	**870**	**684**
2010	809	634
2009	777	607

The future minimum lease payments under non-cancellable operating leases of the BPI Group are as follows:

	2011	2010
	(In Millions of Pesos)	
No later than 1 year	**43**	40
Later than 1 year but no later than 5 years	**64**	76
	107	116

Note 27 - Other Operating Expenses

Details of other operating expenses follow:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
			(In Millions of Pesos)			
Supervision and examination fees	**1,618**	1,477	1,347	**1,328**	1,227	1,100
Advertising	**1,410**	1,206	833	**1,256**	1,054	708
Travel and communication	**622**	576	503	**492**	436	392
Litigation expenses	**458**	494	492	**307**	343	343
Amortization expense	**308**	58	51	**305**	57	47
Insurance	**254**	312	206	**48**	51	36
Office supplies	**235**	234	223	**198**	194	184
Taxes and licenses	**233**	177	181	**127**	86	96
Management and other professional fees	**197**	189	261	**142**	131	194
Shared expenses	**-**	-	-	**237**	220	229
Others	**1,275**	1,011	779	**856**	608	553
	6,610	5,734	4,876	**5,296**	4,407	3,882

Note 28 - Income Taxes

A reconciliation between the provision for income tax at the statutory tax rate and the actual provision for income tax for the years ended December 31 follows:

	Consolidated					
	2011		2010		2009	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**4,843**	30.00	4,200	30.00	3,655	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(951)**	(5.89)	(354)	(2.53)	(368)	(2.82)
Tax-exempt income	**(2,634)**	(16.32)	(2,879)	(20.56)	(2,115)	(17.42)
Others, net	**1,872**	11.59	1,553	11.09	2,347	18.76
Actual income tax	**3,130**	19.38	2,520	18.00	3,519	28.52

	Parent					
	2011		2010		2009	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	**3,634**	30.00	3,140	30.00	3,506	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(926)**	(7.64)	(247)	(2.36)	(400)	(3.42)
Tax-exempt income	**(1,838)**	(15.17)	(2,125)	(20.30)	(1,479)	(12.66)
Others, net	**1,389**	11.46	1,392	13.30	1,308	11.20
Actual income tax	**2,259**	18.65	2,160	20.64	2,935	25.12

Note 29 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2011	2010	**2011**	2010
Return on average equity	**15.17**	15.57	**15.26**	14.89
Return on average assets	**1.62**	1.53	**1.59**	1.41
Net interest margin	**3.67**	3.55	**3.41**	3.28

Note 30 - Retirement Plans

BPI and its subsidiaries, and the non-life insurance company have separate trusteed, noncontributory retirement benefit plans covering all qualified officers and employees. The description of the plans follows:

BPI

BPI has a unified plan which includes its subsidiaries other than insurance companies. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

Non-life insurance subsidiary

BPI/MS has a separate trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years or the employee should have completed at least 10 years of service, whichever is earlier. The normal retirement benefit is equal to 150% of the final basic monthly salary for each year of service for below 10 years and 175% of the final basic monthly salary for each year of service for 10 years and above.

Death or disability benefit for all employees of the non-life insurance company shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Following are the amounts recognized based on recent actuarial valuations:

(a) Pension liability (asset) recognized in the statement of condition

	Consolidated				
	2011	2010	2009	2008	2007
	(In Millions of Pesos)				
Present value of defined benefit obligations	**11,508**	10,388	10,260	9,607	9,262
Fair value of plan assets	**(8,415)**	(8,421)	(6,576)	(5,615)	(6,664)
Deficit in the plan	**3,093**	1,967	3,684	3,992	2,598
Unrecognized actuarial losses	**(3,120)**	(1,995)	(2,867)	(3,938)	(2,919)
Pension liability (asset) recognized in the statement of condition	**(27)**	(28)	817	54	(321)

	Parent				
	2011	2010	2009	2008	2007
	(In Millions of Pesos)				
Present value of defined benefit obligations	**9,161**	8,182	7,985	7,475	7,199
Fair value of plan assets	**(6,796)**	(6,775)	(5,097)	(4,373)	(5,180)
Deficit in the plan	**2,365**	1,407	2,888	3,102	2,019
Unrecognized actuarial losses	**(2,363)**	(1,408)	(2,050)	(2,851)	(2,053)
Pension liability (asset) recognized in the statement of condition	**2**	(1)	838	251	(34)

Pension asset is shown as part of "Miscellaneous assets" within Other resources (Note 18).

Experience adjustments at December 31 follow:

	Consolidated				
	2011	2010	2009	2008	2007
	(In Millions of Pesos)				
Experience gain (loss) on plan liabilities	**329**	(371)	(151)	34	1,386
Experience gain (loss) on plan assets	**(405)**	479	755	(1,223)	(493)

	Parent				
	2011	2010	2009	2008	2007
	(In Millions of Pesos)				
Experience gain (loss) on plan liabilities	**232**	(255)	(99)	16	1,349
Experience gain (loss) on plan assets	**(329)**	406	583	(952)	5

The movement in plan assets is summarized as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**8,421**	6,576	**6,775**	5,097
Expected return on plan assets	**842**	692	**677**	536
Fund transfer from a subsidiary	**-**	-	**77**	-
Contributions	**922**	1,813	**732**	1,598
Benefit payments	**(1,365)**	(1,139)	**(1,136)**	(862)
Actuarial gains (losses)	**(405)**	479	**(329)**	406
At December 31	**8,415**	8,421	**6,796**	6,775

The plan assets are comprised of the following:

	Consolidated				Parent			
	2011		2010		**2011**		2010	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
	(In Millions of Pesos Except for Rates)							
Debt securities	**5,425**	**64**	4,800	57	**4,381**	**64**	3,889	57
Equity securities	**2,950**	**35**	3,537	42	**2,383**	**35**	2,845	42
Others	**40**	**1**	84	1	**32**	**1**	41	1
	8,415	**100**	8,421	100	**6,796**	**100**	6,775	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with fair value of P2,175 million and P2,209 million at December 31, 2011 and 2010, respectively. The actual return on plan assets of the BPI Group was P437 million and P1,171 million in 2011 and 2010, respectively.

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
At January 1	**10,388**	10,260	**8,182**	7,985
Present value of defined benefit obligation for transferred employees from a subsidiary	**-**	-	**83**	-
Current service cost	**601**	471	**500**	379
Interest cost	**1,119**	1,097	**885**	854
Benefit payments	**(1,365)**	(1,139)	**(1,136)**	(862)
Actuarial gains (loss)	**765**	(301)	**647**	(174)
At December 31	**11,508**	10,388	**9,161**	8,182

(b) Expense recognized in the profit or loss

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Current service cost	**601**	471	407	**500**	379	316
Interest cost	**1,119**	1,097	1,056	**885**	854	821
Expected return on plan assets	**(842)**	(692)	(344)	**(677)**	(536)	(268)
Net actuarial loss recognized during the year	**44**	92	141	**24**	63	100
Total expense included in Compensation and fringe benefits	**922**	968	1,260	**732**	760	969

The principal assumptions used for the actuarial valuations of the unified plan of the BPI Group were as follows:

	2011	2010	2009
Discount rate	**6.97%**	10.79%	10.69%
Expected return on plan assets	**7.00%**	10.00%	10.52%
Future salary increases	**6.50%**	6.50%	6.00%

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date. Expected returns on equity securities and property investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The average remaining service life of employees under the BPI unified retirement plan as at December 31, 2011 and 2010 is 21 years. The BPI Group's expected retirement contribution for the year ending December 31, 2012 amounts to P1,119 million.

Note 31 - Trust Assets

As disclosed in Note 18, BPI and ING received on February 16, 2011 the approval from BSP of BPI's purchase of the latter's trust business subject to certain conditions. Subsequently, the amendment of the Plan Rules of UITFs managed by ING was approved by the Monetary Board in its meeting on March 25, 2011 allowing BPI to act as Trustee of these UITFs which was named as Odyssey Funds.

At December 31, 2011 and 2010, the net asset value of trust assets administered by the BPI Group amounts to P664 billion and P480 billion, respectively.

Government securities deposited by the BPI Group and the Parent Bank with the Bangko Sentral in compliance with the requirements of the General Banking Act relative to the trust functions follow:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Government securities	**6,241**	4,924	**6,089**	4,768

Note 32 - Related Party Transactions

In the normal course of the business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and its subsidiaries (Ayala Group). AC has a significant influence over the BPI Group as at reporting dates.

These transactions such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in the normal banking activities and have terms and conditions comparable to those offered to non-related parties entities.

Significant related party transactions are summarized below:

a) Loans and advances from related parties at December 31 follow:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Subsidiaries	**1,681**	1,326	**1,681**	1,326
Associates	**-**	50	**-**	50
AC	**4,500**	4,750	**4,500**	4,750
Subsidiaries of AC	**202**	550	**202**	550
	6,383	6,676	**6,383**	6,676

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Outstanding DOSRI loans	**5,067**	6,296	**5,013**	6,233
% to total outstanding loans and advances	**1.09**	1.62	**1.46**	2.21
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**28.77**	27.05	**29.09**	27.33
Past due DOSRI loans	**1.71**	Nil	**1.71**	Nil
Non-performing DOSRI loans	**1.67**	Nil	**1.67**	Nil

At December 31, 2011 and 2010, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

b) Deposits from related parties at December 31 follow:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Subsidiaries	**3,327**	2,610	**3,179**	2,008
Associates	**43**	41	**43**	41
Ayala Group	**17,853**	24,036	**17,853**	24,036
Key management personnel	**342**	306	**342**	306
	21,565	26,993	**21,417**	26,391

c) Details of income earned by and expenses charged to the Parent Bank are as follows:

	2011	2010	2009
	(In Millions of Pesos)		
Interest income			
Subsidiaries	**37**	34	57
Associates	**22**	1	-
AC	**121**	231	270
Subsidiaries of AC	-	14	46
Other income			
Subsidiaries	**453**	8	7
Associates	**203**	373	-

Other income mainly consists of rental income and revenue from service arrangements with subsidiaries. The related receivable from subsidiaries by the Parent Bank arising from these transactions amount to P53 million (2010 – P56 million).

	2011	2010	2009
	(In Millions of Pesos)		
Interest expense			
Subsidiaries	**17**	11	7
Ayala Group	**97**	239	-
Key management personnel	**2**	2	2
Other expenses			
Subsidiaries	**473**	447	443
AC	23	23	20
Subsidiaries of AC	46	44	30

Other expenses mainly consist of rental fees and management fees. The related payable to subsidiaries by the Parent Bank arising from these transactions amount to P9 million (2010 – P16 million).

d) Key management compensation

Details of key management compensation and directors' remuneration follow:

	Consolidated			**Parent**		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Key management compensation						
Salaries and other short-term benefits	**527**	509	417	**470**	365	276
Post-employment benefits	**27**	34	32	**25**	24	19
Directors' remuneration	**46**	38	34	**40**	31	27

Note 33 - Commitments and Contingencies

At present, there are lawsuits, claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial position or financial performance.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments (Note 3.1.4) that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 34 - Supplementary information required by the Bureau of Internal Revenue

(a) Supplementary information required by Revenue Regulation No 15-2010

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid for the years ended December 31 consist of:

	2011	2010
Deposit and loan documents	**1,629**	1,459
Trade finance documents	**185**	219
Mortgage documents	**66**	48
Shares of stock	**-**	16
Others	**5**	10
	1,885	1,752

A portion of the amount disclosed above was passed on to the counterparties.

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the years ended December 31 consist of:

	2011			2010		
	Paid	**Accrued**	**Total**	**Paid**	**Accrued**	**Total**
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,324	136	1,460	1,207	150	1,357
Income taxes withheld on compensation	1,396	155	1,551	1,191	171	1,362
Final income taxes withheld on income payment	683	7	690	535	314	849
Creditable income taxes withheld (expanded)	594	63	657	520	58	578
Fringe benefit tax	40	9	49	36	9	45
VAT withholding tax	26	1	27	22	2	24
	4,063	**371**	**4,434**	**3,511**	**704**	**4,215**

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the years ended December 31 consist of:

	2011			2010		
	Paid	**Accrued**	**Total**	**Paid**	**Accrued**	**Total**
Gross receipts tax	2,001	149	2,150	2,066	188	2,254
Real property tax	151	-	151	69	-	69
Municipal taxes	62	-	62	62	-	62
Others	15	-	15	6	-	6
	2,229	**149**	**2,378**	**2,203**	**188**	**2,391**

(iv) Tax cases and assessments

As at reporting date, (i) the Parent Bank has outstanding cases filed in courts against local government units contesting certain local tax assessments and the tax authorities for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Bank and (ii) the only year that remains open and currently under tax examination, for which no assessment has yet been received, is taxable year 2009.

(b) Supplementary information required by Revenue Regulation No. 19-2011

RR No. 19-2011 prescribes the new BIR forms that should be used for income tax filing covering and starting with the calendar year 2011 and modifies Revenue Memorandum Circular No. 57-2011. In the Guidelines and Instructions Section of the new BIR Form 1702 (version November 2011), a required attachment to the income tax returns is an Account Information Form and/or Financial Statements that include in the Notes to Financial Statements schedules of sales/receipts/fees, cost of sales/services, non-operating and taxable other income, itemized deductions (if the taxpayer did not avail of OSD), taxes and licenses and other information prescribed to be disclosed in the Notes to Financial statements.

Below is the additional information required by RR No. 19-2011 that is relevant to the Parent Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Sales/receipts/fees

	Non-taxable	Final tax	Regular rate	Total
Interest income	2,738	8,764	16,796	28,298

(ii) Cost of services/Direct costs

	Regular rate
Manpower costs	6,182
Interest expense	4,320
Insurance – PDIC	1,070
Supervision and examination fees	258
	11,830

(iii) Non-operating and taxable other income

	Regular rate
Service charges	4,452
Trust fees	2,680
Trading gain	1,187
Foreign exchange	1,274
Rental income	397
Gain on sale of fixed assets	845
Others	440
	11,275

(iv) Itemized deductions

Nature of expense/deduction	Regular rate
Taxes and licenses	2,100
Salaries and allowances	1,541
Depreciation and amortization of leasehold rights	1,380
Advertising	1,255
Bad debts	1,097
Communication, light and water	1,006
Rental	959
Documentary stamp used	817
Other outside services	719
Repairs and maintenance	684
Amortization of intangibles	421
Litigation assets acquired expenses	307
Security services	275
Management and consultancy fee	262
Office supplies	213
SSS, GSIS, Philhealth, HDMF and other contributions	182
Janitorial and messengerial services	164
Fringe benefits	106
Transportation and travel	100
Membership fees and dues	67
Insurance	59
Amortization of pension trust contribution	53
Director's fees	40
Commissions	35
Credit card expenses	33
Representation and entertainment	30
Staff meeting	18
Freight expenses	16
Donations	13
Miscellaneous loss	12
Bank charges	8
Fuel and Oil	3
Others	158
Sub-total	14,133
NOLCO	-
Total expenses	14,133

(v) Taxes and licenses

The details of the Parent Bank's taxes and licenses are presented in section (a) of this note.

(vi) Other information

All other information prescribed to be disclosed by the BIR has been included in this note.

Globe Telecom, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Globe Telecom, Inc.

We have audited the accompanying consolidated financial statements of Globe Telecom, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 and fair presentation 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 Globe Telecom, Inc. and Subsidiaries as at December 31, 2011, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Gemilo J. San Pedro
Partner
CPA Certificate No. 32614
SEC Accreditation No. 0094-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-096-610
BIR Accreditation No. 08-001998-34-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174825, January 2, 2012, Makati City

February 10, 2012

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2011	2010	2009
			(In Thousand Pesos)	
ASSETS				
Current Assets				
Cash and cash equivalents	28, 30	**₱5,159,046**	₱5,868,986	₱5,939,927
Short-term investments	28	**–**	–	2,784
Receivables - net	4, 28	**10,119,505**	8,374,123	6,583,228
Inventories and supplies	5	**1,911,190**	1,839,333	1,653,750
Derivative assets	28	**9,766**	19,888	36,305
Prepayments and other current assets - net	6, 28	**5,586,419**	4,704,198	4,199,320
		22,785,926	20,806,528	18,415,314
Assets classified as held for sale	25.4	**778,321**	778,321	–
		23,564,247	21,584,849	18,415,314
Noncurrent Assets				
Property and equipment - net	7	**99,267,780**	101,837,254	101,693,868
Investment property - net	8	**191,645**	214,192	236,739
Intangible assets and goodwill - net	9	**3,591,514**	3,248,376	2,982,856
Investments in joint ventures	10	**249,000**	197,016	233,800
Deferred income tax - net	24	**765,670**	670,594	742,538
Other noncurrent assets - net	11,18	**3,209,477**	2,875,686	3,338,410
		107,275,086	109,043,118	109,228,211
Total Assets		**₱130,839,333**	₱130,627,967	₱127,643,525
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	12, 18, 28	**₱23,042,514**	₱22,115,203	₱20,838,681
Notes payable	14, 28	**1,756,760**	–	2,000,829
Unearned revenues	4	**2,474,142**	2,402,749	2,981,880
Derivative liabilities	28	**208,247**	93,336	85,867
Income tax payable	24	**1,157,927**	1,098,492	1,107,721
Provisions	13	**166,773**	224,388	89,404
Current portion of:				
Long-term debt	14, 28	**9,597,367**	8,677,209	5,667,965
Other long-term liabilities	15, 28	**–**	–	803,617
		38,403,730	34,611,377	33,575,964
Liabilities directly associated with the assets classified as held for sale	25.4	**583,365**	697,729	–
		38,987,095	35,309,106	33,575,964
Noncurrent Liabilities				
Deferred income tax - net	24	**3,929,414**	4,620,490	4,627,294
Long-term debt - net of current portion	14, 28	**37,324,579**	41,694,261	39,808,057
Derivative liabilities	28	**58,370**	152,529	6,589
Other long-term liabilities - net of current portion	15, 28	**2,111,719**	1,982,453	1,916,707
		43,424,082	48,449,733	46,358,647
Total Liabilities		**82,411,177**	83,758,839	79,934,611
Equity				
Paid-up capital	17	**33,967,476**	33,946,004	33,912,158
Cost of share-based payments	16, 18	**573,436**	544,794	468,367
Other reserves	17, 28	**(124,902)**	(88,310)	18,518
Retained earnings	17	**14,012,146**	12,466,640	13,309,871
Total Equity		**48,428,156**	46,869,128	47,708,914
Total Liabilities and Equity		**₱130,839,333**	₱130,627,967	₱127,643,525

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	**2011**	2010	2009
		Years Ended December 31		
		(In Thousand Pesos, Except Per Share Figures)		
REVENUES				
Service revenues	3, 16, 29	**₱67,811,301**	₱62,554,689	₱62,443,518
Nonservice revenues		**3,753,283**	2,993,301	1,418,614
Interest income	19, 29	**297,388**	218,532	271,806
Other income - net	20, 29	**574,768**	856,941	1,064,476
		72,436,740	66,623,463	65,198,414
Gain on disposal of property and equipment - net	7, 29	**319,250**	32,535	597,786
		72,755,990	66,655,998	65,796,200
COSTS AND EXPENSES				
General, selling and administrative	21	**29,304,463**	26,692,104	24,496,882
Depreciation and amortization	7, 8, 9, 29	**18,941,227**	18,085,839	17,388,430
Cost of sales	5	**5,887,589**	4,238,960	2,947,950
Financing costs	14, 22, 29	**2,579,714**	2,068,401	2,182,881
Impairment losses and others	23	**1,918,583**	1,529,534	800,346
Equity in net losses of joint ventures	10, 29	**27,345**	2,968	7,009
		58,658,921	52,617,806	47,823,498
INCOME BEFORE INCOME TAX		**14,097,069**	14,038,192	17,972,702
PROVISION FOR (BENEFIT FROM) INCOME TAX	24			
Current		**5,049,479**	4,187,625	5,583,809
Deferred		**(784,215)**	105,933	(179,980)
		4,265,264	4,293,558	5,403,829
NET INCOME		**9,831,805**	9,744,634	12,568,873
OTHER COMPREHENSIVE INCOME (LOSS)	17			
Transactions on cash flow hedges - net		**(53,194)**	(133,257)	25,040
Changes in fair value of available-for-sale investment in equity securities		**1,269**	20,150	14,553
Exchange differences arising from translations of foreign investments		**(625)**	(33,698)	24,682
Tax effect relating to components of other comprehensive income		**15,958**	39,977	(10,375)
		(36,592)	(106,828)	53,900
TOTAL COMPREHENSIVE INCOME		**₱9,795,213**	₱9,637,806	₱12,622,773
Earnings Per Share	27			
Basic		**₱74.02**	₱73.29	₱94.59
Diluted		**₱73.77**	₱73.12	₱94.31
Cash dividends declared per common share	17	**₱62.00**	₱80.00	₱114.00

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Capital Stock (Note 17)	Additional Paid-in Capital	Cost of Share-Based Payments (Note 16.5)	Other Reserves (Note 17)	Retained Earnings	Total
		For the Year Ended December 31, 2011 (In Thousand Pesos)					
As of January 1, 2011		**₱7,409,223**	**₱26,536,781**	**₱544,794**	**(₱88,310)**	**₱12,466,640**	**₱46,869,128**
Total comprehensive income (loss) for the year		–	–	–	**(36,592)**	**9,831,805**	**9,795,213**
Dividends on:	17.3						
Common stock		–	–	–	–	**(8,205,605)**	**(8,205,605)**
Preferred stock		–	–	–	–	**(80,694)**	**(80,694)**
Cost of share-based payments	18.1	–	–	**49,338**	–		**49,338**
Collection of subscription receivables		**776**	–	–	–	–	**776**
Exercise of stock options	17.2	**227**	**20,469**	**(20,696)**	–	–	–
As of December 31, 2011		**₱7,410,226**	**₱26,557,250**	**₱573,436**	**(₱124,902)**	**₱14,012,146**	**₱48,428,156**
		For the Year Ended December 31, 2010 (In Thousand Pesos)					
As of January 1, 2010		₱7,409,079	₱26,503,079	₱468,367	₱18,518	₱13,309,871	₱47,708,914
Total comprehensive income (loss) for the year		–	–	–	(106,828)	9,744,634	9,637,806
Dividends on common stock	17.3	–	–	–	–	(10,587,865)	(10,587,865)
Cost of share-based payments	18.1	–	–	104,788	–	–	104,788
Exercise of stock options	17.2	144	33,702	(28,361)	–	–	5,485
As of December 31, 2010		₱7,409,223	₱26,536,781	₱544,794	(₱88,310)	₱12,466,640	₱46,869,128
		For the Year Ended December 31, 2009 (In Thousand Pesos)					
As of January 1, 2009		₱7,408,075	₱26,453,323	₱386,905	(₱35,382)	₱15,878,634	₱50,091,555
Total comprehensive income for the year		–	–	–	53,900	12,568,873	12,622,773
Dividends on:	17.3						
Common stock		–	–	–	–	(15,087,144)	(15,087,144)
Preferred stock		–	–	–	–	(50,492)	(50,492)
Cost of share-based payments	18.1	–	–	126,437	–	–	126,437
Collection of subscription receivables		732	–	–	–	–	732
Exercise of stock options	17.2	272	49,756	(44,975)	–	–	5,053
As of December 31, 2009		₱7,409,079	₱26,503,079	₱468,367	₱18,518	₱13,309,871	₱47,708,914

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	**2011**	2010	2009
		Years Ended December 31		
			(In Thousand Pesos)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱14,097,069**	₱14,038,192	₱17,972,702
Adjustments for:				
Depreciation and amortization	7, 8, 9	**18,941,227**	18,085,839	17,388,430
Interest expense	22	**2,059,660**	1,981,785	2,096,945
Foreign exchange losses (gains) - net	20, 22	**308,650**	(465,373)	(286,530)
Impairment losses on property and equipment	23	**128,614**	63,126	75,017
Cost of share-based payments	16, 18	**49,338**	104,788	126,437
Equity in net losses of a joint venture	10	**27,345**	2,968	7,009
Dividend income		**(503)**	(2,366)	(592)
Provisions for (reversals of) claims and assessments	23	**(47,916)**	138,760	(88,047)
Loss (gain) on derivative instruments	20, 22	**(25,495)**	28,295	46,943
Interest income	19	**(297,388)**	(218,532)	(271,806)
Gain on disposal of property and equipment	7	**(319,250)**	(32,535)	(597,786)
Operating income before working capital changes		**34,921,351**	33,724,947	36,468,722
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		**(1,678,456)**	(1,932,420)	833,760
Inventories and supplies		**(67,358)**	(185,583)	(529,428)
Prepayments and other current assets		**(774,230)**	(438,809)	754,837
Increase (decrease) in:				
Accounts payable and accrued expenses		**2,142,313**	980,104	1,635,036
Unearned revenues		**71,393**	(579,131)	(265,831)
Other long-term liabilities		**(180,080)**	(314,998)	68,345
Cash generated from operations		**34,434,933**	31,254,110	38,965,441
Income tax paid		**(4,508,758)**	(4,105,733)	(5,589,227)
Net cash flows provided by operating activities		**29,926,175**	27,148,377	33,376,214
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property and equipment	7,30	**(18,007,055)**	(17,552,246)	(20,988,768)
Intangible assets	9	**(145,208)**	(169,329)	(99,164)
Investment in joint ventures	10	**(79,010)**	–	(141,330)
Proceeds from sale of property and equipment		**180,939**	113,258	58,145
Decrease (increase) in:				
Short-term investments		**–**	2,784	(2,784)
Other noncurrent assets		**(399,878)**	482,918	(863,889)
Dividend received		**503**	2,366	592
Interest received		**259,992**	191,436	208,094
Net cash flows used in investing activities		**(18,189,717)**	(16,928,813)	(21,829,104)

(Forward)

	Notes	2011	2010	2009
		Years Ended December 31		
			(In Thousand Pesos)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings:	14			
Long-term		**₱8,000,000**	₱14,181,967	₱18,629,170
Short-term		**1,738,600**	1,000,000	2,000,000
Repayments of borrowings:	14			
Long-term		**(11,552,501)**	(8,986,275)	(9,820,330)
Short-term		**–**	(3,000,829)	(4,001,330)
Payments of dividends to stockholders:	17			
Common		**(8,205,605)**	(10,587,865)	(15,087,144)
Preferred		**(45,399)**	(50,492)	(60,637)
Collection of subscriptions receivable and exercise of stock options		**776**	5,485	5,785
Interest paid		**(2,456,763)**	(2,734,000)	(3,009,233)
Net cash flows used in financing activities		**(12,520,892)**	(10,172,009)	(11,343,719)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(784,434)**	47,555	203,391
NET FOREIGN EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS		**74,494**	(118,496)	(45,688)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**5,868,986**	5,939,927	5,782,224
CASH AND CASH EQUIVALENTS AT END OF YEAR	28, 30	**₱5,159,046**	₱5,868,986	₱5,939,927

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Globe Telecom, Inc. (hereafter referred to as "Globe Telecom") is a stock corporation organized under the laws of the Philippines, and enfranchised under Republic Act (RA) No. 7229 and its related laws to render any and all types of domestic and international telecommunications services. Globe Telecom is one of the leading providers of digital wireless communications services in the Philippines under the Globe Handyphone (GHP), Touch Mobile (TM) and Tattoo brands using a fully digital network. It also offers domestic and international long distance communication services or carrier services. Globe Telecom's principal executive office is located at 5th Floor, Globe Telecom Plaza, Pioneer Highlands, Pioneer corner Madison Streets, Mandaluyong City, Metropolitan Manila, Philippines. Globe Telecom is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since September 17, 2001. Major stockholders of Globe Telecom include Ayala Corporation (AC), Singapore Telecom International Pte Ltd. (STI) and Asiacom Philippines, Inc. None of these companies exercise control over Globe Telecom.

Globe Telecom owns 100% of Innove Communications, Inc. (Innove). Innove is a stock corporation organized under the laws of the Philippines and enfranchised under RA No. 7372 and its related laws to render any and all types of domestic and international telecommunications services. Innove holds a license to provide digital wireless communication services in the Philippines. Innove also offers a broad range of broadband internet and wireline voice and data communication services, as well as domestic and international long distance communication services or carrier services. Innove also has a license to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services.

Globe Telecom owns 100% of G-Xchange, Inc. (GXI). GXI is a stock corporation organized under the laws of the Philippines and formed for the purpose of developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment and delivery facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes. GXI is registered with the Bangko Sentral ng Pilipinas (BSP) as a remittance agent and electronic money issuer. GXI handles the mobile payment and remittance service using Globe Telecom's network as transport channel under the GCash brand. The service, which is integrated into the cellular services of Globe Telecom and Innove, enables easy and convenient person-to-person fund transfers via short messaging services (SMS) and allows Globe Telecom and Innove subscribers to easily and conveniently put cash into and get cash out of the GCash system.

Globe Telecom acquired 100% of Entertainment Gateway Group Corporation (EGGC) and EGGstreme (Hong Kong) Limited (EHL) (collectively referred here as "EGG Group") on June 26, 2008 (see Note 9). EGG Group is engaged in the development and creation of wireless products and services accessible through telephones or other forms of communication devices. It also provides internet and mobile value added services, information technology and technical services including software development and related services. EGGC is registered with the Department of Transportation and Communication (DOTC) as a content provider. EHL is in the process of liquidating its business and is operating in a run-off mode.

Globe Telecom owns 100% of GTI Business Holdings, Inc. (GTI). The primary purpose of this company is to invest, purchase, subscribe for or otherwise acquire and own, hold, sell or otherwise dispose of real and personal property of every kind and description, provided that GTI shall not engage in the business of an open-ended investment company as defined in the Investment Company Act (Republic Act 2629). GTI was incorporated on November 25, 2008. In July 2009, GTI incorporated its wholly owned subsidiary, GTI Corporation (GTIC), a company organized under the General Corporation Law of the State of Delaware for the purpose of engaging in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. GTIC has started commercial operations on April 1, 2011. In December 2011, GTI incorporated another wholly owned subsidiary, Globe Telecom HK Limited (GTIC HK), a limited company organized under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). As of December 31, 2011, GTIC HK has not yet started commercial operations.

2. Summary of Significant Accounting Policies

2.1 Basis of Financial Statement Preparation

The accompanying consolidated financial statements of Globe Telecom and its wholly-owned subsidiaries, collectively referred to as the "Globe Group", have been prepared under the historical cost convention method, except for derivative financial instruments and available-for-sale (AFS) investments that are measured at fair value.

The consolidated financial statements of the Globe Group are presented in Philippine Peso (₱), Globe Telecom's functional currency, and rounded to the nearest thousands except when otherwise indicated.

On February 10, 2012, the Board of Directors (BOD) approved and authorized the release of the consolidated financial statements of Globe Telecom, Inc. and Subsidiaries as of and for the years ended December 31, 2011, 2010 and 2009.

2.2 Statement of Compliance

The consolidated financial statements of the Globe Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

2.3 Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Globe Telecom and its subsidiaries as of and for the years ended December 31, 2011, 2010 and 2009. The subsidiaries are as follows:

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership
Innove	Philippines	Wireless and wireline voice and data communication services	100%
GXI	Philippines	Software development for telecommunications applications and money remittance services	100%
EGG Group			
EGGC	Philippines	Mobile content and application development services	100%
EHL	Hong Kong	Mobile content and application development services	100%
GTI	Philippines	Investment and holding company	100%
GTIC	United States	Wireless and data communication services	100%

Subsidiaries are consolidated from the date on which control is transferred to the Globe Group and cease to be consolidated from the date on which control is transferred out of the Globe Group. The financial statements of the subsidiaries are prepared for the same reporting year as Globe Telecom using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and losses, were eliminated during consolidation in accordance with the accounting policy on consolidation.

2.4 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) effective as of January 1, 2011. Except as otherwise indicated, the adoption of the new and amended Standards and Interpretations, did not have a significant impact on the consolidated financial statements.

- Amendment to PAS 24, *Related Party Disclosures*
  This Amendment clarifies the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

  In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
  It amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*
  This Amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Globe Group is not subject to minimum funding requirements in the Philippines, therefore, the amendment of the interpretation has no effect on the financial position nor performance of the Globe Group.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  This Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs
The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Except otherwise stated, the Globe Group does not expect the adoption of these new standards to have significant impact on the consolidated financial statements.

- PFRS 3, *Business Combinations (Revised)*
  This Amendment clarifies that the Amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

  The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- PFRS 7, *Financial Instruments: Disclosures*
  This Amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements*
  This Amendment clarifies that an entity will present an analysis of other comprehensive income (OCI) for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

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

- PAS 34, *Interim Financial Reporting*
  This Amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:
  a) The circumstances likely to affect fair values of financial instruments and their classification;
  b) Transfers of financial instruments between different levels of the fair value hierarchy;
  c) Changes in classification of financial assets; and
  d) Changes in contingent liabilities and assets.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

2.5 Future Changes in Accounting Policies

The Globe Group will adopt the following new and amended standards enumerated below when these become effective. Except as otherwise indicated, the Globe Group does not expect the adoption of these new and amended PAS and PFRS to have significant impact on the consolidated financial statements.

Effective 2012

- Amendments to PAS 1, *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income*
  This Amendment is effective for annual periods beginning on or after July 1, 2012. It changed the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will have no impact on the Globe Group’s financial position or performance.

- PAS 12, *Income Taxes*, *Deferred Tax: Recovery of Underlying Assets*
  This Amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered

through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

- PFRS 7, *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*
  The Amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2012. The amendments require additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the entity's financial statements to understand the relationship with 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 the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Effective 2013

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
  The Amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. These Amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  This Standard becomes effective for annual periods beginning on or after January 1, 2013. 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 Interpretations Committee (SIC)-12, *Consolidation - Special Purpose Entities*.

PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group is currently assessing the full impact that this standard will have on the financial position and performance.

- PFRS 11, *Joint Arrangements*
  This Standard becomes effective for annual periods beginning on or after January 1, 2013. It replaces PAS 31, *Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers*. It also removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

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

- PFRS 13, *Fair Value Measurement*
  This Standard becomes effective for annual periods beginning on or after January 1, 2013. It establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

- Amendment to PAS 19, *Employee Benefits*
  This Amendment becomes effective for annual periods beginning on or after January 1, 2013. The Amendment provides changes which range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments.

- PAS 27, *Separate Financial Statements (Revised)*
  This Amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures (Revised)*
  This Amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Effective 2014

- Amendments to PAS 32, *Offsetting Financial Assets and Financial Liabilities*
  These Amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2014. It clarifies 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 Group is currently assessing the impact of these amendments.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*
  This Standard becomes effective for annual periods beginning on or after January 1, 2015. The Standard, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected in 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2.6 Significant Accounting Policies

2.6.1 *Revenue Recognition*

The Globe Group provides mobile and wireline voice, data communication and broadband internet services which are both provided under postpaid and prepaid arrangements.

The Globe Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent (see Note 3.1.5).

Revenue is recognized when the delivery of the products or services has occurred and collectability is reasonably assured.

Revenue is stated at amounts invoiced and accrued to customers, taking into consideration the bill cycle cut-off (for postpaid subscribers), the amount charged against preloaded airtime value (for prepaid subscribers), switch-monitored traffic (for carriers and content providers) and excludes value-added tax (VAT) and overseas communication tax. Inbound traffic charges, net of discounts and outbound traffic charges, are accrued based on actual volume of traffic monitored by Globe Group's network and in the traffic settlement system.

2.6.1.1 *Service Revenues*

2.6.1.1.1 *Subscribers*

Revenues from subscribers principally consist of: (1) fixed monthly service fees for postpaid wireless, wireline voice, broadband internet, data subscribers and wireless prepaid subscription fees for promotional offers; (2) usage of airtime and toll fees for local, domestic and international long distance calls in excess of consumable fixed monthly service fees, less (a) bonus airtime and short messaging services (SMS) on free Subscribers' Identification Module (SIM), and (b) prepaid reload discounts, (3) revenues from value-added services (VAS) such as SMS in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid),

multimedia messaging services (MMS), content and infotext services, net of amounts settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers; (4) mobile data services, (5) inbound revenues from other carriers which terminate their calls to the Globe Group's network less discounts; (6) revenues from international roaming services; (7) usage of broadband and internet services in excess of fixed monthly service fees; and (8) one-time service connection fees (for wireline voice and data subscribers).

Postpaid service arrangements include fixed monthly service fees, which are recognized over the subscription period on a pro-rata basis. Monthly service fees billed in advance are initially deferred and recognized as revenues during the period when earned. Telecommunications services provided to postpaid subscribers are billed throughout the month according to the bill cycles of subscribers. As a result of bill cycle cut-off, monthly service revenues earned but not yet billed at the end of the month are estimated and accrued. These estimates are based on actual usage less estimated consumable usage using historical ratio of consumable usage over billable usage.

Proceeds from over-the-air reloading channels and the sale of prepaid cards are deferred and shown as "Unearned revenues" in the consolidated statements of financial position. Revenue is recognized upon actual usage of airtime value net of discounts on promotional calls and net of free airtime value or SMS and bonus reloads. Unused load value is recognized as revenue upon expiration.

The Globe Group offers loyalty programs which allow its subscribers to accumulate points when they purchase services from the Globe Group. The points can then be redeemed for free services, discounts and raffle coupons, subject to a minimum number of points being obtained. The consideration received or receivable is allocated between the sale of services and award credits. The portion of the consideration allocated to the award credits is accounted for as unearned revenues. This will be recognized as revenue upon the award redemption.

2.6.1.1.2 *Traffic*

Inbound revenues refer to traffic originating from other telecommunications providers terminating to the Globe Group's network, while outbound charges represent traffic sent out or mobile content delivered using agreed termination rates and/or revenue sharing with other foreign and local carriers and content providers. Adjustments are made to the accrued amount for discrepancies between the traffic volume per Globe Group's records and per records of the other carriers as these are determined and/or mutually agreed upon by the parties. Outstanding inbound revenues are shown as traffic settlements receivable under the "Receivables" account, while unpaid outbound charges are shown as traffic settlements payable under the "Accounts payable and accrued expenses" account in the consolidated statements of financial position unless a legal right of offset exists in which case the net amount is shown either under "Receivables" or "Accounts payable and accrued expenses" account.

2.6.1.2 *Nonservice revenues*
Proceeds from sale of handsets, devices and accessories, tattoo prepaid kits, SIM packs, modems and accessories, spare parts and supplies, callcards and others are recognized as revenue upon delivery of the items and the related cost or net realizable value are presented as "Cost of sales" in the consolidated statements of comprehensive income.

2.6.1.3 *Others*
Interest income is recognized as it accrues using the effective interest rate method.

Lease income from operating lease is recognized on a straight-line basis over the lease term.

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

2.6.2 *Subscriber Acquisition and Retention Costs*
The related costs incurred in connection with the acquisition of wireless and wireline voice subscribers are charged against current operations while the related acquisition costs of data communication and broadband internet subscribers are capitalized. Subscriber acquisition costs primarily include commissions, handset, phonekit, modems, mobile internet kit subsidies, device subsidies and selling expenses. Subsidies represent the difference between the cost of handsets, devices and accessories, tattoo prepaid kits, SIM packs, modems and accessories, spare parts and supplies, callcards and others (included in the "Cost of sales" and "Impairment losses and others" account), and the price offered to the subscribers (included in the "Nonservice revenues" account). The data communication and broadband internet costs represent the acquisition cost of modems (included in the "Property and Equipment" account) which are depreciated over a period of two years (included in the "depreciation and amortization" account). Retention costs for existing postpaid subscribers are in the form of free handsets, devices and bill credits. Retention costs are charged against current operations and included under the "General, selling and administrative expenses" account in the consolidated statements of comprehensive income upon delivery or when there is a contractual obligation to deliver. Bill credits are deducted from service revenues upon application against qualifying subscriber bills.

2.6.3 *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 date of placement and that are subject to an insignificant risk of change in value.

2.6.4 *Financial Instruments*

2.6.4.1 *General*

2.6.4.1.1 *Initial recognition and fair value measurement*
Financial instruments are recognized in the Globe Group's consolidated statements of financial position when the Globe Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized (regular way trades) on the trade date, i.e., the date that the Globe Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes directly attributable transaction costs.

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

The fair value for financial instruments traded in active markets at the end of reporting date 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, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is treated as expense or income, unless it qualifies for recognition as some type of asset or liability.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Globe Group recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in profit or loss. In cases where no observable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Globe Group determines the appropriate method of recognizing the "Day 1" profit or loss amount.

2.6.4.1.2 *Financial assets or financial liabilities at FVPL*

This category consists of financial assets or financial liabilities that are held for trading or designated by management as FVPL on initial recognition. Financial assets or financial liabilities are classified as held for sale if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39.

Financial assets or financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value, with changes in fair value being recorded in profit or loss. Interest earned or incurred is recorded as "Interest income or expense", respectively, while dividend income is recorded when the right of payment has been established. Both are recorded in profit or loss.

Financial assets or financial liabilities are classified in this category as designated by management on initial recognition when any of 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 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 are 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.

The Globe Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Globe Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Globe Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.6.4.1.3 *HTM investments*
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Globe Group's management has the positive intention and ability to hold to maturity. Where the Globe Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses. 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 rate. Gains and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process. The amortization is included in "Interest income" in the consolidated statements of comprehensive income. The effects of restatement of foreign currency-denominated HTM investments are recognized in profit or loss.

There are no outstanding HTM investments as of December 31, 2011, 2010 and 2009.

2.6.4.1.4 *Loans and receivables*
Loans and receivables are non-derivative 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 classified as financial assets held for trading, designated as AFS investments or designated at FVPL.

This accounting policy relates to the consolidated statements of financial position caption "Receivables", which arise primarily from subscriber and traffic revenues and other types of receivables, "Short-term investments", which arise primarily from unquoted debt securities, and other nontrade receivables included under "Prepayments and other current assets" and loans receivables included under "Other noncurrent assets".

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Penalties, termination fees and surcharges on past due accounts of postpaid subscribers are recognized as revenues upon collection. The losses arising from impairment of receivables are recognized in the "Impairment losses and others" account in the consolidated statements of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on 2.6.4.2 Impairment of Financial Assets).

Short-term investments, other nontrade receivables and loans receivable are recognized initially at fair value, which normally pertains to the consideration paid. Similar to receivables, subsequent to initial recognition, short-term investments, other nontrade receivables and loans receivables are measured at amortized cost using the effective interest rate method, less any allowance for impairment losses.

2.6.4.1.5 *AFS investments*
AFS investments are those investments which are designated as such or do not qualify to be classified as designated as at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. The unrealized gains and losses arising from the fair value changes of AFS investments are included in other comprehensive income and are reported as "Other reserves" (net of tax where applicable) in the equity section of the consolidated statements of financial position. When the investment is disposed of, the cumulative gains or losses previously recognized in equity is recognized in profit or loss.

When the fair value of AFS investments cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses. Dividends earned on holding AFS investments are recognized in profit or loss when the right of payment has been established.

The Globe Group evaluates its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When the Globe Group is unable to trade the AFS investments due to inactive markets and management intent significantly changes to do so in the foreseeable future, the Globe Group may elect to reclassify it to HTM investment or loans and receivables provided they meet certain criteria set by PAS 39 in rare circumstances.

The losses arising from impairment of such investments are recognized as “Impairment losses and others” in the consolidated statements of comprehensive income.

2.6.4.1.6 *Other financial liabilities*
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Globe Group having an obligation either to deliver cash or another financial asset to the holder, or to 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. 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. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Globe Group’s debt, accounts payable and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

2.6.4.1.7 *Derivative Instruments*

2.6.4.1.7.1 *General*
The Globe Group enters into short-term deliverable and nondeliverable currency forward contracts to manage its currency exchange exposure related to short-term foreign currency-denominated monetary assets and liabilities and foreign currency linked revenues.

The Globe Group also enters into long-term currency and interest rate swap contracts to manage its foreign currency and interest rate exposures arising from its long-term loan. Such swap contracts are sometimes entered into in combination with options.

2.6.4.1.7.2 *Recognition and measurement*
Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment. The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in profit or loss. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment (both prospective and retrospective bases) and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

Upon inception of the hedge, the Globe Group documents the relationship between the hedging instrument and the hedged item, its risk management objective and strategy for undertaking various hedge transactions, and the details of the hedging instrument and the hedged item. The Globe Group also documents its hedge effectiveness assessment methodology, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge effectiveness is likewise measured, with any ineffectiveness being reported immediately in profit or loss.

2.6.4.1.7.3 *Types of Hedges*
The Globe Group designates derivatives which qualify as accounting hedges as either: (a) a hedge of the fair value of a recognized fixed rate asset, liability or unrecognized firm commitment (fair value hedge); or (b) a hedge of the cash flow variability of recognized floating rate asset and liability or forecasted sales transaction (cash flow hedge).

Fair Value Hedges
Fair value hedges are hedges of the exposure to variability in the fair value of recognized assets, liabilities or unrecognized firm commitments. The gain or loss on a derivative instrument designated and qualifying as a fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in profit or loss in the same accounting period. Hedge effectiveness is determined based on the hedge ratio of the fair value changes of the hedging instrument and the underlying hedged item. When the hedge ceases to be highly effective, hedge accounting is discontinued.

As of December 31, 2011, 2010 and 2009, there were no derivatives designated and accounted for as fair value hedges.

Cash Flow Hedges
The Globe Group designates as cash flow hedges the following derivatives: (a) interest rate swaps as cash flow hedge of the interest rate risk of a floating rate obligation, and (b) certain foreign exchange forward contracts as cash flow hedge of expected United States Dollar (USD) revenues.

A cash flow hedge is a hedge of the exposure to variability in future cash flows related to a recognized asset, liability or a forecasted sales transaction. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in "Other reserves," which is a component of equity. Any hedge ineffectiveness is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of a nonfinancial asset or liability, gains and losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect earnings.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been recognized in OCI is retained in "Other reserves" until the hedged transaction impacts profit or loss. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously recognized in "Other reserves" is immediately recycled in profit or loss.

For cash flow hedges of USD revenues, the effective portion of the hedge transaction coming from the fair value changes of the currency forwards are subsequently recycled from equity to profit or loss and is presented as part of the US dollar-based revenues upon consummation of the transaction or when the hedge become ineffective.

2.6.4.1.7.4 *Other Derivative Instruments Not Accounted for as Accounting Hedges*
Certain freestanding derivative instruments that provide economic hedges under the Globe Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in profit or loss. For bifurcated embedded derivatives in financial and nonfinancial contracts that are not designated or do not qualify as hedges, changes in the fair values of such transactions are recognized in profit or loss.

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

2.6.4.2 *Impairment of Financial Assets*
The Globe Group assesses at end of the reporting date whether a financial asset or group of financial assets is impaired.

2.6.4.2.1 *Assets carried at amortized cost*
If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g. receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is to be recognized in profit or loss.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying value of the asset does not exceed what should have been its amortized cost at the reversal date.

With respect to receivables, the Globe Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Globe Group.

2.6.4.2.1.1 *Subscribers*
Full allowance for impairment losses, net of recoveries, is provided for receivables from permanently disconnected wireless, wireline and broadband subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnections generally occur within a predetermined period from due date.

Impairment losses are applied to active wireless, wireline and broadband accounts specifically identified to be doubtful of collection where there is information on financial incapacity after considering the other contractual obligations between Globe Group and the subscriber. Allowance is applied regardless of age bucket of identified accounts.

Application of impairment losses to receivables net of receivables with applied specific loss is also determined based on the results of net flow to permanent disconnection methodology.

For wireless, net flow tables are derived from account-level monitoring of subscriber accounts between different age brackets depending on the defined permanent disconnection timeline, from current to 150 days past due and up. The net flow to permanent disconnection methodology relies on the historical data of net flow tables to establish a percentage (“net flow rate”) of subscriber receivables that are current or in any state of delinquency as of reporting date that will eventually result to permanent disconnection. The allowance for impairment losses is then computed based on the outstanding balances of the receivables at the end of reporting date and the net flow rates determined for the current and each delinquency bucket. Full allowance is provided for receivables of active consumer accounts in the 150 days past due and up bucket.

For active wireline voice and broadband subscribers, the allowance for impairment loss is also determined based on the results of net flow rate to permanent disconnection computed from account-level monitoring of accounts from current to 90 days past due and up age bucket except for consumer where impairment rate applied at 90 days past due and up bucket is full allowance net of average recoveries prior to permanent disconnection.

2.6.4.2.1.2 *Traffic*
For traffic receivables, impairment losses are made for accounts specifically identified to be doubtful of collection regardless of the age of the account. For receivable balances that appear doubtful of collection, allowance is provided after review of the status of settlement with each carrier and roaming partner, taking into consideration normal payment cycles, recovery experience and credit history of the counterparties.

2.6.4.2.1.3 *Other receivables*
Other receivables from dealers, credit card companies and other parties are provided with allowance for impairment losses if specifically identified to be doubtful of collection regardless of the age of the account.

2.6.4.2.2 *AFS investments carried at cost*
If there is objective evidence 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, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, 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. The carrying amount of the asset is reduced through the use of an allowance account.

2.6.4.2.3 *AFS investments carried at fair value*
If an AFS investment carried at fair value is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS are not recognized in profit or loss. Reversals of

impairment losses on debt instruments are made through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.6.4.3 *Derecognition of Financial Instruments*

2.6.4.3.1 *Financial Asset*
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;

- the Globe Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Globe Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Globe Group has transferred its rights to receive cash flows from an asset 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 Globe Group's 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 pay.

2.6.4.3.2 *Financial Liability*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.6.5 *Inventories and Supplies*
Inventories and supplies are stated at the lower of cost or net realizable value (NRV). NRV for handsets, modems, devices and accessories is the selling price in the ordinary course of business less direct costs to sell; while NRV for SIM packs, call cards, spare parts and supplies consists of the related replacement costs. In determining the NRV, the Globe Group considers any adjustment necessary for obsolescence, which is generally provided 100% for non-moving items after a certain period. Cost is determined using the moving average method.

2.6.6 *Non-current Assets Held for Sale*
Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

Items of property and equipment and intangible assets once classified as held for sale are not depreciated/ amortized.

2.6.7 *Property and Equipment*
Property and equipment, except land, are carried at cost less accumulated depreciation, amortization and impairment losses. Land is stated at cost less any impairment losses.

The initial cost of an item of property and equipment includes its purchase price and any cost attributable in bringing the property and equipment to its intended location and working condition. Cost also includes: (a) interest and other financing charges on borrowed funds specifically used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligations (ARO) specifically on property and equipment installed/constructed on leased properties.

Subsequent costs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Globe Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Assets under construction (AUC) are carried at cost and transferred to the related property and equipment account when the construction or installation, and the related activities necessary to prepare the property and equipment for their intended use are complete, and the property and equipment are ready for service.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and computed using the straight-line method over the estimated useful lives (EUL) of the property and equipment.

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

The EUL of property and equipment are reviewed annually based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation and amortization is consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and impairment losses are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

2.6.8 *ARO*
The Globe Group is legally required under various contracts to restore leased property to its original condition and to bear the cost of dismantling and deinstallation at the end of the contract period. The Globe Group recognizes the present value of these obligations and capitalizes these costs as part of the carrying value of the related property and equipment accounts, and are depreciated on a straight-line basis over the useful life of the related property and equipment or the contract period, whichever is shorter.

The amount of ARO is recognized at present value and the related accretion is recognized as interest expense.

2.6.9 *Investment Property*
Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and any impairment losses.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged to profit or loss in the period in which the costs are incurred.

Depreciation of investment property is computed using the straight-line method over its useful life, regardless of utilization. The EUL and the depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

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

Investment property is derecognized when it has either been disposed of or permanently withdrawn from use and no future benefit is expected from its disposal.

Any gain or loss on derecognition of an investment property is recognized in profit or loss in the period of derecognition.

2.6.10 *Intangible Assets*
Intangible assets consist of 1) costs incurred to acquire application software (not an integral part of its related hardware or equipment) and telecommunications equipment software licenses; and 2) intangible assets identified to exist during the acquisition of EGG Group for its existing customer contracts. Costs directly associated with the development of identifiable software that generate expected future benefits to the Globe Group are recognized as intangible assets. All other costs of developing and maintaining software programs are recognized as expense when incurred.

Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortization and any impairment losses. The EUL of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives. The periods and method of amortization for intangible assets with finite useful lives are reviewed annually or more frequently when an indicator of impairment exists.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statements of comprehensive income when the asset is derecognized.

2.6.11 *Business Combinations and Goodwill*
Business combinations are accounted for using the purchase 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 Globe Group elects whether it 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 Globe Group 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 that is deemed to be an asset or liability will be recognised in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.

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 Globe Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

2.6.12 *Investments in Joint Ventures*
Investments in joint ventures (JV) classified as jointly controlled entities, are accounted for under the equity method, less any impairment losses. A JV is an entity, not being a subsidiary nor an associate, in which the Globe Group exercises joint control together with one or more venturers.

Under the equity method, the investments in JV are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Globe Group's share in net assets of the JV, less any allowance for impairment losses. The profit or loss includes Globe Group's share in the results of operations of its JV. Where there has been a change recognized directly in the JV's equity, the Globe Group recognizes its share of any changes and discloses this, when applicable, in other OCI.

2.6.13 *Impairment of Nonfinancial Assets*
For nonfinancial assets, excluding goodwill, an assessment is made at the end of the reporting date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset or CGU to which the asset belongs is written down to its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for property and equipment, investment property and intangible assets) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2.6.14 *Income Tax*

2.6.14.1 *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 as at the end of the reporting date.

2.6.14.2 *Deferred Income Tax*
Deferred income tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the end of the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Deferred income tax is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in JV.

Deferred income tax relating to items recognized directly in equity or OCI is included in the related equity or OCI account and not in profit or loss.

The carrying amounts of deferred income tax assets are reviewed every end of reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realized or the liabilities are settled based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting date.

Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

2.6.15 *Provisions*
Provisions are recognized when: (a) the Globe Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed every end of the reporting period and adjusted to reflect the current best estimate. 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 in the provision due to the passage of time is recognized as interest expense under “Financing costs” in consolidated statements of comprehensive income.

2.6.16 *Share-based Payment Transactions*
Certain employees (including directors) of the Globe Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions") (see Note 18).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will vest.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the management of the Globe Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which 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. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, 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. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (EPS) (see Note 27).

2.6.17 *Capital Stock*
Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and are deducted from equity.

2.6.18 *Additional Paid-in Capital*
Additional paid-in capital includes any premium received in excess of par value on the issuance of capital stock.

2.6.19 *Treasury Stock*
Treasury stock is recorded at cost and is presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.
2.6.20 *Other Comprehensive Income*
OCI are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS.

2.6.21 *Pension Cost*
Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

The net pension asset recognized by the Globe Group in respect of the defined benefit pension plan is the lower of: (a) the fair value of the plan assets less the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized actuarial gains or losses that shall be recognized in later periods; or (b) the total of any 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 future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

A portion of actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

2.6.22 *Borrowing Cost*s
Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. These costs are amortized using the straight-line method over the EUL of the related property and equipment. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs. Premiums on long-term debt are included under the "Long-term debt" account in the consolidated statements of financial position and are amortized using the effective interest rate method.

Other borrowing costs are recognized as expense in the period in which these are incurred.

2.6.23 *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:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- 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 any of the scenarios above, and at the date of renewal or extension period for the second scenario.

2.6.23.1 *Group as Lessee*
Finance leases, which transfer to the Globe Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property and equipment" account with the corresponding liability to the lessor included in the "Other long-term liabilities" account in the consolidated statements of financial position. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as "Interest expense" in the consolidated statements of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

2.6.23.2 *Group as Lessor*
Finance leases, where the Globe Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated statements of financial position under "Prepayments and other current assets" account. A lease receivable is recognized equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in the "Interest income" account in the consolidated statements of comprehensive income.

Leases where the Globe Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2.6.24 *General, Selling and Administrative Expenses*
General, selling and administrative expenses, except for rent, are charged against current operations as incurred (see Note 2.6.23.1).

2.6.25 *Foreign Currency Transactions*
The functional and presentation currency of the Globe Group is the Philippine Peso, except for EHL and GTIC HK whose functional currency is the Hong Kong Dollar (HKD) and GTIC US whose functional currency is the United States Dollar (USD). Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of reporting period.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other OCI.

As at the reporting date, the assets and liabilities of EHL, GTIC US and HK are translated into the presentation currency of the Globe Group at the rate of exchange prevailing at the end of reporting period and its profit or loss is translated at the monthly weighted average exchange rates during the year. The exchange differences arising on the translation are taken directly to a separate component of equity under "Other reserves" account. Upon disposal of EHL, GTIC US and HK, the cumulative translation adjustments shall be recognized in profit or loss.

2.6.26 *EPS*
Basic EPS is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options and dilutive convertible preferred shares. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

2.6.27 *Operating Segment*
The Globe Group's major operating business units are the basis upon which the Globe Group reports its primary segment information. The Globe Group's business segments consist of: (1) mobile communication services; (2) wireline communication services; and (3) others. The Globe Group generally accounts for intersegment revenues and expenses at agreed transfer prices.

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

2.6.29 *Events after the Reporting Period*
Any post period-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Globe Group's position at the end of reporting period (adjusting event) is reflected in the consolidated financial statements. Any post period-end event that is not an adjusting event is disclosed in the consolidated financial statements when material.

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

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

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

3.1 *Judgments*

3.1.1 *Leases*
The Globe Group has entered into various lease agreements as lessee and lessor. The Globe Group has determined that it retains all the significant risks and rewards on equipment and office spaces leased out on operating lease.

3.1.2 *Fair value of financial instruments*
When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3.1.3 *Financial assets not quoted in an active market*
The Globe Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

3.1.4 *Allocation of goodwill to cash-generating units*
The Globe Group allocated the carrying amount of goodwill to the mobile content and application development services business CGU, for the Group believes that this CGU represents the lowest level within the Globe Group at which the goodwill is monitored for internal management reporting purposes; and not larger than an operating segment determined in accordance with PFRS 8.

3.1.5 *Determination of whether the Globe Group is acting as a principal or an agent*
The Globe Group assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Globe Group has primary responsibility for providing the goods and services;
- whether the Globe Group has inventory risk;
- whether the Globe Group has discretion in establishing prices; and
- whether the Globe Group bears the credit risk.

If the Globe Group has determined it is acting as a principal, the Group recognizes revenue on a gross basis with the amount remitted to the other party being accounted for as part of costs and expenses.

If the Globe Group has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Globe Group assessed its revenue arrangements and concluded that it is acting as a principal in some arrangements and as an agent in other arrangements.

3.2 *Estimates*

3.2.1 *Revenue recognition*
The Globe Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and receivables.

The Globe Group estimates the fair value of points awarded under its loyalty programmes, which are within the scope of Philippine Interpretation IFRIC 13, based on historical trend of availment. As of December 31, 2011 and 2010, the estimated liability for unredeemed points included in "Unearned revenues" amounted to ₱21.71 million and ₱121.81 million, respectively. There are no loyalty programs qualifying under IFRIC 13 as of December 31, 2009.

As a result of continuous improvements in the Globe Group's estimation process, the Group recognized a one-time upward adjustment (included in the "Service revenues" account of the statements of comprehensive income) amounting to ₱526.00 million in the fourth quarter of 2010, representing prepaid load credits that have either expired or have already been used up.

3.2.2 *Allowance for impairment losses on receivables*
The Globe Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Globe Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Globe Group. The amount and timing of recorded expenses for any period would differ if the Globe Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

Impairment losses on receivables for the years ended December 31, 2011, 2010 and 2009 amounted to ₱1,599.97 million, ₱1,285.53 million, and ₱754.63 million, respectively (see Note 23). Receivables, net of allowance for impairment losses, amounted to ₱10,119.51 million, ₱8,374.12 million, and ₱6,583.23 million as of December 31, 2011, 2010 and 2009, respectively (see Note 4).

3.2.3 *Obsolescence and market decline*
The Globe Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided 100% for nonmoving items after a certain period. The Globe Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories. The Globe Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in allowance for obsolescence and market decline would increase recorded operating expenses and decrease current assets.

Inventory obsolescence and market decline for the years ended December 31, 2011, 2010 and 2009 amounted to ₱237.92 million, ₱42.12 million, and ₱58.74 million, respectively (see Note 23).

Inventories and supplies, net of allowances, amounted to ₱1,911.19 million, ₱1,839.33 million, and ₱1,653.75 million as of December 31, 2011, 2010 and 2009, respectively (see Note 5).

3.2.4 *ARO*
The Globe Group is legally required under various contracts to restore leased property to its original condition and to bear the costs of dismantling and deinstallation at the end of the contract period. These costs are accrued based on an in-house estimate, which incorporates estimates of asset retirement costs and interest rates. The Globe Group recognizes the present value of these obligations and capitalizes the present value of these costs as part of the balance of the related property and equipment accounts, which are being depreciated and amortized on a straight-line basis over the EUL of the related asset or the lease term, whichever is shorter.

The present value of dismantling costs is computed based on an average credit adjusted risk free rate of 6.98%, 9.27% and 10.09% in 2011, 2010 and 2009, respectively. Assumptions used to compute ARO are reviewed and updated annually.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in ARO would increase recorded operating expenses and increase noncurrent liabilities.

The Globe Group updated its assumptions on timing of settlement and estimated cash outflows arising from ARO on its leased premises. As a result of the changes in estimates, the Globe group adjusted downward its ARO liability (included under "Other long-term liabilities" account) by ₱1.64 million, ₱64.45 million and ₱7.19 million in 2011, 2010 and 2009 against the book value of the assets on leased premises (see Note 15).

As of December 31, 2011, 2010 and 2009, ARO amounted to ₱1,476.60 million, ₱1,341.53 million and ₱1,269.29 million, respectively (see Note 15).

3.2.5 *EUL of property and equipment, investment property and intangible assets*
Globe Group reviews annually the EUL of these assets based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

A reduction in the EUL of property and equipment, investment property and intangible assets would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The EUL of property and equipment of the Globe Group are as follows:

	Years
Telecommunications equipment:	
Tower	20
Switch	7 and 10
Outside plant, cellsite structures and improvements	10-20
Distribution dropwires and other wireline assets	2-10
Cellular equipment and others	3-10
Buildings	20
Leasehold improvements	5 years or lease term, whichever is shorter
Investments in cable systems	15
Office equipment	3-5
Transportation equipment	3-5

The EUL of investment property is twenty (20) years.

Intangible assets comprising of licenses and application software are amortized over the EUL of the related hardware or equipment ranging from three (3) to ten (10) years or life of the telecommunications equipment where it is assigned. Customer contracts acquired during business combination are amortized over five (5) years.

In 2011, 2010 and 2009, the Globe Group changed the EUL of certain wireless and wireline telecommunications equipment and licenses resulting from new information affecting the expected utilization of these assets. The net effect of the change in EUL resulted in higher depreciation of ₱243.04 million, ₱119.03 million and ₱347.62 million in 2011, 2010 and 2009, respectively.

During the year 2011, the EUL of certain wireless and wireline equipment were changed as a result of continuing upgrade, expansion, and migration to a modernized network. The effect of change in EUL resulted to higher depreciation expense of ₱632.62 million in 2011.

As of December 31, 2011, 2010 and 2009, property and equipment, investment property and intangible assets amounted to ₱102,723.81 million, ₱104,972.70 million, and ₱104,586.34 million, respectively (see Notes 7, 8 and 9).

3.2.6 *Asset impairment*

3.2.6.1 *Impairment of nonfinancial assets other than goodwill*
The Globe Group assesses impairment of assets (property and equipment, investment property, intangible assets and investments in joint ventures) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Globe Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset or investment exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs.

For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

For the Globe Group, the CGU is the combined mobile and wireline asset groups of Globe Telecom and Innove. This asset grouping is predicated upon the requirement contained in Executive Order (EO) No.109 and RA No.7925 requiring licensees of Cellular Mobile Telephone System (CMTS) and International Digital Gateway Facility (IGF) services to provide 400,000 and 300,000 LEC lines, respectively, as a condition for the grant of such licenses.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Globe Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

Property and equipment, investment property, intangible assets, and investments in joint ventures amounted to ₱102,972.81 million, ₱105,169.71 million and ₱104,820.14 million as of December 31, 2011, 2010 and 2009, respectively (see Notes 7, 8, 9 and 10).

3.2.6.2 *Impairment of goodwill*
The Globe Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. As of December 31, 2011, 2010 and 2009, the carrying value of goodwill amounted to ₱327.13 million (see Note 9).

Goodwill acquired through business combination with EGG Group was allocated to the mobile content and applications development services business CGU, which is part of the "Others" reporting segment (see Note 29).

The recoverable amount of the CGU which exceeds the carrying amount by ₱461.88 million, ₱165.30 million and ₱63.00 million as of December 31, 2011, 2010 and 2009, respectively, has been determined based on value in use calculations using cash flow projections from financial budgets covering a five-year period. The pretax discount rate applied to cash flow projections is 11% in 2011 and 12% in 2010 and 2009, and cash flows beyond the five-year period are extrapolated using a 3% long-term growth rate in 2011, 2010 and 2009.

3.2.7 *Deferred income tax assets*
The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized (see Note 24).

As of December 31, 2011, 2010 and 2009, Innove, GXI and EGG Group has net deferred income tax assets amounting to ₱765.67 million, while as of December 31, 2010 and 2009, Innove and EGG Group has net deferred income tax assets amounting to ₱670.59 million and ₱742.54 million, respectively.

As of December 31, 2011, 2010 and 2009, Globe Telecom has net deferred income tax liabilities amounting to ₱3,929.41 million, ₱4,620.49 million, and ₱4,627.29 million, respectively (see Note 24). Globe Telecom and Innove have no unrecognized deferred income tax assets as of December 31, 2011, 2010 and 2009.

As of December 31, 2011, GXI recognized deferred income tax assets from NOLCO amounted to ₱1.01 million (see Note 24).

As of December 31, 2010 and 2009, Innove and EGG Group's recognized deferred income tax assets from NOLCO amounted to ₱13.50 million and ₱138.05 million and MCIT amounted to ₱0.95 million and ₱46.71 million, respectively (see Note 24).

3.2.8 *Financial assets and financial liabilities*
Globe Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates), the amount of changes in fair value would differ if the Globe Group utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income and consolidated statements of changes in equity.

Financial assets comprising AFS investments and derivative assets carried at fair values as of December 31, 2011, 2010 and 2009, amounted to ₱109.09 million, ₱121.77 million and ₱118.03 million, respectively, and financial liabilities comprising of derivative liabilities carried at fair values as of December 31, 2011, 2010 and 2009, amounted to ₱266.62 million, ₱245.87 million and ₱92.46 million, respectively (see Note 28.11).

3.2.9 *Pension and other employee benefits*
The determination of the obligation and cost of pension is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary rates increase (see Note 18). In accordance with PAS 19, actual results that differ from the Globe Group's assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

As of December 31, 2011, 2010 and 2009, Globe Group has unrecognized net actuarial losses of ₱1,215.69 million, ₱781.01 million, and ₱799.54 million, respectively (see Note 18.2).

The Globe Group also determines the cost of equity-settled transactions using assumptions on the appropriate pricing model. Significant assumptions for the cost of share-based payments include, among others, share price, exercise price, option life, risk-free interest rate, expected dividend and expected volatility rate.

Cost of share-based payments in 2011, 2010 and 2009 amounted to ₱49.34 million, ₱104.79 million and ₱126.44 million, respectively (see Notes 16.5 and 18.1).

The Globe Group also estimates other employee benefit obligations and expenses, including cost of paid leaves based on historical leave availments of employees, subject to the Globe Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The accrued balance of other employee benefits (included in the "Accounts payable and accrued expenses" account and in the "Other long-term liabilities" account in the consolidated statements of financial position) as of December 31, 2011, 2010 and 2009 amounted to ₱434.04 million, ₱406.14 million and ₱371.61 million, respectively (see Notes 12 and 15).

While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

3.2.10 *Contingencies*
Globe Telecom and Innove are currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling Globe Telecom and Innove's defense in these matters and is based upon an analysis of potential results. Globe Telecom and Innove currently do not believe that these proceedings will have a material adverse effect on the consolidated statements of financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 26).

4. **Receivables**

This account consists of receivables from:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Subscribers	16, 28.2.2	**₱10,245,268**	₱8,038,451	₱4,980,195
Traffic settlements - net	12, 16, 28.2.2	**2,291,862**	2,130,238	2,319,273
Dealers	28.2.2	**677,270**	455,238	556,929
Others	28.2.2	**285,735**	203,640	77,822
		13,500,135	10,827,567	7,934,219
Less allowance for impairment losses				
Subscribers	28.2.2	**3,131,289**	2,173,912	1,162,792
Traffic settlements and others	28.2.2	**249,341**	279,532	188,199
		3,380,630	2,453,444	1,350,991
		₱10,119,505	₱8,374,123	₱6,583,228

Subscriber receivables arise from wireless and wireline voice, data communications and broadband internet services provided under postpaid arrangements.

Amounts collected from wireless subscribers under prepaid arrangements are reported under "Unearned revenues" in the consolidated statements of financial position and recognized as revenues upon actual usage of airtime value or upon expiration of the prepaid credit. The unearned revenues from these subscribers amounted to ₱2,474.14 million, ₱2,402.75 million and ₱2,981.88 million as of December 31, 2011, 2010 and 2009, respectively.

Traffic settlements receivable are presented net of traffic settlements payable from the same carrier amounting to ₱3,838.82 million, ₱4,099.08 million and ₱3,130.28 million as of December 31, 2011, 2010 and 2009, respectively.

Receivables are noninterest-bearing and are generally collectible in the short-term.

5. Inventories and Supplies

This account consists of:

	2011	2010	2009
		(In Thousand Pesos)	
At cost:			
Spare parts and supplies	**₱3,068**	₱1,454	₱98
Handsets, devices and accessories	**1,931**	98	980
SIM packs	**20**	–	1,624
Modems and accessories	–	592,709	–
Tattoo prepaid kits	–	–	81,842
Callcards and others	**2,905**	22,244	154,466
	7,924	616,505	239,010
At NRV:			
Handsets, devices and accessories	**1,016,844**	518,145	260,442
Modems and accessories	**451,727**	240,578	615,514
Spare parts and supplies	**273,911**	298,331	464,476
SIM packs	**55,930**	42,928	69,347
Tattoo prepaid kits	**31,140**	27,738	–
Call cards and others	**73,714**	95,108	4,961
	1,903,266	1,222,828	1,414,740
	₱1,911,190	₱1,839,333	₱1,653,750

Inventories recognized as expense during the year amounting to ₱6,142.34 million, ₱4,281.08 million and ₱3,006.69 million in 2011, 2010 and 2009, respectively, are included as part of "Cost of sales" and "Impairment losses and others" accounts (see Note 23) in the consolidated statements of comprehensive income. An insignificant amount is included under "General, selling and administrative expenses" as part of "Utilities, supplies and other administrative expenses" account (see Note 21).

Cost of sales incurred consists of:

	2011	2010	2009
		(In Thousand Pesos)	
Handsets, devices and accessories	**₱4,928,921**	₱3,185,163	₱1,602,018
Tattoo prepaid kits	**545,354**	597,430	810,655
SIM packs	**245,418**	274,882	367,120
Modems and accessories	**89,423**	141,272	129,616
Spare parts and supplies	**1,440**	13,164	16,630
Callcards and others	**77,033**	27,049	21,911
	₱5,887,589	₱4,238,960	₱2,947,950

There are no unusual purchase commitments and accrued net losses as of December 31, 2011.

6. Prepayments and Other Current Assets

This account consists of:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Advance payments to suppliers and contractors	25.3	**₱1,674,923**	₱764,699	₱723,327
Prepayments	25.1	**1,288,290**	983,545	534,304
Deferred input VAT	11	**815,503**	1,020,060	853,870
Miscellaneous receivables - net	16, 28.11	**662,203**	455,005	853,243
Creditable withholding tax		**295,102**	494,942	334,723
Input VAT - net		**844,089**	954,636	889,941
Other current assets	28.11	**6,309**	31,311	9,912
		₱5,586,419	₱4,704,198	₱4,199,320

The "Prepayments" account includes prepaid insurance, rent, maintenance and NTC spectrum users' fee among others.

Deferred input VAT pertains to various purchases of goods and services which cannot be claimed yet as credits against output VAT liabilities, pursuant to the existing VAT rules and regulations. However, these can be applied on future output VAT liabilities.

As of December 31, 2011, Innove and GXI reported net input VAT amounting to ₱884.09 million and net of output VAT of ₱94.36 million. As of December 31, 2010, Innove, GXI and EGG reported net input VAT amounting to ₱954.64 million and net of output VAT of ₱102.45 million. As of December 31, 2009, Innove and GXI reported net input VAT amounting to ₱889.94 million and net of output VAT of ₱89.26 million.

7. Property and Equipment

The rollforward analysis of this account follows:

2011

	Telecommunications Equipment	Buildings and Leasehold Improvements	Investments in Cable Systems	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
				(In Thousand Pesos)				
Cost								
At January 1	₱174,342,419	₱25,605,238	₱13,028,303	₱6,395,943	₱2,153,222	₱1,514,332	₱16,441,841	₱239,481,298
Additions	1,837,618	67,717	87,900	163,909	260,991	13,043	14,840,996	17,272,174
Retirements/disposals	(2,969,817)	(2,894)	–	(137,669)	(208,432)	–	(99,698)	(3,418,510)
Reclassifications/adjustments	14,713,892	1,703,959	12,950	911,571	1,193	–	(19,227,815)	(1,884,250)
At December 31	187,924,112	27,374,020	13,129,153	7,333,754	2,206,974	1,527,375	11,955,324	251,450,712
Accumulated Depreciation and Amortization								
At January 1	113,486,718	11,955,511	4,736,035	5,642,866	1,497,090	–	–	137,318,220
Depreciation and amortization	14,802,833	1,134,039	833,833	646,073	263,634	–	–	17,680,412
Retirements/disposals	(2,811,884)	(2,782)	–	(136,195)	(178,231)	–	–	(3,129,092)
Reclassifications/adjustments	(59,938)	659	(225)	190	–	–	–	(59,314)
At December 31	125,417,729	13,087,427	5,569,643	6,152,934	1,582,493	–	–	151,810,226
Impairment Losses								
At January 1	151,751	–	–	3,182	–	–	170,891	325,824
Additions	11,200	–	–	–	–	–	117,414	128,614
Write-off/adjustments	(3,114)	–	–	–	–	–	(78,618)	(81,732)
At December 31	159,837	–	–	3,182	–	–	209,687	372,706
Net Book Value at December 31	₱62,346,546	₱14,286,593	₱7,559,510	₱1,177,638	₱624,481	₱1,527,375	₱11,745,637	₱99,267,780

2010

	Telecommunications Equipment	Buildings and Leasehold Improvements	Investments in Cable Systems	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
				(In Thousand Pesos)				
Cost								
At January 1	₱161,614,664	₱24,149,664	₱14,444,009	₱6,052,613	₱2,074,149	₱1,551,558	₱14,039,942	₱223,926,599
Additions	1,071,562	185,264	–	228,646	305,186	504	17,506,382	19,297,544
Retirements/disposals	(408,040)	(29,092)	–	(87,113)	(237,996)	(14,025)	(4,162)	(780,428)
Reclassifications/adjustments	12,064,233	1,299,402	(1,415,706)	201,797	11,883	(23,705)	(15,100,321)	(2,962,417)
At December 31	174,342,419	25,605,238	13,028,303	6,395,943	2,153,222	1,514,332	16,441,841	239,481,298
Accumulated Depreciation and Amortization								
At January 1	99,668,498	11,009,763	4,758,210	5,065,820	1,431,233	–	–	121,933,524
Depreciation and amortization	14,403,724	1,054,839	899,440	693,641	265,153	–	–	17,316,797
Retirements/disposals	(354,424)	(25,502)	–	(81,707)	(207,716)	–	–	(669,349)
Reclassifications/adjustments	(231,080)	(83,589)	(921,615)	(34,888)	8,420	–	–	(1,262,752)
At December 31	113,486,718	11,955,511	4,736,035	5,642,866	1,497,090	–	–	137,318,220
Impairment Losses								
At January 1	185,138	–	–	3,182	–	–	110,887	299,207
Additions	–	–	–	–	–	–	57,805	57,805
Write-off/adjustments	(33,387)	–	–	–	–	–	2,199	(31,188)
At December 31	151,751	–	–	3,182	–	–	170,891	325,824
Net Book Value at December 31	₱60,703,950	₱13,649,727	₱8,292,268	₱749,895	₱656,132	₱1,514,332	₱16,270,950	₱101,837,254

2009

	Telecommunications Equipment	Buildings and Leasehold Improvements	Investments in Cable Systems	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
				(In Thousand Pesos)				
Cost								
At January 1	₱149,198,002	₱22,235,361	₱10,185,208	₱5,483,835	₱2,125,186	₱1,495,841	₱13,994,643	₱204,718,076
Additions	1,308,160	169,162	353	379,911	225,515	50,511	22,469,550	24,603,162
Retirements/disposals	(9,013,358)	(13,228)	–	(9,418)	(111,951)	–	(24,258)	(9,172,213)
Reclassifications/adjustments	20,121,860	1,758,369	4,258,448	198,285	(164,601)	5,206	(22,399,993)	3,777,574
At December 31	161,614,664	24,149,664	14,444,009	6,052,613	2,074,149	1,551,558	14,039,942	223,926,599
Accumulated Depreciation and Amortization								
At January 1	91,235,779	9,984,888	3,918,995	4,558,370	1,252,372	–	–	110,950,404
Depreciation and amortization	13,800,566	969,115	787,648	497,005	305,715	–	–	16,360,049
Retirements/disposals	(5,501,257)	(7,155)	–	(6,431)	(126,854)	–	–	(5,641,697)
Reclassifications/adjustments	133,410	62,915	51,567	16,876	–	–	–	264,768
At December 31	99,668,498	11,009,763	4,758,210	5,065,820	1,431,233	–	–	121,933,524
Impairment Losses								
At January 1	209,017	–	–	3,984	–	–	14,281	227,282
Additions	–	–	–	–	–	–	75,017	75,017
Write-off/adjustments	(23,879)	–	–	(802)	–	–	21,589	(3,092)
At December 31	185,138	–	–	3,182	–	–	110,887	299,207
Net Book Value at December 31	₱61,761,028	₱13,139,901	₱9,685,799	₱983,611	₱642,916	₱1,551,558	₱13,929,055	₱101,693,868

Assets under construction include intangible components of a network system which are reclassified to depreciable intangible assets only when assets become available for use (see Note 9).

Investments in cable systems include the cost of the Globe Group's ownership share in the capacity of certain cable systems under a joint venture or a consortium or private cable set-up and indefeasible rights of use (IRUs) of circuits in various cable systems. It also includes the cost of cable landing station and transmission facilities where the Globe Group is the landing party.

The costs of fully depreciated property and equipment that are still being used in the network amounted to ₱70,229.60 million, ₱52,467.14 million and ₱35,832.53 million as of December 31, 2011, 2010 and 2009, respectively.

The Globe Group uses its borrowed funds to finance the acquisition of property and equipment and bring it to its intended location and working condition. Borrowing costs incurred relating to these acquisitions were included in the cost of property and equipment using 3.19%, 5.61% and 3.96% capitalization rates in 2011, 2010 and 2009, respectively. The Globe Group's total capitalized borrowing costs amounted to ₱591.66 million, ₱1,091.21 million and ₱979.03 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 22).

In 2011, the Globe Group entered into a sale-buy back transaction with an equipment supplier whereby Globe Group conveyed and transferred ownership of certain hardware equipment and licenses nearing end of economic life and then later purchased upgraded equipment from the same equipment supplier. This transaction resulted in a gain amounting to ₱244.37 million (included under "Gain on disposal of property and equipment - net" in the consolidated statements of comprehensive income), equivalent to the difference between the fair value of the new equipment and the carrying amount of the old platforms and equipment at the time the transaction was consummated.

In 2009, the Globe Group entered into an exchange transaction with an equipment supplier whereby Globe Group conveyed and transferred ownership of certain equipment and licenses in exchange for more advanced systems. This exchange resulted in a gain amounting to ₱568.12 million (included under "Gain on disposal of property and equipment - net" in the consolidated statements of comprehensive income), equivalent to the difference between the fair value of the new equipment stipulated in the purchase agreement and the carrying amount of the old platforms and equipment at the time the exchange was consummated.

8. Investment Property

The rollforward analysis of this account follows:

	2011	2010	2009
		(In Thousand Pesos)	
Cost			
At January 1 and December 31	**₱390,641**	₱390,641	₱390,641
Accumulated Depreciation			
At January 1	**176,449**	153,902	131,418
Depreciation	**22,547**	22,547	22,547
Reclassifications/adjustments	–	–	(63)
At December 31	**198,996**	176,449	153,902
Net Book Value at December 31	**₱191,645**	₱214,192	₱236,739

Investment property represents the portion of a building that was held for lease to third parties in 2009 (see Note 25.1b).

The details of income and expenses related to the investment property follow:

	2011	2010	2009
		(In Thousand Pesos)	
Lease income	**₱–**	₱–	₱31,274
Direct expenses	**16,055**	23,450	23,396

The fair value of the investment property, as determined by market data approach, amounted to ₱592.08 million based on the report issued by an independent appraiser dated November 25, 2011.

9. Intangible Assets and Goodwill

The rollforward analysis of this account follows:

2011

	Licenses and Application Software	Customer Contracts	Total Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
			(In Thousand Pesos)		
Cost					
At January 1	**₱8,362,110**	**₱28,381**	**₱8,390,491**	**₱327,125**	**₱8,717,616**
Additions	**145,208**	–	**145,208**	–	**145,208**
Retirements/disposals	**(862,847)**	–	**(862,847)**	–	**(862,847)**
Reclassifications/ adjustments (Note 7)	**1,418,743**	–	**1,418,743**	–	**1,418,743**
At December 31	**9,063,214**	**28,381**	**9,091,595**	**327,125**	**9,418,720**
Accumulated Depreciation and Amortization					
At January 1	**5,449,729**	**14,190**	**5,463,919**	–	**5,463,919**
Amortization	**1,232,592**	**5,676**	**1,238,268**	–	**1,238,268**
Retirements/disposals	**(848,131)**	–	**(848,131)**	–	**(848,131)**
Reclassifications/adjustments	**(26,850)**	–	**(26,850)**	–	**(26,850)**
At December 31	**5,807,340**	**19,866**	**5,827,206**	–	**5,827,206**
Impairment Losses					
At January 1	**5,321**	–	**5,321**	–	**5,321**
Write-off/adjustments	**(5,321)**	–	**(5,321)**	–	**(5,321)**
At December 31	–	–	–	–	–
Net Book Value at December 31	**₱3,255,874**	**₱8,515**	**₱3,264,389**	**₱327,125**	**₱3,591,514**

2010

	Licenses and Application Software	Customer Contracts	Total Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
			(In Thousand Pesos)		
Cost					
At January 1	₱7,431,159	₱28,381	₱7,459,540	₱327,125	₱7,786,665
Additions	169,329	–	169,329	–	169,329
Retirements/disposals	(128,606)	–	(128,606)	–	(128,606)
Reclassifications/ adjustments (Note 7)	890,228	–	890,228	–	890,228
At December 31	8,362,110	28,381	8,390,491	327,125	8,717,616
Accumulated Depreciation and Amortization					
At January 1	4,795,295	8,514	4,803,809	–	4,803,809
Amortization	740,819	5,676	746,495	–	746,495
Retirements/disposals	(120,561)	–	(120,561)	–	(120,561)
Reclassifications/adjustments	34,176	–	34,176	–	34,176
At December 31	5,449,729	14,190	5,463,919	–	5,463,919
Impairment Losses					
At January 1	–	–	–	–	–
Additions	5,321	–	5,321	–	5,321
At December 31	5,321	–	5,321	–	5,321
Net Book Value at December 31	₱2,907,060	₱14,191	₱2,921,251	₱327,125	₱3,248,376

2009

	Licenses and Application Software	Customer Contracts	Total Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
			(In Thousand Pesos)		
Cost					
At January 1	₱6,968,572	₱28,381	₱6,996,953	₱327,125	₱7,324,078
Additions	99,164	–	99,164	–	99,164
Retirements/disposals	(685,577)	–	(685,577)	–	(685,577)
Reclassifications/ adjustments (Note 7)	1,049,000	–	1,049,000	–	1,049,000
At December 31	7,431,159	28,381	7,459,540	327,125	7,786,665
Accumulated Depreciation and Amortization					
At January 1	3,985,282	–	3,985,282	–	3,985,282
Amortization	997,320	8,514	1,005,834	–	1,005,834
Retirements/disposals	(211,736)	–	(211,736)	–	(211,736)
Reclassifications/adjustments	24,429	–	24,429	–	24,429
At December 31	4,795,295	8,514	4,803,809	–	4,803,809
Net Book Value at December 31	₱2,635,864	₱19,867	₱2,655,731	₱327,125	₱2,982,856

In 2008, Globe Telecom acquired EGG Group with net assets at fair value amounting to ₱24.37 million for a total consideration paid in cash of ₱351.49 million. This transaction resulted to a Goodwill of ₱327.13 million, which is attributable to the significant synergies expected to arise after the Globe Group's acquisition of the EGG Group.

10. Investments in Joint Ventures

This account consists of:

	2011	2010	2009
		(In Thousand Pesos)	
Acquisition cost			
At January 1	**₱252,610**	₱252,610	₱111,280
Acquisition during the year	**79,010**	–	141,330
At December 31	**331,620**	252,610	252,610
Accumulated equity in net losses:			
At January 1	**(47,728)**	(44,760)	(37,751)
Equity in net losses	**(27,345)**	(2,968)	(7,009)
	(75,073)	(47,728)	(44,760)
Net foreign exchange difference	**(7,547)**	(7,866)	25,950
At December 31	**(82,620)**	(55,594)	(18,810)
Carrying value at December 31	**₱249,000**	₱197,016	₱233,800

10.1 Investment in BPI Globe BanKO Inc., A Savings Bank (BPI Globe BanKO)
On July 17, 2009, Globe acquired a 40% stake in BPI Globe BanKO (formerly Pilipinas Savings Bank, Inc. or PS Bank) for ₱141.33 million, pursuant to a Shareholder Agreement with Bank of the Philippine Islands (BPI), AC and PS Bank, and a Deed of Absolute Sale with BPI. BPI Globe BanKO will have the capability to provide services to micro-finance institutions and retail clients through mobile and related technology.

On May 10, 2011, the BOD of Globe Telecom approved the additional investment of ₱100.00 million as share for BPI Globe BanKO's increase in capitalization to cover its expansion plan for the next three years. Globe Telecom made the initial capital infusion of ₱79.00 million on May 10, 2011, while the balance of ₱21.00 million will be made after approval of Globe BanKO's increase in capital stock to ₱1,000.00 million by the BSP and the SEC. As of December 31, 2011, the investment of Globe Telecom in BPI Globe BanKO amounted to ₱179.51 million, representing 40% interest.

The Globe Group's interest in BPI Globe BanKO is as follows:

	2011	2010	2009
	(In Thousand Pesos)		
Assets:			
Current	**₱530,179**	₱283,305	₱147,745
Non-current	**16,208**	4,386	3,650
Liabilities:			
Current	**(339,212)**	(151,150)	(10,064)
Income	**50,379**	16,409	12,572
Expenses	**(78,040)**	(24,839)	(9,627)

The Globe Group has no share of any contingent liabilities as of December 31, 2011, 2010 and 2009.

10.2 Investment in Bridge Mobile Pte. Ltd. (BMPL)

Globe Telecom and other leading Asia Pacific mobile operators (JV partners) signed an Agreement in 2004 (JV Agreement) to form a regional mobile alliance, which will operate through a Singapore-incorporated company, BMPL. The JV company is a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform and deliver different regional mobile services to their subscribers.

Globe Group has a ten percent (10%) stake in BMPL. The other joint venture partners each with equal stake in the alliance include SK Telecom, Co. Ltd., Advanced Info Service Public Company Limited, Bharti Airtel Limited, Maxis Communications Berhad, Optus Mobile Pty. Limited, Singapore Telecom Mobile Pte, Ltd., Taiwan Mobile Co. Ltd., PT Telekomunikasi Selular and CSL Ltd. Under the JV Agreement, each partner shall contribute USD4.00 million based on an agreed schedule of contribution. Globe Telecom may be called upon to contribute on dates to be determined by the JV. As of December 31, 2011, Globe Telecom has invested a total of USD2.20 million in the joint venture.

The Globe Group's interest in BMPL is accounted for as follows:

	2011	2010	2009
	(In Thousand Pesos)		
Assets:			
Current	**₱75,011**	₱67,722	₱104,280
Non-current	**1,750**	2,744	1,769
Liabilities:			
Current	**(7,591)**	(7,023)	(6,571)
Income	**24,337**	19,693	17,872
Expenses	**(24,021)**	(14,231)	(27,826)

The Globe Group has no share of any contingent liabilities as of December 31, 2011, 2010 and 2009.

11. Other Noncurrent Assets

This account consists of:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Loan receivable from Globe Group retirement plan	16.3, 18.2	**₱968,000**	₱968,000	₱968,000
Prepaid pension	18.2	**876,970**	951,083	1,055,444
Miscellaneous deposits	25.1	**534,088**	473,862	431,221
Deferred input VAT	6	**372,771**	43,320	372,618
Loan receivable from Bethlehem Holdings, Inc. (BHI)	16.3, 25.5	**295,000**	295,000	295,000
AFS investment in equity securities	28.10, 28.11	**99,319**	101,877	81,727
Others - net	25.1	**63,329**	42,544	134,400
		₱3,209,477	₱2,875,686	₱3,338,410

12. Accounts Payable and Accrued Expenses

This account consists of:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Accounts payable	16	**₱7,314,069**	₱5,617,380	₱5,769,355
Accrued project costs	25.3	**6,906,943**	8,638,119	8,081,684
Accrued expenses	16, 18.2	**5,995,940**	5,587,799	4,898,403
Traffic settlements - net	4	**2,722,809**	2,172,426	1,866,012
Output VAT		**67,458**	99,479	172,735
Dividends payable	17.3	**35,295**	–	50,492
		₱23,042,514	₱22,115,203	₱20,838,681

The “Accrued expenses” account includes accruals for services, advertising, manpower and various general, selling and administrative expenses.

Traffic settlements payable are presented net of traffic settlements receivable from the same carrier amounting to ₱2,372.03 million, ₱2,335.95 million and ₱1,019.65 million as of December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011, Globe and EGG reported net output VAT amounting to ₱67.46 million, net of input VAT of ₱458.67 million. As of December 31, 2010, Globe Telecom reported net output VAT amounting to ₱99.48 million, net of input VAT of ₱359.93 million. As of December 31, 2009, Globe Telecom and EGG Group reported net output VAT amounting to ₱172.74 million, net of input VAT of ₱361.59 million.

13. **Provisions**

The rollforward analysis of this account follows:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
At beginning of year		**₱224,388**	₱89,404	₱202,514
Provisions for (reversals of) claims and assessments	23	**(47,916)**	138,760	(88,047)
Adjustments		**(9,699)**	(3,776)	(25,063)
At end of year		**₱166,773**	₱224,388	₱89,404

Provisions relate to various pending unresolved claims and assessments over the Globe Group's mobile and wireline businesses. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of these on-going claims and assessments. As of February 10, 2012, the remaining pending claims and assessments are still being resolved.

The provisions for National Telecommunications Commission (NTC) permit fees amounting to ₱117.26 million for an assessment by the NTC on March 27, 1996 and contested by Innove and other members of the Telecommunications Operators of the Philippines was reversed in 2009 after taking into account all available evidence including the merits of the ruling of the Court of Appeals (CA) in favor of another telecommunications service provider.

14. **Notes Payable and Long-term Debt**

Notes payable consist of short-term unsecured promissory notes from local banks for working capital requirements amounting to ₱1,756.76 million, which bears interest ranging from 1.57% to 1.91% and ₱2,000.83 million, which bears interest rate ranging from 4.35% to 10% as of December 31, 2011 and 2009, respectively. There is no outstanding notes payable as of December 31, 2010.

Long-term debt consists of:

	2011	2010	2009
		(In Thousand Pesos)	
Banks:			
Local	**₱27,555,234**	₱20,352,194	₱15,933,027
Foreign	**3,541,621**	7,317,483	6,810,357
Corporate notes	**10,839,226**	17,729,939	17,775,866
Retail bonds	**4,985,865**	4,971,854	4,956,772
	46,921,946	50,371,470	45,476,022
Less current portion	**9,597,367**	8,677,209	5,667,965
	₱37,324,579	₱41,694,261	₱39,808,057

The maturities of long-term debt at nominal values excluding unamortized debt issuance costs as of December 31, 2011 follow (amounts in thousands):

Due in:	
2012	₱9,613,443
2013	9,771,627
2014	9,763,498
2015	8,441,743
2016 and thereafter	9,543,662
	₱47,133,973

Unamortized debt issuance costs included in the above long-term debt as of December 31, 2011, 2010 and 2009 amounted to ₱212.03 million, ₱279.24 million and ₱197.99 million, respectively.

Total interest expense recognized, excluding the capitalized interest amounted to ₱2,059.66 million, ₱1,981.79 million and ₱2,096.95 million in 2011, 2010 and 2009, respectively (see Notes 7 and 22).

The interest rates and maturities of the above debt are as follows:

	Maturities	Interest Rates
Banks:		
Local	2011-2018	1.42% to 7.03% in 2011
		5.26% to 7.03% in 2010
		5.12% to 7.87% in 2009
Foreign	2011-2016	0.68% to 3.86% in 2011
		0.74% to 4.13% in 2010
		0.74% to 6.44% in 2009
Corporate notes	2011-2016	2.78% to 8.43% in 2011
		5.52% to 8.38% in 2010
		5.62% to 8.80% in 2009
Retail bonds	2012-2014	7.50% to 8.00% in 2011
		7.50% to 8.00% in 2010
		7.50% to 8.00% in 2009

14.1 Bank Loans and Corporate Notes

Globe Telecom's unsecured bank loans and corporate notes, which consist of fixed and floating rate notes and dollar and peso-denominated bank loans, bear interest at stipulated and prevailing market rates.

The loan agreements with banks and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of financial ratios and percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

As of February 10, 2012, the Globe Group is not in breach of any loan covenants.

14.2 Retail Bonds

On February 25, 2009, Globe Group issued ₱5,000.00 million fixed rate bonds. This amount comprises ₱1,974.00 million and ₱3,026.00 million fixed rate bonds due in 2012 and 2014, respectively, with interest of 7.50% and 8.00%, respectively. The proceeds of the retail bonds were used to fund Globe Group's various capital expenditures.

The five-year retail bonds may be redeemed in whole, but not in part, on the twelfth (12th) interest payment date at a price equal to 102.00% of the principal amount of the bonds and all accrued interest to the date of redemption. Globe Group may not redeem the retail bonds unless allowed under conditions specified in the agreements with respect to redemption for tax reasons, purchase and cancellation and change in law or circumstance.

The Globe Group has to meet certain bond covenants including a maximum debt-to-equity ratio of 2 to 1. As of February10, 2012, the Globe Group is not in breach of any bond covenants.

On January 17, 2012, Globe Group exercised its option to redeem the ₱3,026.00 million fixed rate bonds thru an irrevocable notice issued to its trustee bank. The full settlement is expected on February 27, 2012 with an estimated redemption cost of ₱60.52 million.

15. **Other Long-term Liabilities**

This account consists of:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
ARO	3.2.4, 7	**₱1,476,597**	₱1,341,526	₱1,269,291
Accrued lease obligations and others	25.1	**635,122**	640,927	647,416
Noninterest bearing liabilities	25.4	–	–	735,944
Advance lease	25.4	–	–	67,673
		2,111,719	1,982,453	2,720,324
Less current portion		–	–	803,617
		₱2,111,719	₱1,982,453	₱1,916,707

The rollforward analysis of the Globe Group's ARO follows:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
At beginning of year		**₱1,341,526**	₱1,269,291	₱1,081,408
Capitalized to property and equipment during the year - net of reversal	30	**27,403**	41,473	96,959
Accretion expense during the year	22	**109,309**	95,207	98,117
Adjustments due to changes in estimates	3.2.4	**(1,641)**	(64,445)	(7,193)
At end of year		**₱1,476,597**	₱1,341,526	₱1,269,291

16. **Related Party Transactions**

Globe Telecom and Innove, in their regular conduct of business, enter into transactions with their major stockholders, AC and STI, venturers and certain related parties. These transactions, which are accounted for at market prices normally charged to unaffiliated customers for similar goods and services, include the following:

16.1 Entities with joint control over Globe Group - AC and STI

- Globe Telecom has interconnection agreements with STI. The related net traffic settlements receivable (included in "Receivables" account in the consolidated statements of financial position) and the interconnection revenues earned (included in "Service revenues" account in the consolidated statements of comprehensive income) are as follows:

	2011	2010	2009
		(In Thousand Pesos)	
Traffic settlements receivable - net	**₱36,994**	₱124,319	₱34,487
Interconnection revenues - net	**1,136,294**	1,857,336	2,097,734

- Globe Telecom and STI have a technical assistance agreement whereby STI will provide consultancy and advisory services, including those with respect to the construction and operation of Globe Telecom's networks and communication services (see Note 25.6), equipment procurement and personnel services. In addition, Globe Telecom has software development, supply, license and support arrangements, lease of cable facilities, maintenance and restoration costs and other transactions with STI.

  The details of fees (included in repairs and maintenance under the "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) incurred under these agreements are as follows:

	2011	2010	2009
		(In Thousand Pesos)	
Technical assistance fee	**₱179,014**	₱149,662	₱99,903
Maintenance and restoration costs and other transactions	**53,996**	86,901	216,701
Software development, supply, license and support	**25,999**	26,904	26,924

The net outstanding balances due to STI (included in the "Accounts payable and accrued expenses" account in the consolidated statements of financial position) arising from these transactions are as follows:

	2011	2010	2009
		(In Thousand Pesos)	
Technical assistance fee	**₱54,873**	₱48,870	₱24,180
Software development, supply, license and support	**80,377**	26,640	45,734
Maintenance and restoration costs and other transactions	**23,103**	28,818	33,555

- Globe Telecom earns subscriber revenues from AC. The outstanding subscribers receivable from AC (included in "Receivables" account in the consolidated statements of financial position) and the amount earned as service revenue (included in the "Service revenues" account in the consolidated statements of comprehensive income) are as follows:

	2011	2010	2009
		(In Thousand Pesos)	
Subscriber receivables	**₱1,718**	₱3,152	₱1,454
Service revenues	**12,640**	13,214	12,553

- Globe Telecom reimburses AC for certain operating expenses. The net outstanding liabilities to (included in "Accounts payable and accrued expenses" account in the consolidated statement of financial position) and the amount of expenses incurred (included in the "General, selling and administrative expenses" account in the statements of comprehensive income) are as follows:

	2011	2010	2009
		(In Thousand Pesos)	
General, selling and administrative expenses	**₱7,878**	₱26,847	₱21,118
Accounts payable and accrued expenses	**234**	–	31,343

16.2 Joint Ventures in which the Globe Group is a venturer

- Globe Telecom has preferred roaming service contract with BMPL. Under this contract, Globe Telecom will pay BMPL for services rendered by the latter which include, among others, coordination and facilitation of preferred roaming arrangement among JV partners, and procurement and maintenance of telecommunications equipment necessary for delivery of seamless roaming experience to customers. Globe Telecom also earns or incurs commission from BMPL for regional top-up service provided by the JV partners. The net outstanding liabilities to BMPL related to these transactions amounted to ₱1.00 million, ₱2.89 million and ₱1.02 million as of December 31, 2011, 2010 and 2009, respectively. Balances related to these transactions (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱12.24 million, ₱12.07 million and ₱23.98 million, as of December 31, 2011, 2010 and 2009, respectively.

- In October 2009, the Globe Group entered into an agreement with BPI Globe BanKO for the pursuit of services that will expand the usage of GCash technology. As a result, the Globe Group recognized revenue amounting to ₱2.86 million and ₱9.99 million in 2011 and 2009, respectively. The revenue earned in 2010 is immaterial. The related receivables amounted to ₱2.01 million, ₱9.19 million and ₱11.19 million in 2011, 2010 and 2009, respectively.

16.3 Transactions with the Globe Group retirement plan (see Note 11)

- In 2008, the Globe Group granted a short-term loan to the Globe Group retirement plan amounting to ₱800.00 million with interest at 6.20%. Upon maturity in 2009, the loan was rolled over until September 2014 and bears interest at 7.75%. Further, in 2009, the Globe Group granted an additional loan to the retirement fund amounting to ₱168.00 million which bears interest at 7.75% and is due also in September 2014.

The Globe Group retirement plan utilized the loan to fund its investments in BHI, a domestic corporation that organized to invest in media ventures. In 2008 and 2009, BHI acquired controlling interest in Altimax Broadcasting Co., Inc. (Altimax) and Broadcast Enterprises and Affiliated Media Inc. (BEAM), respectively.

- On August 13 and December 21, 2009, the Globe Group granted five-year loans amounting to ₱250.00 million and ₱45.00 million, respectively, to BHI at 8.275% interest. The ₱250.00 million loan is covered by a pledge agreement whereby in the event of default, the Globe Group shall be entitled to offset whatever amount is due to BHI from any unpaid fees to BEAM, BHI's subsidiary, from the Globe Group. The ₱45.00 million loan is fully secured by a chattel mortgage agreement dated December 21, 2009 between Globe Group and BEAM (see Note 25.5).

- On February 1, 2009, the Globe Group entered into a memorandum of agreement (MOA) with BEAM for the latter to render mobile television broadcast service to Globe subscribers using the mobile TV service. As a result, the Globe Group recognized an expense (included in "Professional and other contracted services") amounting to ₱250.00 million in 2011 and 2010, and ₱245.58 million in 2009.

- On October 1, 2009, the Globe Group entered into a MOA with Altimax, a subsidiary of BHI, for the Globe Group's co-use of specific frequencies of Altimax's for the rollout of broadband wireless access to the Globe Group's subscribers. As a result, the Globe Group recognized an expense (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounting to ₱90.00 million in 2011 and 2010, and ₱70.00 million in 2009.

16.4 Transactions with other related parties

Globe Telecom has subscriber receivables (included in "Receivables" account in the consolidated statements of financial position) and earns service revenues (included in the "Service revenues" account in the consolidated statements of comprehensive income) from its other related parties namely, Ayala Land Inc., Ayala Property Management Corporation, BPI, Manila Water Company, Inc., Integrated Microelectronics, Inc., Stream Global Services, Inc., HR Mall Inc., Honda Cars, Inc., Isuzu Automotive Dealership, Inc., Accendo Commercial Corp., Affinity Express Philippines, Inc., Alveo Land Corp., Asian I-Office Properties,Inc., Avida Land Corp., Avida Sales Corporation, Ayala Hotels, Inc., Ayala Plans, Inc., Ayala Systems Technology, Inc., Cebu Holdings, Inc., Makati Development Corp., myAyala.com, Inc., North Triangle Depot Commercial Corp., PSI Technologies, Inc., Roxas Land Corp, Serendra, Inc., Station Square East Commercial Corp., Ten Knots Development, KHI ALI Manila, Inc., Lagoon Development Corp., Subic Bay Town Center, Inc., Ayala Aviation Corporation, Laguna AAA Water Corp., Liveit Solution, Inc., Liveit Investments, Ltd., Integreon, Inc., Arvo Commercial Corp., Amaia Land Corp. and Michigan Power.

The balances with other related parties are recorded under the following accounts:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Cash and cash equivalents	30	**₱1,098,168**	₱694,277	₱1,302,806
Service revenues		**306,846**	243,346	233,388
General, selling and administrative expenses	21	**288,351**	270,819	282,064
Property and equipment	7	**137,209**	78,321	55,992
Subscriber receivables (included in "Receivables" account)	4	**65,694**	150,403	112,981
Accounts payable and accrued expenses	12	**32,750**	21,496	14,913

The balances under "General, selling and administrative expenses" and "Property and equipment" accounts consist of expenses incurred on rent, utilities, customer contract services, other miscellaneous services and purchase of vehicles, respectively.

These related parties are either controlled or significantly influenced by AC.

16.5 Transactions with key management personnel of the Globe Group

The Globe Group's compensation of key management personnel by benefit type are as follows:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Short-term employee benefits	21	**₱1,024,519**	₱976,103	₱1,025,734
Share-based payments	18.1	**49,338**	104,788	126,437
Post-employment benefits	18.2	**56,700**	132,406	53,289
		₱1,130,557	₱1,213,297	₱1,205,460

There are no agreements between the Globe Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Globe Group's retirement plans.

The Globe Group granted short-term loans to its key management personnel amounting to ₱18.64 million, ₱11.02 million and ₱13.76 million in 2011, 2010 and 2009, respectively, included in the "Prepayments and other current assets" in the consolidated statements of financial position.

The summary of consolidated outstanding balances resulting from transactions with related parties follows:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Cash and cash equivalents	30	**₱1,098,168**	₱694,277	₱1,302,806
Accounts payable and accrued expenses	12	**193,304**	128,719	150,747
Property and equipment	7	**137,209**	78,321	55,992
Subscriber receivables (included in "Receivables" account)	4	**69,311**	162,741	125,621
Traffic settlements receivable - net (included in "Receivables" account)	4	**36,994**	124,319	34,487
Other current assets	6	**3,312**	5,461	1,475

The revenues and expenses from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2011, 2010 and 2009 are unsecured and interest free and settlement occurs in cash. There were no guarantees provided and received for any related party receivables and payables.

17. Equity and Other Comprehensive Income

Globe Telecom's authorized capital stock consists of:

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
	(In Thousand Pesos and Number of Shares)					
Preferred stock - ₱5 per share	**250,000**	**₱1,250,000**	250,000	₱1,250,000	250,000	₱1,250,000
Common stock - ₱50 per share	**179,934**	**8,996,719**	179,934	8,996,719	179,934	8,996,719

Globe Telecom's issued and subscribed capital stock consists of:

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
	(In Thousand Pesos and Number of Shares)					
Preferred stock	**158,515**	**₱792,575**	158,515	₱792,575	158,515	₱792,575
Common stock	**132,353**	**6,617,651**	132,348	6,617,424	132,346	6,617,280
Total shares issued and subscribed		**7,410,226**		7,409,999		7,409,855
Less subscriptions receivable		–		(776)		(776)
Total capital stock		**₱7,410,226**		₱7,409,223		₱7,409,079

17.1 Preferred Stock

Preferred stock has the following features:

(a) Issued at ₱5 par;
(b) Dividend rate to be determined by the BOD at the time of Issue;
(c) One preferred share is convertible to one common share starting at the end of the 10th year of the issue date at a price to be determined by the Globe Telecom's BOD at the time of issue which shall not be less than the market price of the common share less the par value of the preferred share;
(d) Call option - Exercisable any time by Globe Telecom starting at the end of the 5th year from issue date at a price to be determined by the BOD at the time of issue;
(e) Eligibility of Investors - Only Filipino citizens or corporations or partnerships wherein 60% of the voting stock of voting power is owned by Filipino;
(f) With voting rights;
(g) Cumulative and non-participating;
(h) Preference as to dividends and in the event of liquidation; and
(i) No preemptive right to any share issue of Globe Telecom, and subject to yield protection in case of change in tax laws.

The dividends for preferred shares are declared upon the sole discretion of the Globe Telecom's BOD.

17.2 Common Stock

The rollforward of outstanding common shares are as follows:

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
	(In Thousand Pesos and Number of Shares)					
At beginning of year	**132,348**	**₱6,617,424**	132,346	₱6,617,280	132,340	₱6,617,008
Exercise of stock options	**5**	**227**	2	144	6	272
At end of year	**132,353**	**₱6,617,651**	132,348	₱6,617,424	132,346	₱6,617,280

17.3 Cash Dividends

Information on Globe Telecom's declaration of cash dividends follows:

			Date	
	Per share	**Amount**	**Record**	**Payable**
	(In Thousand Pesos, Except Per Share Figures)			
Preferred stock dividends declared on:				
December 4, 2009	0.32	₱50,492	December 18, 2009	March 18, 2010
February 8, 2011	0.29	45,399	February 22, 2011	March 18, 2011
December 15, 2011	0.22	35,295	December 29, 2011	March 18, 2012
Common stock dividends declared on:				
February 3, 2009	32.00	₱4,234,885	February 17, 2009	March 10, 2009
August 4, 2009	32.00	4,234,979	August 19, 2009	September 15, 2009
November 6, 2009	50.00	6,617,280	November 20, 2009	December 15, 2009
February 4, 2010	40.00	5,293,926	February 19, 2010	March 15, 2010
August 3, 2010	40.00	5,293,939	August 17, 2010	September 13, 2010
February 8, 2011	31.00	4,102,803	February 22, 2011	March 18, 2011
August 8, 2011	31.00	4,102,802	August 22, 2011	September 19, 2011

The dividend policy of Globe Telecom as approved by the BOD is to declare cash dividends to its common stockholders on a regular basis as may be determined by the BOD. The dividend payout rate starting 2006 is approximately 75% of prior year's net income payable semi-annually in March and September of each year. This is reviewed annually, taking into account Globe Telecom's operating results, cash flows, debt covenants, capital expenditure levels and liquidity.

On November 6, 2009, the BOD amended the dividend payment rate from 75% to a range of 75% - 90% and declared a special dividend of ₱50.00 per common share based on shareholders on record as of November 20, 2009 with the payment date of December 15, 2009.

On November 8, 2011, the BOD approved the change in dividend policy from 75% - 90% of net income to 75% - 90% of core net income.

17.4 Retained Earnings Available for Dividend Declaration

The total unrestricted retained earnings available for dividend declaration amounted to ₱10,682.12 million as of December 31, 2011. This amount excludes the undistributed net earnings of consolidated subsidiaries, accumulated equity in net earnings of joint ventures accounted for under the equity method, and unrealized gains recognized on asset and liability currency translations and unrealized gains on fair value adjustments. The Globe Group is also subject to loan covenants that restrict its ability to pay dividends (see Note 14).

17.5 Other Comprehensive Income

Other Reserves

	Cash flow hedges	AFS financial assets	Exchange differences arising from translations of foreign investments	Total
	For the Year Ended December 31, 2011 (In Thousand Pesos)			
As of January 1, 2011	**(₱115,834)**	**₱35,032**	**(₱7,508)**	**(₱88,310)**
Fair value changes	**(239,094)**	**1,269**	**–**	**(237,825)**
Transferred to profit or loss	**185,900**	**–**	**–**	**185,900**
Tax effect of items taken directly to or transferred from equity	**15,958**	**–**	**–**	**15,958**
Exchange differences	**–**	**–**	**(625)**	**(625)**
As of December 31, 2011	**(₱153,070)**	**₱36,301**	**(₱8,133)**	**(₱124,902)**
	For the Year Ended December 31, 2010 (In Thousand Pesos)			
As of January 1, 2010	(₱22,554)	₱14,882	₱26,190	₱18,518
Fair value changes	(116,679)	20,150	–	(96,529)
Transferred to profit or loss	(16,578)	–	–	(16,578)
Tax effect of items taken directly to or transferred from equity	39,977	–	–	39,977
Exchange differences	–	–	(33,698)	(33,698)
As of December 31, 2010	(₱115,834)	₱35,032	(₱7,508)	(₱88,310)
	For the Year Ended December 31, 2009 (In Thousand Pesos)			
As of January 1, 2009	(₱37,219)	₱329	₱1,508	(₱35,382)
Fair value changes	(35,116)	14,553	–	(20,563)
Transferred to profit or loss	60,156	–	–	60,156
Tax effect of items taken directly to or transferred from equity	(10,375)	–	–	(10,375)
Exchange differences	–	–	24,682	24,682
As of December 31, 2009	(₱22,554)	₱14,882	₱26,190	₱18,518

18. Employee Benefits

18.1 Stock Option Plans

The Globe Group has a share-based compensation plan called the Executive Stock Option Plan (ESOP). The number of shares allocated under the ESOP shall not exceed the aggregate equivalent of 6% of the authorized capital stock.

On October 1, 2009, the Globe Group granted additional stock options to key executives and senior management personnel under the ESOP. The grant requires the grantees to pay a nonrefundable option purchase price of ₱1,000.00 until October 30, 2009, which is the closing date for the acceptance of the offer. In order to avail of the privilege, the grantees must remain with Globe Telecom or its affiliates from grant date up to the beginning of the exercise period of the corresponding shares.

The following are the stock option grants to key executives and senior management personnel of the Globe Group under the ESOP from 2003 to 2009:

Date of Grant	Number of Options Granted	Exercise Price	Exercise Dates	Fair Value of each Option	Fair Value Measurement
April 4, 2003	680,200	₱547.00 per share	50% of options exercisable from April 4, 2005 to April 14, 2013; the remaining 50% exercisable from April 4, 2006 to April 14, 2013	₱283.11	Black-Scholes option pricing model
July 1, 2004	803,800	₱840.75 per share	50% of options exercisable from July 1, 2006 to June 30, 2014; the remaining 50% from July 1, 2007 to June 30, 2014	₱357.94	Black-Scholes option pricing model
March 24, 2006	749,500	₱854.75 per share	50% of the options become exercisable from March 24, 2008 to March 23, 2016; the remaining 50% become exercisable from March 24, 2009 to March 23, 2016	₱292.12	Trinomial option pricing model
May 17, 2007	604,000	₱1,270.50 per share	50% of the options become exercisable from May 17, 2009 to May 16, 2017, the remaining 50% become exercisable from May 17, 2010 to May 16, 2017	₱375.89	Trinomial option pricing model
August 1, 2008	635,750	₱1,064.00 per share	50% of the options become exercisable from August 1, 2010 to July 31, 2018, the remaining 50% become exercisable from August 1, 2011 to July 31, 2018	₱305.03	Trinomial option pricing model
October 1, 2009	298,950	₱993.75 per share	50% of the options become exercisable from October 1, 2011 to September 30, 2019, the remaining 50% become exercisable from October 1, 2012 to September 30, 2019	₱346.79	Trinomial option pricing model

The exercise price is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

A summary of the Globe Group's ESOP activity and related information follows:

	2011		2010		2009	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
	(In Thousands and Per Share Figures)					
Outstanding, at beginning of year	**1,848,081**	**₱1,047.80**	2,038,106	₱1,041.62	1,929,732	₱1,035.76
Granted	–	–	–	–	298,950	993.75
Exercised	**(50,705)**	**856.65**	(34,900)	817.79	(137,626)	843.22
Expired/forfeited	**(57,050)**	**997.06**	(155,125)	1,018.39	(52,950)	1,073.58
Outstanding, at end of year	**1,740,326**	**₱1,055.03**	1,848,081	₱1,047.80	2,038,106	₱1,041.62
Exercisable, at end of year	**1,661,401**	**₱1,057.94**	1,267,506	₱1,055.41	828,281	₱962.78

The average share prices at dates of exercise of stock options as of December 31, 2011, 2010 and 2009 amounted to ₱1,005.55, ₱948.65 and ₱975.26, respectively.

As of December 31, 2011, 2010 and 2009, the weighted average remaining contractual life of options outstanding is 5.70 years, 6.65 years, and 7.59 years, respectively.

The following assumptions were used to determine the fair value of the stock options at effective grant dates:

	October 1, 2009	August 1, 2008	May 17, 2007	March 24, 2006	July 1, 2004	April 4, 2003
Share price	₱995.00	₱1,130.00	₱1,340.00	₱930.00	₱835.00	₱580.00
Exercise price	₱993.75	₱1,064.00	₱1,270.50	₱854.75	₱840.75	₱547.00
Expected volatility	48.49%	31.73%	38.14%	29.51%	39.50%	34.64%
Option life	10 years	10 years	10 years	10 years	10 years	10 years
Expected dividends	6.43%	6.64%	4.93%	5.38%	4.31%	2.70%
Risk-free interest rate	8.08%	9.62%	7.04%	10.30%	12.91%	11.46%

The expected volatility measured at the standard deviation of expected share price returns was based on analysis of share prices for the past 365 days. Cost of share-based payments for the years ended December 31, 2011, 2010 and 2009 amounted to ₱49.34 million, ₱104.79 million and ₱126.44 million, respectively (see Note 16.5).

18.2 Pension Plan

The Globe Group has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

The components of pension expense (included in staff costs under "General, selling and administrative expenses") in the consolidated statements of comprehensive income are as follows:

Pension expense

	2011	2010	2009
		(In Thousand Pesos)	
Current service cost	**₱199,555**	₱245,766	₱163,382
Interest cost on benefit obligation	**150,463**	181,638	156,182
Expected return on plan assets	**(259,605)**	(232,747)	(234,018)
Net actuarial losses (gains)	**(26)**	47,110	(41)
Total pension expense	**₱90,387**	₱241,767	₱85,505
Actual return on plan assets	**₱140,792**	₱234,071	₱181,051

The funded status for the pension plan of Globe Group is as follows:

	2011	2010	2009
		(In Thousand Pesos)	
Present value of benefit obligation	**₱2,720,266**	₱2,186,228	₱2,079,316
Fair value of plan assets	**(2,376,680)**	(2,355,730)	(2,334,772)
	343,586	(169,502)	(255,456)
Unrecognized net actuarial losses	**(1,215,686)**	(781,014)	(799,539)
Asset recognized in the consolidated statements of financial position*	**(₱872,100)**	(₱950,516)	(₱1,054,995)

*This amount consists of ₱873.26 million included in "Other noncurrent assets" account and ₱1.16 million included in "Accrued expenses" under "Accounts payable and accrued expenses" account as of December 31, 2011 (see Note 12).

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2011	2010	2009
		(In Thousand Pesos)	
Balance at beginning of year	**₱2,186,228**	₱2,079,316	₱1,319,742
Current service cost	**199,555**	245,766	163,382
Interest cost	**150,463**	181,638	156,182
Benefits paid	**(90,945)**	(167,620)	(129,761)
Transfers out	**(9,334)**	–	–
Actuarial losses (gains)	**284,299**	(152,872)	569,771
Balance at end of year	**₱2,720,266**	₱2,186,228	₱2,079,316

Fair value of plan assets

	2011	2010	2009
		(In Thousand Pesos)	
Balance at beginning of year	**₱2,355,730**	₱2,334,772	₱2,344,764
Expected return	**259,605**	232,747	234,018
Contributions	**16,151**	137,287	104
Benefits paid	**(90,945)**	(167,620)	(129,761)
Asset transfer	**(9,334)**	–	–
Actuarial losses	**(154,527)**	(181,456)	(114,353)
Balance at end of year	**₱2,376,680**	₱2,355,730	₱2,334,772

The recommended contribution for the Globe Group retirement fund for the year 2012 amounted to ₱92.67 million. This amount is based on the Globe Group's actuarial valuation report as of December 31, 2011.

As of December 31, 2011, 2010 and 2009, the allocation of the fair value of the plan assets of the Globe Group follows:

	2011	2010	2009
Investments in fixed income securities:			
Corporate	**12.83%**	12.66%	12.40%
Government	**26.14%**	20.96%	18.71%
Investments in equity securities	**58.76%**	63.89%	66.81%
Others	**2.27%**	2.49%	2.08%

In 2008, Globe, Innove and GXI pooled its plan assets for single administration by the fund managers. The EGG Group's retirement fund is being managed separately and the amount of defined benefit obligation is immaterial.

As of December 31, 2011, the pension plan assets of the Globe Group include shares of stock of Globe Telecom with total fair value of ₱18.72 million, and shares of stock of other related parties with total fair value of ₱23.99 million.

The assumptions used to determine pension benefits of Globe Group are as follows:

	2011	2010	2009
Discount rate	**6.25%**	8.50%	9.00%
Expected rate of return on plan assets	**10.00%**	10.00%	10.00%
Salary rate increase	**4.50%**	6.00%	7.00%

In 2011, 2010 and 2009, the Globe Group applied a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

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

	2011	2010	2009	2008	2007
		(In Thousand Pesos)			
Present value of defined benefit obligation	**₱2,720,266**	₱2,186,228	₱2,079,316	₱1,319,742	₱1,690,615
Fair value of plan assets	**2,376,680**	2,355,730	2,334,772	2,344,764	1,341,568
Deficit (surplus)	**343,586**	(169,502)	(255,456)	(1,025,022)	349,047
Experience adjustments:					
Gain (loss) on plan liabilities	**₱343,102**	(₱23,901)	₱18,390	(₱51,340)	(₱170,819)
Gain (loss) on plan assets	**(154,527)**	(181,456)	(114,327)	(272,539)	29,780

19. **Interest Income**

Interest income is earned from the following sources:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Short-term placements	30	**₱188,557**	₱90,889	₱145,623
Cash in banks	30	**8,025**	23,121	67,288
Loans Receivables	11, 16.3			
Globe Group retirement plan		**76,056**	78,766	51,799
BHI		**24,750**	25,756	7,096
		₱297,388	₱218,532	₱271,806

20. **Other Income**

This account consists of:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Lease income	8, 25.4, 25.1.b	**₱172,499**	₱173,261	₱204,505
Gain on derivative instruments		**25,495**	–	–
Foreign exchange gain - net	22, 28.2.1.2	–	465,373	286,530
Others		**376,774**	218,307	573,441
		₱574,768	₱856,941	₱1,064,476

The peso to US dollar exchange rates amounted to ₱43.919, ₱43.811 and ₱46.425 as of December 31, 2011, 2010 and 2009, respectively.

The Globe Group's net foreign currency-denominated liabilities amounted to USD188.97 million, USD267.77 million and USD207.18 million as of December 31, 2011, 2010 and 2009, respectively (see Note 28.2.1.2).

These combinations of net liability movements and peso rate depreciation/appreciation resulted in foreign exchange loss in 2011 and foreign exchange gains in 2010 and 2009, respectively (see Note 22).

The "Others" account includes insurance claims and other items that are individually immaterial.

21. **General, Selling and Administrative Expenses**

This account consists of:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Staff costs	16.5, 18	**₱5,809,831**	₱5,088,990	₱4,980,769
Selling, advertising and promotions		**4,756,425**	4,268,843	3,766,390
Professional and other contracted services	16	**4,214,284**	3,587,635	2,695,598
Utilities, supplies and other administrative expenses	5	**3,804,762**	3,338,608	2,692,958
Repairs and maintenance	16	**3,522,778**	3,272,514	2,581,565
Rent	16, 25	**2,830,382**	2,808,906	3,469,319
Insurance and security services		**1,381,633**	1,701,258	1,732,888
Taxes and licenses		**1,380,270**	1,175,417	1,131,280
Courier, delivery and miscellaneous expenses		**1,116,181**	984,274	906,451
Others		**487,917**	465,659	539,664
		₱29,304,463	₱26,692,104	₱24,496,882

The "Others" account includes various other items that are individually immaterial.

22. **Financing Costs**

This account consists of:

	Notes	**2011**	2010	2009
			(In Thousand Pesos)	
Interest expense - net*	7	**₱2,059,660**	₱1,981,785	₱2,096,945
Swap and other financing costs - net		**211,404**	58,321	38,993
Loss on derivative instruments	28	–	28,295	46,943
Foreign exchange loss - net	20, 28.2.1.2	**308,650**	–	–
		₱2,579,714	₱2,068,401	₱2,182,881

**This account is net of the amount capitalized borrowing costs (see Note 7).*

In 2010 and 2009, net foreign exchange gain amounting to ₱465.37 million and ₱286.53 million, respectively, was presented as part of "Other income - net" account in the consolidated statements of comprehensive income (see Note 20).

In 2011, gain on derivative instruments amounting to ₱25.50 million was presented as part of "Other income - net" account in the consolidated statements of comprehensive income (see Note 20).

Interest expense - net is incurred on the following:

	Notes	**2011**	2010	2009
			In Thousand Pesos	
Long-term debt	14	**₱1,762,501**	₱1,658,291	₱1,688,201
Accretion expense	15, 25.4	**176,718**	173,687	175,317
Amortization of debt issuance cost	14	**116,618**	110,570	63,222
Short term notes payable	14	**3,823**	39,237	170,205
		₱2,059,660	₱1,981,785	₱2,096,945

23. **Impairment Losses and Others**

This account consists of:

	Notes	**2011**	2010	2009
			In Thousand Pesos	
Impairment loss on:				
Receivables	28.2.2	**₱1,599,967**	₱1,285,533	₱754,633
Property and equipment and intangible assets		**128,614**	63,126	75,017
Provisions for (reversal of):				
Inventory obsolescence and market decline	5	**237,918**	42,115	58,743
Other claims and assessments	13	**(47,916)**	138,760	(88,047)
		₱1,918,583	₱1,529,534	₱800,346

24. **Income Tax**

The significant components of the deferred income tax assets and liabilities of the Globe Group represent the deferred income tax effects of the following:

	2011	2010	2009
		(In Thousand Pesos)	
Deferred income tax assets on:			
Allowance for impairment losses on receivables	**₱1,033,282**	₱737,311	₱400,352
Unearned revenues already subjected to income tax	**760,762**	744,504	918,938
ARO	**406,953**	374,106	346,668
Accumulated impairment losses on property and equipment	**126,247**	98,389	88,808
Accrued rent expense under PAS 17	**112,842**	120,753	130,805
Inventory obsolescence and market decline	**98,752**	43,265	87,311
Accrued vacation leave	**90,788**	84,168	76,402
Unrealized loss on derivative transactions	**77,056**	67,793	16,845
Provisions for claims and assessments	**56,632**	73,592	33,097
Cost of share-based payments	**13,208**	5,819	23,555
NOLCO (see Note 3.2.7)	**1,012**	13,499	138,054
Allowance for doubtful accounts for long-outstanding net advances	**8,980**	–	–
MCIT (see Note 3.2.7)	**–**	954	46,711
Unrealized foreign exchange losses	**125**	125	21,202
	2,786,639	2,364,278	2,328,748
Deferred income tax liabilities on:			
Excess of accumulated depreciation and amortization of Globe Telecom equipment for tax reporting[(a)] over financial reporting[(b)]	**4,382,211**	4,799,099	5,116,298
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	**1,324,137**	1,166,689	839,330
Unrealized foreign exchange gain	**167,834**	279,037	160,761
Prepaid pension	**33,658**	23,059	21,709
Unamortized discount on noninterest bearing liability	**22,277**	39,718	67,178
Customer contracts of acquired company	**4,870**	6,572	8,228
Others	**15,396**	–	–
	5,950,383	6,314,174	6,213,504
Net deferred income tax liabilities	**₱3,163,744**	₱3,949,896	₱3,884,756

(a) Sum-of-the-years digit method
(b) Straight-line method

Net deferred tax assets and liabilities presented in the consolidated statements of financial position on a net basis by entity are as follows:

	2011	2010	2009
		(In Thousand Pesos)	
Net deferred tax assets*	**₱765,670**	₱670,594	₱742,538
Net deferred tax liabilities (Globe Telecom)	**3,929,414**	4,620,490	4,627,294

**2011 consists of Innove, GXI and EGG Group; 2010 and 2009 consists of Innove and EGG Group.*

GXI did not recognize its deferred income tax assets because the management believes that there is no assurance that GXI will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The unrecognized deferred income tax assets consist of the tax effects of the following:

	2011	2010	2009
Deferred tax assets on:			
NOLCO	**₱38,987**	₱58,538	33,898
Unearned revenues already subjected to income tax	**1,545**	1,871	2,053
MCIT	**3,349**	1,733	1,411
Allowance for impairment losses on receivables	**3,927**	1,070	55
Accumulated impairment losses on property and equipment	**955**	955	955
Accrued employee benefits	**232**	207	150
Unrealized foreign exchange losses	**–**	156	67
Inventory obsolescence and market decline	**59**	–	15
Deferred income tax assets	**₱49,054**	₱64,530	₱38,604

The details of GXI's and GTI's NOLCO and MCIT and the related tax effects are as follows (in thousand pesos):

Inception Year	MCIT	NOLCO	Tax Effect of NOLCO	Expiry Year
2011	₱1,854	₱1,204	₱361	2014
2010	322	129,956	38,987	2013
2009	1,174	3,373	1,012	2012
	₱3,350	₱134,533	₱40,360	

GXI's NOLCO amounting to ₱34.87 million expired in 2011.

The reconciliation of the provision for income tax at statutory tax rate and the actual current and deferred provision for income tax follows:

	2011	2010	2009
		(In Thousand Pesos)	
Provision at statutory income tax rate	**₱4,229,121**	₱4,211,458	₱5,391,811
Add (deduct) tax effects of:			
Deferred tax on unexercised stock options and basis differences on deductible and reported stock compensation expense	**5,324**	47,806	15,405
Equity in net losses of joint ventures	**8,203**	890	2,103
Income subjected to lower tax rates	**(517,986)**	(51,205)	(62,175)
Others	**540,602**	84,609	56,685
Actual provision for income tax	**₱4,265,264**	₱4,293,558	₱5,403,829

The current provision for income tax includes the following:

	2011	2010	2009
		(In Thousand Pesos)	
RCIT or MCIT whichever is higher	**₱5,011,849**	₱4,166,153	₱5,543,242
Final tax	**37,630**	21,472	40,567
	₱5,049,479	₱4,187,625	₱5,583,809

The corporate tax rate is 30% in 2011, 2010 and 2009.

Globe Telecom and Innove are entitled to certain tax and nontax incentives and have availed of incentives for tax and duty-free importation of capital equipment for their services under their respective franchises.

25. Agreements and Commitments

25.1 Lease Commitments

(a) Operating lease commitments - Globe Group as lessee

Globe Telecom and Innove lease certain premises for some of its telecommunications facilities and equipment and for most of its business centers and network sites. The operating lease agreements are for periods ranging from 1 to 10 years from the date of the contracts and are renewable under certain terms and conditions. The agreements generally require certain amounts of deposit and advance rentals, which are shown as part of the "Other noncurrent assets" and "Prepayment and other current assets" accounts in the consolidated statements of financial position (see Notes 6 and 11). The Globe Group also has short term renewable leases on transmission cables and equipment. The Globe Group's rentals incurred on these various leases (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱2,830.38 million, ₱2,808.91 million and ₱3,469.32 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 21).

As of December 31, 2011, the future minimum lease payments under these operating leases are as follows (in thousand pesos):

Not later than one year	₱2,074,417
After one year but not more than five years	7,091,914
After five years	2,406,696
	₱11,573,027

(b) Operating lease commitments - Globe Group as lessor

Globe Telecom and Innove have certain lease agreements on equipment and office spaces. The operating lease agreements are for periods ranging from one (1) to fourteen (14) years from the date of contracts. These include Globe Telecom's lease agreement with C2C Pte. Ltd. (C2C) (see Note 25.4).

Total lease income amounted to ₱172.50 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The future minimum lease receivables under these operating leases are as follows (in thousand pesos):

Within one year	₱156,755
After one year but not more than five years	509,455
	₱666,210

25.2 Agreements and Commitments with Other Carriers

Globe Telecom and Innove have existing international telecommunications service agreements with various foreign administrations and interconnection agreements with local telecommunications companies for their various services. Globe also has international roaming agreements with other foreign operators, which allow its subscribers access to foreign networks. The agreements provide for sharing of toll revenues derived from the mutual use of telecommunication networks.

25.3 Arrangements and Commitments with Suppliers

Globe Telecom and Innove have entered into agreements with various suppliers for the development or construction, delivery and installation of property and equipment. Under the terms of these agreements, advance payments are made to suppliers and delivery, installation, development or construction commences only when purchase orders are served. While the development or construction is in progress, project costs are accrued based on the billings received. Billings are based on the progress of the development or construction and advance payments are being applied proportionately to the milestone billings. When development or construction and installation are completed and the property and equipment is ready for service, the balance of the value of the related purchase orders is accrued.

The consolidated accrued project costs as of December 31, 2011, 2010 and 2009 included in the "Accounts payable and accrued expenses" account in the consolidated statements of financial position amounted to ₱6,906.94 million, ₱8,638.12 million and ₱8,081.68 million, respectively (see Note 12). As of December 31, 2011, the consolidated expected future billings on the unaccrued portion of purchase orders issued amounted to ₱11,724.15 million. The settlement of these liabilities is dependent on the payment terms and project milestones agreed with the suppliers and contractors. As of December 31, 2011, the unapplied advances made to suppliers and contractors relating to purchase orders issued amounted to ₱1,674.92 million (see Note 6).

In November 2011, Globe Telecom announced to undertake a network modernization program over the next two or three years. The massive network upgrade is aimed at significantly improving network quality and customer experience, increase capacity, drive down costs, as well as prepare the network to meet the needs of customers today and in the future. At the same time, Globe Telecom is initiating an IT transformation project to create a streamlined and integrated information environment, in response to changing market and business demands. External partners will be tapped to help manage the modernization efforts. Globe Telecom estimated investment for this program amounts to USD790.00 million.

25.4 Agreements with C2C/Pacnet

In 2001, Globe Telecom signed a cable equipment supply agreement with C2C as the supplier. In March 2002, Globe Telecom as lessor entered into an equipment lease agreement for the said equipment with GB21 Hong Kong Limited (GB21).

Subsequently, GB21, in consideration of C2C's agreement to assume all payment obligations pursuant to the lease agreement, assigned all its rights, obligations and interest in the equipment lease agreement to C2C. As a result of the said assignment of payables by GB21 to C2C, Globe Telecom's liability arising from the cable equipment supply agreement with C2C was effectively converted into a noninterest-bearing long-term obligation accounted for at net present value under PAS 39 starting 2005. The carrying value of this obligation amounted to ₱735.94 million as of December 31, 2009 (see Note 15).

In January 2003, Globe Telecom received advance lease payments from C2C for its use of a portion of Globe Telecom's cable landing station facilities. Accordingly, based on the amortization schedule, Globe Telecom recognized lease income amounting to ₱12.26 million, ₱12.26 million and ₱11.90 million for the years ended December 31, 2011, 2010 and 2009, respectively.

In 2009, the said advances amounting to ₱67.67 million were shown as part of the current portion of "Other long-term liabilities" account in the consolidated statements of financial position (see Note 15):

On November 17, 2009, Globe Telecom and Pacnet Cable Ltd. (Pacnet), formerly C2C, signed a memorandum of agreement (MOA) to terminate and unwind their Landing Party Agreement dated August 15, 2000 (LPA). The MOA further requires Globe Telecom, being duly licensed and authorized by the NTC to land the C2C Cable Network in the Philippines and operate the C2C Cable Landing Station (CLS) in Nasugbu, Batangas, Philippines, to transfer to Pacnet's designated qualified partner, the license of the C2C CLS, the CLS, a portion of the property on which the CLS is situated, certain equipment and associated facilities thereof.

In return, Pacnet will compensate Globe Telecom in cash and by way of C2C cable capacities deliverable upon completion of certain closing conditions. The MOA also provided for novation of abovementioned equipment supply and lease agreements and reciprocal options for Globe Telecom to purchase future capacities from Pacnet and Pacnet to purchase backhaul and ducts from Globe Telecom at agreed prices.

In the second quarter of 2010, the specific equipment, portion of the property and facilities, and the liabilities associated with the transfer were identified and were classified as current and shown separately in the consolidated statement of financial position as "Assets classified as held for sale" and "Liabilities directly associated with the assets classified as held for sale" (see Note 7).

As of December 31, 2011, the Globe Group retains the classification of its non-current assets as held for sale. Globe Group expects no changes in the terms of agreement and on the valuation as the considerations have already been fixed, and remains to be committed to its plan to sell the assets. The closing documents are expected to be fully executed within 2012.

As of December 31, 2011 and 2010, assets classified as held for sale amounted to ₱778.32 million. As of December 31, 2011 and 2010, liabilities directly associated with assets classified as held for sale amounted to ₱583.37 million and ₱697.73 million, respectively.

25.5 Agreement with BHI

On August 11, 2009, Globe Telecom signed a credit facility agreement with BHI amounting to ₱750.00 million. The total drawdown under this loan made by BHI in 2009 amounted to ₱295.00 million. The loan is payable in one full payment, five years from the date of initial drawdown with a prepayment option in whole or in part on an interest payment date. Interest is at the rate of 8.275% payable semi-annually in arrears and the loan is secured by a pledge and chattel mortgage agreement. As of December 31, 2011 and 2010, the undrawn balance of the credit facility is ₱455.00 million (see Note 11).

25.6 Agreement with STI

In 2009, STI agreed to sell to Globe Telecom its own capacity in a certain cable system. In 2009 also, Globe Telecom agreed to sell to STI capacities that it owns in a certain cable system (see Note 16). In March 2011, the final agreements were executed between Globe Telecom and STI whereby Globe Telecom conveyed and transferred ownership of certain Indefeasible Rights of Use (IRU) of certain international cables systems in exchange for IRUs of certain cables systems of STI. The assets received were booked at its fair value amounting to ₱120.19 million.

25.7 Construction Maintenance Agreement for South-East Asia Japan Cable System (SJC)

In April 2011, the global consortium of telecommunication companies formed to build and operate the South-East Asia Japan Cable (SJC) system officially started the construction of the project that will link Brunei, China Mainland, Hong Kong, Philippines, Japan, and Singapore with options to extend to Thailand. The SJC consortium is composed of Globe Telecom and 9 other international carriers. Globe Telecom's estimated investment for this project amounts to USD63.60 million and total expenditures incurred was at 20% as of December 31, 2011.

25.8 Commitment to increase GXI's paid-up capital

On May 5, 2009, the BOD of Globe Telecom approved the issuance of a guarantee to the Bangko Sentral ng Pilipinas (BSP) for the proposal of GXI to increase its paid-up capital to ₱100.00 million on a staggered basis over a period of two (2) years to meet the required minimum capital and qualify as E-Money Issuer-Others in compliance with BSP Circular No. 649. On August 27, 2009, the Monetary Board of the BSP approved GXI's compliance with this circular under Resolution No. 1223.

On August 3, 2010, the BOD of Globe Telecom approved the transfer of GXI's related assets booked under Globe Telecom to GXI books in compliance with BSP's first tranche requirement to increase GXI's paid up capital to at least ₱50.00 million by 2010. Globe Telecom made the additional capital infusion to GXI through transfer of assets and GXI recorded the assets at its fair value amount of ₱53.69 million increasing its total paid-up capital to ₱82.69 million as of December 31, 2010.

On December 15, 2011, the BOD of Globe Telecom approved the transfer of GXI's related assets booked under Globe Telecom to GXI books to comply with BSP's second tranche requirement to increase GXI's paid up capital to ₱100.00 million by 2011. Globe Telecom made the additional capital infusion to GXI through transfer of assets in December 2011 and GXI recorded the assets at its fair value amount of ₱18.92 million.

Total paid up capital of GXI as of December 31, 2011 is ₱103.87 million. After consolidation, where the additional infusion and transfer of assets are eliminated, the assets remain under Globe Telecom at its net book value amounting to ₱43.37 million.

26. Contingencies

On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the cellular mobile telephone service (CMTS) whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the CA rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe and the other carrier's constitutional and statutory right to due process. However, while the decision is in Globe's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

Last January 21, 2011, Globe and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The MR is pending resolution as of February 10, 2012.

The Globe Group is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the possibility of outflow of economic resources to settle the contingent liability is remote.

27. Earnings Per Share

The Globe Group's earnings per share amounts were computed as follows:

	2011	2010	2009
	(In Thousand Pesos and Number of Shares, Except Per Share Figures)		
Net income attributable to common shareholders for basic earnings per share	**₱9,796,510**	₱9,699,235	₱12,518,381
Add dividends on preferred shares	**35,295**	45,399	50,492
Net income attributable to shareholders for diluted earnings per share	**9,831,805**	9,744,634	12,568,873
Weighted average number of shares for basic earnings per share	**132,349**	132,343	132,342
Dilutive shares arising from:			
Stock options	**40**	42	66
Convertible preferred shares	**882**	890	867
Adjusted weighted average number of common stock for diluted earnings per share	**133,271**	133,275	133,275
Basic earnings per share	**₱74.02**	₱73.29	₱94.59
Diluted earnings per share	**₱73.77**	₱73.12	₱94.31

28. Capital and Risk Management and Financial Instruments

28.1 General

The Globe Group adopts an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to provide a better understanding of the different risks that could threaten the achievement of the Globe Group's mission, vision, strategies, and goals, and to provide emphasis on how management and employees play a vital role in achieving the Globe Group's mission of transforming and enriching lives through communications.

The policies are not intended to eliminate risk but to manage it in such a way that opportunities to create value for the stakeholders are achieved. Globe Group risk management takes place in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The application of these policies is the responsibility of the BOD through the Chief Executive Officer. The Chief Financial Officer and concurrent Chief Risk Officer champions and oversees the entire risk management function. Risk owners have been identified for each risk and they are responsible for coordinating and continuously improving risk strategies, processes and measures on an enterprise-wide basis in accordance with established business objectives.

The risks are managed through the delegation of management and financial authority and individual accountability as documented in employment contracts, consultancy contracts, letters of authority, letters of appointment, performance planning and evaluation forms, key result areas, terms of reference and other policies that provide guidelines for managing specific risks arising from the Globe Group's business operations and environment.

The Globe Group continues to monitor and manage its financial risk exposures according to its BOD approved policies.

The succeeding discussion focuses on Globe Group's capital and financial risk management.

28.2 Capital and Financial Risk Management Objectives and Policies

The primary objective of the Globe Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Globe Group monitors its use of capital using leverage ratios, such as debt to total capitalization and makes adjustments to it in light of changes in economic conditions and its financial position.

The Globe Group is not subject to externally imposed capital requirements. The ratio of debt to total capitalization for the years ended December 31, 2011, 2010 and 2009 was at 50%, 52% and 50%, respectively.

The main purpose of the Globe Group's financial risk management is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. The Globe Group also enters into derivative transactions, the purpose of which is to manage the currency and interest rate risk arising from its financial instruments.

Globe Telecom's BOD reviews and approves the policies for managing each of these risks. The Globe Group monitors market price risk arising from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

The Globe Group's risk management policies are summarized below:

28.2.1 *Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Globe Group is mainly exposed to two types of market risk: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, AFS investments, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at December 31, 2011, 2010 and 2009. The analyses exclude the impact of movements in market variables on the carrying value of pension, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as at December 31, 2011, 2010 and 2009 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes the underlying.

28.2.1.1 *Interest Rate Risk*

The Globe Group's exposure to market risk from changes in interest rates relates primarily to the Globe Group's long-term debt obligations. Please refer to table presented under 28.2.3 Liquidity Risk.

Globe Group's policy is to manage its interest cost using a mix of fixed and variable rate debt, targeting a ratio of between 31-62% fixed rate USD debt to total USD debt, and between 44-88% fixed rate PHP debt to total PHP debt. To manage this mix in a cost-efficient manner, Globe Group enters into interest rate swaps, in which Globe Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

After taking into account the effect of currency and interest rate swaps, 39% and 58%, 32% and 65%, and 34% and 45% of the Globe Group's USD and PHP borrowings as of December 31, 2011 and 2010, and 2009, respectively, are at a fixed rate of interest.

The following tables demonstrate the sensitivity of income before tax to a reasonably possible change in interest rates after the impact of hedge accounting, with all other variables held constant.

2011

	Increase/decrease in basis points	**Effect on income before income tax Increase (decrease)**	**Effect on equity Increase (decrease)**
		(In Thousand Pesos)	
USD*	**+35bps**	**(₱2,599)**	**₱193**
	-35bps	**2,570**	**(193)**
PHP	**+100bps**	**(151,509)**	**145,932**
	-100bps	**151,504**	**(150,577)**

2010

	Increase/decrease in basis points	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
		(In Thousand Pesos)	
USD	+35bps	(₱14,607)	₱7,086
	-35bps	14,622	(7,009)
PHP	+100bps	(134,008)	153,121
	-100bps	133,980	(160,664)

2009

	Increase/decrease in basis points	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
		(In Thousand Pesos)	
USD	+200 bps	(₱31,983)	₱38,989
	-200 bps	29,784	(17,214)
PHP	+100 bps	(121,820)	–
	-100 bps	121,747	–

**The Globe Group revised the USD interest rates to a more reasonable estimate due to declining USD LIBOR*

28.2.1.2 *Foreign Exchange Risk*

The Globe Group's foreign exchange risk results primarily from movements of the PHP against the USD with respect to USD-denominated financial assets, USD-denominated financial liabilities and certain USD-denominated revenues. Majority of revenues are generated in PHP, while substantially all of capital expenditures are in USD. In addition, 11%, 15% and 14% of debt as of December 31, 2011, 2010 and 2009, respectively, are denominated in USD before taking into account any swap and hedges.

Information on the Globe Group's foreign currency-denominated monetary assets and liabilities and their PHP equivalents are as follows:

	2011		2010		2009	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
			(In Thousands)			
Assets						
Cash and cash equivalents	**$57,337**	**₱2,517,883**	$41,573	₱1,821,337	$45,684	₱2,120,901
Receivables	**65,555**	**2,879,122**	58,257	2,552,308	50,359	2,337,915
Prepayments and other current assets	**–**	**–**	–	–	–	5
Long-term notes receivable	**1,590**	**69,831**	–	–	–	–
	124,482	**5,466,836**	99,830	4,373,645	96,043	4,458,821
Liabilities						
Accounts payable and accrued expenses	**191,159**	**8,395,498**	197,586	8,656,460	155,085	7,199,819
Short-term notes payable	**40,000**	**1,756,760**	–	–	–	–
Long-term debt	**82,290**	**3,614,095**	170,011	7,448,357	148,133	6,877,090
	313,449	**13,766,353**	367,597	16,104,817	303,218	14,076,909
Net foreign currency-denominated liabilities	**$188,967**	**₱8,299,517**	$267,767	₱11,731,172	$207,175	₱9,618,088

*This table excludes derivative transactions disclosed in Note 28.3

The following tables demonstrate the sensitivity to a reasonably possible change in the PHP to USD exchange rate, with all other variables held constant, of the Globe Group's income before tax (due to changes in the fair value of financial assets and liabilities).

2011

Increase/decrease in Peso to US Dollar exchange rate	**Effect on income before income tax Increase (decrease)**	**Effect on equity Increase (decrease)**
	(In Thousand Pesos)	
+.40	**(₱74,558)**	**(₱12)**
-.40	**74,558**	**12**

2010

Increase/decrease in Peso to US Dollar exchange rate	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
	(In Thousand Pesos)	
+.40	(₱106,051)	(₱14,181)
-.40	106,051	14,181

2009

Increase/decrease in Peso to US Dollar exchange rate	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
	(In Thousand Pesos)	
+.40	(₱81,857)	(₱278)
-.40	81,857	278

The movement on the effect on income before income tax is a result of a change in the fair value of derivative financial instruments not designated in a hedging relationship and monetary assets and liabilities denominated in US dollars, where the functional currency of the Group is Philippine Peso. Although the derivatives have not been designated in a hedge relationship, they act as a commercial hedge and will offset the underlying transactions when they occur.

The movement in equity arises from changes in the fair values of derivative financial instruments designated as cash flow hedges.

In addition, the consolidated expected future payments on foreign currency-denominated purchase orders related to capital projects amounted to USD203.47 million, USD274.51 million and USD255.79 million as of December 31, 2011, 2010 and 2009, respectively (see Note 25.3). The settlement of these liabilities is dependent on the achievement of project milestones and payment terms agreed with the suppliers and contractors. Foreign exchange exposure assuming a +/-40 centavos in 2011, 2010 and 2009 movement in PHP to USD rate on commitments amounted to ₱81.39 million, ₱109.80 million and ₱102.32 million gain or loss, respectively.

The Globe Group’s foreign exchange risk management policy is to maintain a hedged financial position, after taking into account expected USD flows from operations and financing transactions. Globe Telecom enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

28.2.2 *Credit Risk*

Applications for postpaid service are subjected to standard credit evaluation and verification procedures. The Credit and Billing Management of the Globe Group continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of postpaid subscribers are being monitored on a regular basis and appropriate credit treatments are applied at various stages of delinquency. Likewise, net receivable balances from carriers of traffic are also being monitored and subjected to appropriate actions to manage credit risk. The maximum credit exposure relates to receivables net of any allowances provided.

With respect to credit risk arising from other financial assets of the Globe Group, which comprise cash and cash equivalents, short-term investments, AFS financial investments and certain derivative instruments, the Globe Group’s exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Globe Group’s investments comprise short-term bank deposits and government securities. Credit risk from these investments is managed on a Globe Group basis. For its investments with banks, the Globe Group has a counterparty risk management policy which allocates investment limits based on counterparty credit rating and credit risk profile.

The Globe Group makes a quarterly assessment of the credit standing of its investment counterparties, and allocates investment limits based on size, liquidity, profitability, and asset quality. For investments in government securities, these are denominated in local currency and are considered to be relatively risk-free. The usage of limits is regularly monitored. For its derivative counterparties, the Globe Group deals only with counterparty banks with investment grade ratings and large local banks. Credit ratings of derivative counterparties are reviewed quarterly.

Following are the Globe Group exposures with its investment counterparties for cash and cash equivalents as of December 31:

	2011	2010	2009
Local bank deposits	**53%**	52%	48%
Onshore foreign bank	**40%**	16%	25%
Special deposit account	**7%**	29%	15%
Offshore bank deposit	**–**	3%	12%

The Globe Group has not executed any credit guarantees in favor of other parties. There is also minimal concentration of credit risk within the Globe Group. Credit exposures from subscribers and carrier partners continue to be managed closely for possible deterioration. When necessary, credit management measures are proactively implemented and identified collection risks are being provided for accordingly. Outstanding credit exposures from financial instruments are monitored daily and allowable exposures are reviewed quarterly.

The tables below show the aging analysis of the Globe Group's receivables as of December 31.

2011

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired Financial Assets	Tota
		Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days		
				(In Thousand Pesos)			
Wireless receivables:							
Consumer	**₱668,475**	**₱651,816**	**₱381,531**	**₱227,761**	**₱538,984**	**₱713,729**	**₱3,182,296**
Key corporate accounts	**51,246**	**169,990**	**201,517**	**132,861**	**326,724**	**81,418**	**963,756**
Other corporations and Small and Medium Enterprises (SME)	**288,812**	**254,929**	**250,509**	**137,686**	**436,163**	**161,668**	**1,529,767**
	1,008,533	**1,076,735**	**833,557**	**498,308**	**1,301,871**	**956,815**	**5,675,819**
Wireline receivables:							
Consumer	**241,871**	**240,349**	**117,342**	**57,601**	**50,462**	**1,782,483**	**2,490,108**
Key corporate accounts	**70,771**	**162,774**	**310,188**	**205,506**	**687,907**	**214,751**	**1,651,897**
Other corporations and SME	**46,243**	**80,443**	**31,990**	**24,599**	**30,733**	**192,679**	**406,687**
	358,885	**483,566**	**459,520**	**287,706**	**769,102**	**2,189,913**	**4,548,692**
Other trade receivables	**–**	**3,986**	**1,940**	**5,553**	**9,278**	**–**	**20,757**
Traffic receivables:							
Foreign	**1,890,996**	**–**	**–**	**–**	**–**	**165,261**	**2,056,257**
Local	**163,068**	**–**	**–**	**–**	**–**	**72,537**	**235,605**
	2,054,064	**–**	**–**	**–**	**–**	**237,798**	**2,291,862**
Other receivables	**951,302**	**–**	**–**	**–**	**–**	**11,703**	**963,005**
Total	**₱4,372,784**	**₱1,564,287**	**₱1,295,017**	**₱791,567**	**₱2,080,251**	**₱3,396,229**	**₱13,500,135**

2010

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired Financial Assets	Tota
		Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days		
				(In Thousand Pesos)			
Wireless receivables:							
Consumer	₱521,771	₱739,554	₱311,860	₱139,330	₱744,827	₱346,499	₱2,803,841
Key corporate accounts	19,975	103,032	150,689	127,929	201,733	74,131	677,489
Other corporations and SME	129,570	152,544	76,092	18,802	175,710	83,920	636,638
	671,316	995,130	538,641	286,061	1,122,270	504,550	4,117,968
Wireline receivables:							
Consumer	235,480	215,510	111,297	66,806	76,989	1,252,527	1,958,609
Key corporate accounts	3,066	182,566	165,621	216,576	823,085	179,015	1,569,929
Other corporations and SME	86,869	50,922	30,474	16,125	49,166	140,542	374,098
	325,415	448,998	307,392	299,507	949,240	1,572,084	3,902,636
Other trade receivables	–	–	8,447	5,186	4,214		17,847
Traffic receivables:							
Foreign	1,731,708	–	–	–	–	175,241	1,906,949
Local	133,474	–	–	–	–	89,815	223,289
	1,865,182	–	–	–	–	265,056	2,130,238
Other receivables	647,464	–	–	–	–	11,414	658,878
Total	₱3,509,377	₱1,444,128	₱854,480	₱590,754	₱2,075,724	₱2,353,104	₱10,827,567

2009

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired Financial Assets	Tota
		Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days		
				(In Thousand Pesos)			
Wireless receivables:							
Consumer	₱262,965	₱354,222	₱151,239	₱93,469	₱255,714	₱88,088	₱1,205,697
Key corporate accounts	32,777	133,249	106,967	69,193	116,094	20,154	478,434
Other corporations and SME	110,527	103,315	39,450	20,535	49,246	47,690	370,763
	406,269	590,786	297,656	183,197	421,054	155,932	2,054,894
Wireline receivables:							
Consumer	158,475	152,776	82,966	79,941	129,685	610,142	1,213,985
Key corporate accounts	16,282	97,368	153,984	242,937	804,630	76,400	1,391,601
Other corporations and SME	71,041	48,108	25,663	13,690	46,182	93,228	297,912
	245,798	298,252	262,613	336,568	980,497	779,770	2,903,498
Other trade receivables	–	16,407	2,715	–	–	2,681	21,803
Traffic receivables:							
Foreign	1,838,777	–	–	–	–	97,971	1,936,748
Local	303,090	–	–	–	–	79,435	382,525
	2,141,867	–	–	–	–	177,406	2,319,273
Other receivables	626,640	–	–	–	–	8,111	634,751
Total	₱3,420,574	₱905,445	₱562,984	₱519,765	₱1,401,551	₱1,123,900	₱7,934,219

Total allowance for impairment losses amounted to ₱3,380.63 million, ₱2,453.44 million and ₱1,350.99 million includes allowance for impairment arising from collective assessment amounted to ₱337.65 million, ₱328.72 million, and ₱99.21 million as of December 31, 2011, 2010 and 2009, respectively (see Note 4).

The table below provides information regarding the credit risk exposure of the Globe Group by classifying assets according to the Globe Group's credit ratings of receivables as of December 31. The Globe Group's credit rating is based on individual borrower characteristics and their relationship to credit event experiences.

2011

	Neither past-due nor impaired			
	High Quality	**Medium Quality**	**Low Quality**	**Total**
	(In Thousand Pesos)			
Wireless receivables:				
Consumer	**₱389,075**	**₱188,526**	**₱90,874**	**₱668,475**
Key corporate accounts	**7,007**	**1,202**	**43,037**	**51,246**
Other corporations and SME	**156,570**	**27,688**	**104,554**	**288,812**
	552,652	**217,416**	**238,465**	**1,008,533**
Wireline receivables:				
Consumer	**212,613**	**29,258**	**–**	**241,871**
Key corporate accounts	**67,753**	**3,010**	**8**	**70,771**
Other corporations and SME	**39,948**	**6,120**	**175**	**46,243**
	320,314	**38,388**	**183**	**358,885**
Total	**₱872,966**	**₱255,804**	**₱238,648**	**₱1,367,418**

2010

	Neither past-due nor impaired			
	High Quality	Medium Quality	Low Quality	Total
	(In Thousand Pesos)			
Wireless receivables:				
Consumer	₱280,831	₱64,889	₱176,051	₱521,771
Key corporate accounts	9,817	1,183	8,975	19,975
Other corporations and SME	60,842	4,358	64,370	129,570
	351,490	70,430	249,396	671,316
Wireline receivables:				
Consumer	196,067	39,413	–	235,480
Key corporate accounts	2,912	154	–	3,066
Other corporations and SME	79,049	7,512	308	86,869
	278,028	47,079	308	325,415
Total	₱629,518	₱117,509	₱249,704	₱996,731

2009

	Neither past-due nor impaired			
	High Quality	Medium Quality	Low Quality	Total
	(In Thousand Pesos)			
Wireless receivables:				
Consumer	₱183,594	₱41,292	₱38,079	₱262,965
Key corporate accounts	27,339	3,867	1,571	32,777
Other corporations and SME	25,054	37,693	47,780	110,527
	235,987	82,852	87,430	406,269
Wireline receivables:				
Consumer	70,395	10,563	77,517	158,475
Key corporate accounts	13,658	116	2,508	16,282
Other corporations and SME	34,676	4,036	32,329	71,041
	118,729	14,715	112,354	245,798
Total	₱354,716	₱97,567	₱199,784	₱652,067

High quality accounts are accounts considered to be high value and have consistently exhibited good paying habits. Medium quality accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts do not flow through to permanent disconnection status as they generally respond to credit actions and update their payments accordingly. Low quality accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms. Impairment losses are also provided for these accounts based on net flow rate.

Traffic receivables that are neither past due nor impaired are considered to be high quality given the reciprocal nature of the Globe Group's interconnect and roaming partner agreements with the carriers and the Globe Group's historical collection experience.

Other receivables are considered high quality accounts as these are substantially from credit card companies and Globe dealers.

The following is a reconciliation of the changes in the allowance for impairment losses for receivables as of December 31 (in thousand pesos) (see Notes 4 and 23):

2011

	Subscribers					
	Consumer	**Key corporate accounts**	**Other corporations and SME**	**Traffic Settlements and Others**	**Non-trade** (Note 6)	**Total**
At beginning of year	**₱1,677,691**	**₱245,622**	**₱250,599**	**₱279,532**	**₱21,045**	**₱2,474,489**
Charges for the year	**1,093,575**	**57,449**	**235,782**	**84,306**	**102,540**	**1,573,652**
Reversals/write offs/ adjustments	**(338,044)**	**(39,607)**	**(51,778)**	**(114,497)**	**(35,229)**	**(579,155)**
At end of year	**₱2,433,222**	**₱263,464**	**₱434,603**	**₱249,341**	**₱88,356**	**₱3,468,986**

2010

	Subscribers					
	Consumer	Key corporate accounts	Other corporations and SME	Traffic Settlements and Others	Non-trade (Note 6)	Total
At beginning of year	₱820,403	₱176,973	₱165,416	₱188,199	₱34,776	₱1,385,767
Charges for the year	987,636	81,395	124,549	91,333	620	1,285,533
Reversals/write offs/ adjustments	(130,348)	(12,746)	(39,366)	–	(14,351)	(196,811)
At end of year	₱1,677,691	₱245,622	₱250,599	₱279,532	₱21,045	₱2,474,489

2009

	Subscribers					
	Consumer	Key corporate accounts	Other corporations and SME	Traffic Settlements and Others	Non-trade (Note 6)	Total
At beginning of year	₱400,926	₱119,986	₱264,900	₱400,847	₱43,753	₱1,230,412
Charges for the year	856,184	35,900	79,898	(211,351)	(5,998)	754,633
Reversals/write offs/ adjustments	(436,707)	21,087	(179,382)	(1,297)	(2,979)	(599,278)
At end of year	₱820,403	₱176,973	₱165,416	₱188,199	₱34,776	₱1,385,767

28.2.3 *Liquidity Risk*

The Globe Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and available long-term and short-term credit facilities. As of December 31, 2011, 2010 and 2009, Globe Group has available uncommitted short-term credit facilities of USD76.00 million and ₱8,170.00 million, USD59.00 million and ₱11,017.40 million, USD19.00 million and ₱9,004.90 million, respectively. As of December 31, 2011, 2010 and 2009, the Globe Group has available committed long-term facilities of ₱10,000.00 million, ₱1,000.00 million, and USD93.00 million, respectively, which remain undrawn.

As part of its liquidity risk management, the Globe Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans, export credit agency facilities and capital market issues.

The following tables show comparative information about the Globe Group's financial instruments as of December 31 that are exposed to liquidity risk and interest rate risk and presented by maturity profile including forecasted interest payments for the next five years from December 31 figures (in thousands).

Long-term Liabilities:

2011

	2012	2013	2014	2015	2016 and thereafter	Total (in USD)	Total (in PHP)	Debt Issuance Costs	Carrying Value (in PHP)	Fair Value (in PHP)
Liabilities:										
Long-term debt										
Fixed rate										
Philippine peso	**₱7,033,150**	**₱3,397,450**	**₱4,381,850**	**₱1,941,100**	**₱2,067,800**	**$–**	**₱18,821,350**	**₱38,718**	**₱18,782,632**	**₱20,270,049**
Interest rate	**5.97%, 7.03%, 7.4%, 7.5%**	**5.97%, 7.03%, 7.4%**	**7.03%, 7.4%, 8%, 8.36%**	**7.03%, 8.36%**	**8.36%**					
Floating rate										
USD notes	**$28,643**	**$14,273**	**$17,710**	**$10,830**	**$10,834**	**82,290**	**–**	**72,474**	**3,541,621**	**3,618,373**
Interest rate	**Libor 6-mo. plus 3.4% margin; Libor 6-mo. plus 2.65% margin; 3mo or 6mo LIBOR + .43% margin (rounded to 1/16%); 6mo LIBOR + 3% margin**	**Libor 6-mo. plus 3.4% margin; Libor 6-mo. plus 2.65% margin**	**Libor 6-mo. plus 3.4% margin; Libor 6-mo. plus 2.65% margin**	**Libor 6-mo.plus 3.4% margin**	**Libor 6-mo.plus 3.4% margin**					
Philippine peso	**₱1,322,343**	**₱5,747,343**	**₱4,603,843**	**₱6,025,000**	**₱7,000,000**	**–**	**24,698,529**	**100,836**	**24,597,693**	**24,608,340**
Interest rate	**PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF6mo + 1.25% margin; PDSTF 3mo + 1% margin**	**PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF6mo + 1.25% margin; PDSTF 3mo + 1% margin**	**PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF6mo + 1.25% margin; PDSTF 3mo + 1% margin**	**PDSTF 3mo + 0.75% margin; PDSTF-3 month + 0.65% margin**	**PDSTF 3mo + 0.75% margin; PDSTF 3mo + .35% margin**					
						$82,290	**₱43,519,879**	**₱212,028**	**₱46,921,946**	**₱48,496,762**
Interest payable*										
PHP debt	**₱1,711,349**	**₱1,376,164**	**₱813,874**	**₱525,410**	**₱423,967**	**$–**	**₱4,850,764**	**₱–**	**₱–**	**₱–**
USD debt	**$2,718**	**$2,104**	**$1,483**	**$810**	**$348**	**$–**	**$7,463**	**$–**	**$–**	**$–**

Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.
Using ₱43.92 - USD exchange rate as of December 31, 2011.

2010

	2011	2012	2013	2014	2015 and thereafter	Total (in USD)	Total (in PHP)	Debt Issuance Costs	Carrying Value (in PHP)	Fair Value (in PHP)
Liabilities:										
Long-term debt										
Fixed rate										
Philippine peso	₱4,138,700	₱7,033,150	₱3,397,450	₱4,381,850	₱4,008,900	$–	₱22,960,050	₱ 71,638	₱22,888,412	₱24,816,963
Interest rate	5.97%, 6.68%, 7.03%, 7.4%	5.97%, 6.68%, 7.03%, 7.4%, 7.5%	5.97%, 6.68%, 7.03%, 7.4%	7.03%, 7.4%, 8%, 8.36%	7.03%, 8.36%					
Floating rate										
USD notes	$87,721	$28,642	$14,273	$17,710	$21,665	170,011	–	130,874	7,317,483	7,410,651
Interest rate	6-mo. LIBOR+ 3.4% margin; 6-mo. LIBOR+2.65% margin; 3mo or 6mo LIBOR +.43% margin (rounded to 1/16%); 6mo LIBOR +3% margin; 1mo or 3mo or 6mo LIBOR+2% margin; 6mo LIBOR+ .85%	6-mo. LIBOR+3.4% margin; 6-mo. LIBOR+ 2.65% margin; 3mo or 6mo LIBOR +.43% margin (rounded to 1/16%); 6mo LIBOR +3% margin	6-mo. LIBOR+3.4% margin; 6-mo. LIBOR+2.65% margin	6-mo. LIBOR+3.4% margin; 6-mo. LIBOR+2.65% margin	6-mo. LIBOR+ 3.4% margin					
Philippine peso	₱743,771	₱4,122,343	₱5,747,343	₱4,603,843	₱5,025,000	–	20,242,300	76,725	20,165,575	20,136,024
Interest rate	PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF3mo + 1% margin; PDSTF6mo + 1.25% margin	PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF3mo + 1% margin; PDSTF6mo + 1.25% margin; PDSTF 3 mo + 1.50% margin	PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF3mo + 1% margin; PDSTF6mo + 1.25% margin	PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF3mo + 1 margin %; PDSTF6mo + 1.25% margin	PDSTF 3mo + 0.75% margin; PDSTF 3mo + 0.65% margin					
						$170,011	₱43,202,350	₱279,237	₱50,371,470	₱52,363,638
Interest payable*										
PHP debt	₱2,023,562	₱1,494,852	₱1,152,815	₱606,723	₱416,655	₱–	₱5,694,607	₱–	₱–	₱–
USD debt	$4,578	$2,605	$1,918	$1,355	$1,061	$11,517	$–	$–	$–	$–

**Used month-end USD LIBOR and PDEX rates.*
**Using ₱43.81- USD exchange rate as of December 31, 2010.*

2009

	2010	2011	2012	2013	2014 and thereafter	Total USD Debt	Total PHP Debt	Debt Issuance Costs	Carrying Value (in PHP)	Fair Value (in PHP)
Liabilities:										
Long-term debt										
Fixed rate										
Philippine peso	₱13,700	₱4,093,700	₱6,988,150	₱933,700	₱6,450,750	$–	₱18,480,000	₱95,604	₱18,384,396	₱19,413,016
Interest rate	7.24%; 8.36%	5.97%; 6.68%; 7.03%; 7.24%; 8.36%	5.97%; 6.68%;7.03%; 7.50%; 8.00%	5.97%; 6.68%; 7.03%; 7.24%; 8.36%	7.24%; 7.50%; 8.00%; 8.36%					
Floating rate										
USD notes	$66,622	$68,511	$13,000	$–	$–	148,133	–	66,734	6,810,357	5,472,014
Interest rate	6mo LIBOR+.85% ;6mo LIBOR+3% margin; 1mo or 3mo or 6mo LIBOR+2% margin; 3mo or 6mo LIBOR+.43% margin (rounded to 1/16%)	6mo LIBOR+ .85%; 6mo LIBOR + 3% margin; 1mo or 3mo or 6mo LIBOR+ 2% margin; 3mo or 6mo LIBOR + .43% margin (rounded to 1/16%)	6mo LIBOR + 3% margin; 3mo or 6mo LIBOR + .43% margin (rounded to 1/16%)							
Philippine peso	₱2,580,873	₱718,771	₱6,947,343	₱7,566,093	₱2,503,843	–	20,316,923	35,654	20,281,269	20,245,723
Interest rate	PDSTF3mo + 1% margin; PDSTF 3mo+ 1.30% , PDSTF3mo + 1.10% margin, PDSTF3mo + 1% margin; PDSTF 6mo + 1.25% margin	PDSTF3mo + 1% margin; PDSTF3mo+ 1.30% , PDSTF3mo + 1.10% margin, PDSTF3mo + 1% margin; PDSTF6mo + 1.25% margin	PDSTF3mo + 1% margin; PDSTF 3mo+ 1.30% , PDSTF3mo + 1.10% margin, PDSTF 3mo + 1% margin; PDSTF6mo + 1.25% margin; PDSTF3mo + 1.50% margin	PDSTF3mo + 1% margin; PDSTF3 mo+ 1.30% , PDSTF3mo + 1.10% margin, PDSTF3mo + 1% margin; PDSTF6mo + 1.25% margin	PDSTF3mo + 1% margin; PDSTF6mo + 1.25% margin					
						$148,133	₱38,796,923	₱197,992	₱45,476,022	₱45,130,753
Interest payable*										
PHP debt	₱2,369,013	₱2,181,085	₱1,483,347	₱1,020,253	₱638,566	₱–	₱7,692,264	₱–	₱–	₱–
USD debt	$2,727	$1,305	$157	$–	$–	$4,189	$–	$–	$–	$–

**Used month-end USD LIBOR and PDEX rates.*
**Using ₱46.425 - USD exchange rate as of December 31, 2009.*

The following tables present the maturity profile of the Globe Group's other liabilities and derivative instruments (undiscounted cash flows including swap costs payments/receipts except for other long-term liabilities) as of December 31 (in thousands):

2011

Other Financial Liabilities:

	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued expenses*	₱684,963	₱20,431,535	₱–	₱–	₱–	₱–	₱–	₱21,116,498
Notes Payable	–	1,756,760	–	–	–	–	–	1,756,760
Liabilities directly associated with the assets classified as held for sale	–	540,206	–	–	–	–	–	540,206
Other long-term liabilities	–	–	–	–	–	–	635,122	635,122
	₱684,963	₱22,728,501	₱–	₱–	₱–	₱–	₱635,122	₱24,048,586

**Excludes taxes payable which is not a financial instrument.*

Derivative Instruments:

	2012		2013		2014		2015		2016 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons*:										
Principal Only Swaps	₱–	₱1,508	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Interest Rate Swaps	1,953	167,387	1,485	90,036	–	P2,218	P33,517	–	–	–

**Projected USD swap coupons were converted to PHP at the balance sheet date.*

	2012		2013		2014		2015		2016 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges*:										
Principal Only Swaps	$2,500	₱140,825	$–	₱–	$–	₱–	$–	₱–	$–	₱–

**Projected principal exchanges for Principal only swaps represent commitment to purchase USD for payment of USD debt payments with the same maturities.*

2010

Other Financial Liabilities:

	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued expenses*	₱426,696	₱19,906,644	₱–	₱–	₱–	₱–	₱–	₱20,333,340
Liabilities directly associated with the assets classified as held for sale	–	642,313	–	–	–	–	–	642,313
Other long-term liabilities	–	–	–	–	–	–	640,927	640,927
	₱426,696	₱20,548,957	₱–	₱–	₱–	₱–	₱640,927	₱21,616,580

**Excludes taxes payable which is not a financial instrument.*

Derivative Instruments:

	2011		2012		2013		2014		2015 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons*:										
Principal Only Swaps	₱–	₱4,048	₱–	₱2,572	₱–	₱–	₱–	₱–	₱–	₱–
Interest Rate Swaps	–	146,821	4,065	51,911	16,745	–	19,889	–	11,388	–

**Projected USD swap coupons were converted to PHP at the balance sheet rate. Further, it was assumed that 3m Libor, 3m PDSTF, and 6m PDSTF would stay at December 31, 2010 levels.*

	2011		2012		2013		2014		2015 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges*:										
Principal Only Swaps**	$–	₱–	$2,500	₱140,825	$–	₱–	$–	₱–	$–	₱–
Forward Sale of USD**	₱1,539,082	$35,000	–	–	–	–	–	–	–	–

**Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.*

***Nondeliverable*

2009

Other Financial Liabilities:

	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued expenses*	₱2,201,314	₱16,458,817	₱–	₱–	₱–	₱–	₱–	₱18,660,131
Notes payable	–	2,000,829	–	–	–	–	–	2,000,829
Other long-term liabilities	–	735,944	–	–	–	–	647,416	1,383,360
	₱2,201,314	₱19,195,590	₱–	₱–	₱–	₱–	₱647,416	₱22,044,320

**Excludes taxes payable which is not a financial instrument.*

Derivative Instruments:

	2010		2011		2012		2013		2014 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons*:										
Principal Only Swaps	₱–	₱4,290	₱–	₱5,436	₱–	₱2,726	₱–	₱–	₱–	₱–
Interest Rate Swaps	–	21,424	–	4,401	4,240	–	–	–	–	–

**Projected USD swap coupons were converted to PHP at the balance sheet rate. Further, it was assumed that 3m Libor, 3m PDSTF, and 6m PDSTF would stay at December 31, 2009 levels.*

	2010		2011		2012		2013		2014 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges*:										
Principal Only Swaps	$–	₱–	$–	₱–	$2,500	₱140,825	$–	₱–	$–	₱–
Forward Purchase of USD**	$20,000	₱959,500	–	–	–	–	–	–	–	–
Forward Sale of USD**	₱964,150	$20,000	–	–	–	–	–	–	–	–

**Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.*

***Nondeliverable*

28.2.4 *Hedging Objectives and Policies*

The Globe Group uses a combination of natural hedges and derivative hedging to manage its foreign exchange exposure. It uses interest rate derivatives to reduce earnings volatility related to interest rate movements.

It is the Globe Group's policy to ensure that capabilities exist for active but conservative management of its foreign exchange and interest rate risks. The Globe Group does not engage in any speculative derivative transactions. Authorized derivative instruments include currency forward contracts (freestanding and embedded), currency swap contracts, interest rate swap contracts and currency option contracts (freestanding and embedded). Certain swaps are entered with option combination or structured provisions.

28.3 Derivative Financial Instruments

The Globe Group's freestanding and embedded derivative financial instruments are accounted for as hedges or transactions not designated as hedges. The table below sets out information about the Globe Group's derivative financial instruments and the related fair values as of December 31 (in thousands):

2011

	Notional Amount	Notional Amount	Derivative Asset	Derivative Liability
Derivative instruments designated as hedges:				
Cash flow hedges:				
Interest rate swaps	**$15,000**	**₱6,637,500**	**₱–**	**₱224,893**
Derivative instruments not designated as hedges:				
Freestanding:				
Interest rate swaps	**27,083**	**–**	**4,692**	**–**
Principal only currency swaps	**2,500**	**–**	**–**	**31,610**
Embedded				
Currency forwards*	**10,579**	**–**	**5,074**	**10,114**
Net			**₱9,766**	**₱266,617**

**The embedded currency forwards are at a net sell position.*

2010

	Notional Amount	Notional Amount	Derivative Asset	Derivative Liability
Derivative instruments designated as hedges:				
Cash flow hedges:				
Interest rate swaps	$57,000	₱5,000,000	₱–	₱163,448
Nondeliverable forwards*	35,000	–	6,255	8,285
Derivative instruments not designated as hedges:				
Freestanding:				
Interest rate swaps	6,667	–	11,743	210
Principal only currency swaps	2,500	–	–	35,519
Embedded				
Currency forwards**	14,651	–	1,890	38,403
Net			₱19,888	₱245,865

**All in sell position.*

***The embedded currency forwards are at a net sell position.*

2009

	Notional Amount	Notional Amount	Derivative Asset	Derivative Liability
Derivative instruments designated as hedges:				
Cash flow hedges:				
Interest rate swaps	$51,000	₱–	₱–	₱32,221
Derivative instruments not designated as hedges:				
Freestanding:				
Nondeliverable forwards*	40,000	–	14,424	9,775
Interest rate swaps	10,000	–	15,468	5,084
Principal only currency swaps	2,500	–	–	26,789
Embedded				
Currency forwards**	9,972	–	6,413	18,587
Net			₱36,305	₱92,456

**Buy position: USD20,000; Sell position: USD20,000.*
***The embedded currency forwards are at a net sell position.*

The table below also sets out information about the maturities of Globe Group's derivative instruments as of December 31 that were entered into to manage interest and foreign exchange risks related to the long-term debt and US dollar-based revenues (in thousands).

2011

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Total
Derivatives:						
Principal Only Currency Swaps:						
Notional amount	**$2,500**	**$–**	**$–**	**$–**	**$–**	**$2,500**
Weighted swap rate						**₱56.33**
Pay fixed rate						**4.62%**
Interest Rate Swaps						
Fixed-Floating						
Notional USD	**$5,000**	**$–**	**$–**	**$–**	**$–**	**$5,000**
Pay-floating rate						**USD LIBOR+4.23%**
Receive-fixed rate						**9.75%**
Floating-Fixed						
Notional Peso	**₱450,000**	**₱1,875,000**	**₱2,287,500**	**₱2,025,000**	**₱–**	**₱6,637,500**
Notional USD	**$17,915**	**$19,168**	**$–**	**$–**	**$–**	**$37,083**
Pay-fixed rate						**3.90% - 4.92% for PHP; 0.78% - 1.78% for USD**
Receive-floating rate						**USD LIBOR, 3moPDSTF**

2010

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Total
Derivatives:						
Principal Only Currency Swaps:						
Notional amount	$–	$2,500	$–	$–	$–	$2,500
Weighted swap rate						₱56.33
Pay fixed rate						4.62%
Interest Rate Swaps						
Fixed-Floating						
Notional USD	$–	$5,000	$–	$–	$–	$5,000
Pay-floating rate						USD LIBOR+4.23%
Receive-fixed rate						9.75%
Floating-Fixed						
Notional Peso	₱50,000	₱200,000	₱625,000	₱2,100,000	₱2,025,000	₱5,000,000
Notional USD	$43,667	$15,000	–	–	–	$58,667
Pay-fixed rate	–					4.92% for PHP; 1.01% - 4.84% for USD
Receive-floating rate						USD LIBOR, 3mo PDSTF
Nondeliverable Forwards						
Notional USD	$35,000	$–	$–	$–	$–	$35,000
Forward rate						₱42.84 –P45.21

2009

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Total
Derivatives:						
Principal Only Currency Swaps:						
Notional amount	$–	$–	$2,500	$–	$–	$2,500
Weighted swap rate						₱56.33
Pay fixed rate						4.62%
Interest Rate Swaps						
Fixed-Floating						
Notional USD	$–	$–	$5,000	$–	$–	$5,000
Pay-floating rate						USD LIBOR+4.23%
Receive-fixed rate						9.75%
Floating-Fixed						
Notional USD	$27,333	$23,667	$5,000	$–	$–	$56,000
Pay-fixed rate						1.64% - 4.84%
Receive-floating rate						USD LIBOR
Nondeliverable Forwards						
Notional USD	$40,000	$–	$–	$–	$–	$40,000
Forward rate						₱47.63 - ₱48.70

The Globe Group’s other financial instruments that are exposed to interest rate risk are cash and cash equivalents. These mature in less than a year and are subject to market interest rate fluctuations.

The Globe Group's other financial instruments which are non-interest bearing and therefore not subject to interest rate risk are trade and other receivables, accounts payable and accrued expenses and long-term liabilities.

The subsequent sections will discuss the Globe Group's derivative financial instruments according to the type of financial risk being managed and the details of derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges.

28.4 Derivative Instruments Accounted for as Hedges

The following sections discuss in detail the derivative instruments accounted for as cash flow hedges.

- Interest Rate Swaps

  As of December 31, 2011, 2010 and 2009, the Globe Group has USD15.00 million, USD57.00 million, and USD51.00 million, respectively, in notional amount of USD interest rate swap that have been designated as cash flow hedge of interest rate risk from USD loans. These interest rate swaps effectively fixed the benchmark rate of the hedged USD loans at 1.01% to 1.78% over the duration of the agreement, which involves semi-annual or quarterly payment intervals up to April 2012.

  The Globe Group also has PHP interest rate swap contracts with a total notional amount of ₱6,637.50 million and ₱5,000.00 million as of December 31, 2011 and 2010, respectively, which have been designated as cash flow hedges of interest rate risk from PHP loans. These interest rate swaps effectively fixed the benchmark rate of the hedged PHP loans at 3.90% to 4.92% over the duration of the swaps, with quarterly payment intervals up to September 2015.

  As of December 31, 2011, 2010 and 2009, the fair value of the outstanding swap amounted to ₱224.89 million, ₱163.45 million, and ₱32.22 million losses, respectively, of which ₱153.07 million, ₱115.83 million, and ₱22.55 million (net of tax), respectively, is reported as "Other reserves" in the equity section of the consolidated statements of financial position (see Note 17.5).

  Accumulated swap cost for the years ended December 31, 2011, 2010 and 2009 amounted to ₱213.66 million ₱58.98 million, and ₱40.21 million, respectively.

- Nondeliverable Forwards

  The Globe Group entered into short-term nondeliverable currency forward contracts to hedge the changes in the cash flows of USD revenues related to changes in foreign currency exchange rates. All forward contracts matured in December 2011. These currency forward contracts have a notional amount of USD35.00 million as of December 31, 2010. There were no outstanding non-deliverable forward as of December 31, 2011 and 2009.

  The fair value of the outstanding short-term nondeliverable currency forwards as of December 31, 2010 amounted to a loss of ₱2.03 million of which ₱1.42 million (net of tax) is reported in the equity section of the consolidated statements of financial position.

Hedging gains or losses on derivatives intended to manage foreign currency fluctuations on dollar based revenues for the years ended December 31, 2011, 2010 and 2009 amounted to ₱28.27 million gain, ₱75.56 million gain, and ₱18.47 million loss, respectively. These hedging gains or losses are reflected under “Service revenues” in the consolidated statements of comprehensive income.

28.5 Other Derivative Instruments not Designated as Hedges

The Globe Group enters into certain derivatives as economic hedges of certain underlying exposures. Such derivatives, which include embedded and freestanding currency forwards, embedded call options, and certain currency and interest rate swaps with option combination or structured provisions, are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly in profit or loss in the consolidated statements of comprehensive income. This section consists of freestanding derivatives and embedded derivatives found in both financial and nonfinancial contracts.

28.6 Freestanding Derivatives

Freestanding derivatives that are not designated as hedges consist of currency forwards, options, currency and interest rate swaps entered into by the Globe Group. Fair value changes on these instruments are accounted for directly in profit or loss in the consolidated statements of comprehensive income.

- Nondeliverable Forwards
  As of December 31, 2011 and 2010, the Globe Group has no more outstanding nondeliverable currency forward contracts not designated as hedges. As of December 31, 2009, the short-term nondeliverable currency forward contracts have a notional amount of USD40.00 million and a net fair value of ₱4.65 million gain.

- Interest Rate Swaps
  The Globe Group has outstanding interest rate swap contracts, some with option-like structures which swap certain fixed and floating USD-denominated loans into floating and fixed rate with semi-annual payments interval up to July 2013. The swaps have outstanding notional amount of USD27.08 million, USD6.67 million and USD10.00 million as of December 31, 2011, 2010, and 2009, respectively.

  The fair values on the interest rate swaps as of December 31, 2011, 2010 and 2009 amounted to a net gain of ₱4.69 million, ₱11.53 million and ₱10.38 million, respectively.

- Principal Only Currency Swaps
  The Globe Group also has an outstanding foreign principal only currency swap agreement with a certain bank, under which it swaps the principal of USD-denominated loans into PHP up to April 2012. Under these contracts, swap costs are payable in semi-annual intervals in USD. The notional of the swaps amounted to USD2.50 million as of December 31, 2011, 2010, and 2009. The fair value loss of the principal only currency swaps as of December 31, 2011, 2010 and 2009 amounted to ₱31.61 million, ₱35.52 million, and ₱26.79 million, respectively.

28.7 Embedded Derivatives

The Globe Group has instituted a process to identify any derivatives embedded in its financial or nonfinancial contracts. Based on PAS 39, the Globe Group assesses whether these derivatives are required to be bifurcated or are exempted based on the qualifications provided by the said standard. The Globe Group's embedded derivatives include embedded currency derivatives noted in non-financial contracts.

- Embedded Currency Forwards
  As of December 31, 2011, 2010 and 2009, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts amounted to USD10.58 million, USD14.65 million, and USD9.97 million, respectively. The nonfinancial contracts consist mainly of foreign currency-denominated purchase orders with various expected delivery dates and unbilled leaselines receivables and payables denominated in foreign currency with domestic counterparties. The net fair value losses of the embedded currency forwards as of December 31, 2011, 2010 and 2009 amounted to ₱5.04 million, ₱36.51 million, and ₱12.18 million, respectively.

- Embedded Currency Options
  As of December 31, 2011, the Globe Group does not have an outstanding currency option embedded in non-financial contracts.

28.8 Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments are as follows:

	December 31		
	2011	2010	2009
		(In Thousand Pesos)	
At beginning of year	**(₱225,977)**	(₱56,151)	(₱16,642)
Net changes in fair value of derivatives:			
Designated as cash flow hedges	**(239,094)**	(116,679)	(35,116)
Not designated as cash flow hedges	**28,261**	(27,631)	(44,253)
	(436,810)	(200,461)	(96,011)
Less fair value of settled instruments	**(179,959)**	25,516	(39,860)
At end of year	**(₱256,851)**	(₱225,977)	(₱56,151)

28.9 Hedge Effectiveness Results

As of December 31, 2011, 2010 and 2009, the effective fair value changes on the Globe Group's cash flow hedges that were deferred in equity amounted to ₱153.07 million, ₱115.83 million, and ₱22.56 million loss, net of tax, respectively. Total ineffectiveness for the years ended December 31, 2011, 2010 and 2009 is immaterial.

The distinction of the results of hedge accounting into "Effective" or "Ineffective" represent designations based on PAS 39 and are not necessarily reflective of the economic effectiveness of the instruments.

28.10 Categories of Financial Assets and Financial Liabilities

The table below presents the carrying value of Globe Group's financial instruments by category as of December 31:

	2011	2010	2009
		(In Thousand Pesos)	
Financial assets:			
Financial assets at FVPL:			
Derivative assets designated as cash flow hedges	**₱–**	₱6,255	₱–
Derivative assets not designated as hedges	**9,766**	13,633	36,305
AFS investment in equity securities (Note 11)	**99,319**	101,877	81,727
Loans and receivables - net*	**18,311,110**	17,724,991	14,704,734
Financial liabilities:			
Financial liabilities at FVPL:			
Derivative liabilities designated as cash flow hedges	**224,893**	171,733	32,221
Derivative liabilities not designated as hedges	**41,724**	74,132	60,235
Financial liabilities at amortized cost**	**70,970,531**	71,988,050	67,520,342

**This consists of cash and cash equivalents, short-term investments and long-term investments, receivables, other nontrade receivables and loans receivables.*

***This consists of accounts payable, accrued expenses, accrued project cost, traffic settlement-net, dividends payable, notes payable, long-term debt (including current portion) and other long-term liabilities (including current portion).*

As of December 31, 2011, 2010 and 2009, the Globe Group has no investments in foreign securities.

28.11 Fair Values of Financial Assets and Financial Liabilities

The table below presents a comparison of the carrying amounts and estimated fair values of all the Globe Group's financial instruments as of:

	December 31					
	2011		2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
			(In Thousand Pesos)			
Financial assets:						
Cash and cash equivalents	**₱5,159,046**	**₱5,159,046**	₱5,868,986	₱5,868,986	₱5,939,927	₱5,939,927
Short-term investments	**–**	**–**	–	–	2,784	2,784
Receivables - net	**10,119,505**	**10,119,505**	8,374,123	8,374,123	6,583,228	6,583,228
Derivative assets	**9,766**	**9,766**	19,888	19,888	36,305	36,305
Other nontrade receivables*	**3,032,559**	**3,032,559**	3,481,882	3,481,882	2,178,795	2,178,795
AFS investment in equity securities (Note 11)	**99,319**	**99,319**	101,877	101,877	81,727	81,727
Financial liabilities:						
Accounts payable and accrued expenses**	**21,116,498**	**21,116,498**	20,333,340	20,333,340	18,660,131	18,660,131
Derivative liabilities (including current portion)	**266,617**	**266,617**	245,865	245,865	92,456	92,456
Liabilities directly associated with the assets classified as held for sale	**540,206**	**540,206**	642,313	642,313	–	–
Notes payable	**1,756,760**	**1,756,760**	–	–	2,000,829	2,000,829
Long-term debt (including current portion)	**46,921,946**	**48,496,762**	50,371,470	52,363,670	45,476,022	45,130,753
Other long-term liabilities (including current portion)	**635,122**	**635,122**	640,927	640,927	1,383,360	1,383,360

**This consists of loan, accrued interest and miscellaneous receivables included under "Prepayments and other current assets" and "Other noncurrent assets" (see Notes 6 and 11).*

***This consists of accounts payable, accrued expenses, accrued project cost, traffic settlement-net and dividends payable.*

The following discussions are methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

28.11.1 *Non-derivative Financial Instruments*

The fair values of cash and cash equivalents, short-term investments, AFS investments, subscriber receivables, traffic settlements receivable, loan receivable, miscellaneous receivables, accrued interest receivables, accounts payable, accrued expenses and notes payable are approximately equal to their carrying amounts considering the short-term maturities of these financial instruments.

The fair value of AFS investments are based on quoted prices. Unquoted AFS equity securities are carried at cost, subject to impairment.

For variable rate financial instruments that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate financial instruments that reprice every six months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. The discount rates used range from 0.13% to 1.13% (for USD floating loans) and from 1.72% to 3.45% (for PHP floating loans). For noninterest bearing obligations, the fair value is estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument.

28.11.2. *Derivative Instruments*

The fair value of freestanding and embedded forward exchange contracts is calculated by using the interest rate parity concept.

The fair values of interest rate swaps and cross currency swap transactions are determined using valuation techniques with inputs and assumptions that are based on market observable data and conditions and reflect appropriate risk adjustments that market participants would make for credit and liquidity risks existing at the end each of reporting period. The fair value of interest rate swap transactions is the net present value of the estimated future cash flows. The fair values of currency and cross currency swap transactions are determined based on changes in the term structure of interest rates of each currency and the spot rate.

Embedded currency options are valued using the simple option pricing model of third party provider.

28.11.3 *Fair Value Hierarchy*

The Group 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 or 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.

	December 31		
	2011	2010	2009
		(In Thousand Pesos)	
Level 1			
AFS investment in equity securities - net	**₱99,319**	₱101,877	₱81,727
Level 2			
Derivative assets	**9,766**	19,888	36,305
Derivative liabilities (including noncurrent portion)	**266,617**	245,865	92,456

There were no transfers from Level 1 and Level 2 fair value measurements for the years ended December 31, 2011, 2010 and 2009. The Globe Group has no financial instruments classified under Level 3.

29. Operating Segment Information

The Globe Group's reportable segments consist of: (1) mobile communications services; (2) wireline communication services; and (3) others, which the Globe Group operates and manages as strategic business units and organize by products and services. The Globe Group presents its various operating segments based on segment net income.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

Most of revenues are derived from operations within the Philippines, hence, the Globe Group does not present geographical information required by PFRS 8. The Globe Group does not have a single customer that will meet the 10% or more reporting criteria.

The Globe Group also presents the different product types that are included in the report that is regularly reviewed by the chief operating decision maker in assessing the operating segments performance.

Segment assets and liabilities are not measures used by the chief operating decision maker since the assets and liabilities are managed on a group basis.

The Globe Group's segment information is as follows (in thousand pesos):

2011

	Mobile Communications Services	Wireline Communications Services	Others	Consolidated
REVENUES:				
Service revenues				
External customers:				
Voice	**₱25,704,158**	**₱2,569,718**	**₱–**	**₱28,273,876**
Data	**28,140,513**	**3,791,928**	**108,481**	**32,040,922**
Broadband	**–**	**7,496,503**	**–**	**7,496,503**
Nonservice revenues:				
External customers	**3,028,245**	**725,038**	**–**	**3,753,283**
Segment revenues	**56,872,916**	**14,583,187**	**108,481**	**71,564,584**
EBITDA	**32,145,366**	**3,056,714**	**(87,007)**	**35,115,073**
Depreciation and amortization	**(11,402,577)**	**(7,527,599)**	**(11,051)**	**(18,941,227)**
EBIT	**20,742,789**	**(4,470,885)**	**(98,058)**	**16,173,846**
NET INCOME (LOSS) BEFORE INCOME TAX[2]	**18,634,742**	**(4,478,893)**	**(96,410)**	**14,059,439**
Benefit from (provision for) income tax[2]	**(4,190,298)**	**(34,101)**	**(3,235)**	**(4,227,634)**
NET INCOME (LOSS)	**₱14,444,444**	**(₱4,512,994)**	**(₱99,645)**	**₱9,831,805**
Other segment information				
Intersegment revenues	**₱34,747**	**(₱264,929)**	**(₱246,673)**	**(₱476,855)**
Subsidy[1]	**(2,091,403)**	**(42,060)**	**(843)**	**(2,134,306)**
Interest income[2]	**172,156**	**87,532**	**70**	**259,758**
Interest expense	**(1,994,371)**	**(65,289)**		**(2,059,660)**
Equity in net losses of joint ventures	**(27,345)**	**–**	**–**	**(27,345)**
Impairment losses and others	**(1,068,597)**	**(849,986)**	**–**	**(1,918,583)**
Capital expenditure	**(13,530,030)**	**(3,777,427)**	**(109,925)**	**(17,417,382)**
Cash Flows				
Net cash provided by (used in):				
Operating activities	**23,605,233**	**6,114,936**	**206,006**	**29,926,175**
Investing activities	**(13,734,642)**	**(4,345,211)**	**(109,864)**	**(18,189,717)**
Financing activities	**(12,520,892)**	**–**	**–**	**(12,520,892)**

[1] ***Computed as non-service revenues less cost of sales***
[2] ***Net of final taxes***

2010

	Mobile Communications Services	Wireline Communications Services	Others	Consolidated
		(In Thousand Pesos)		
REVENUES:				
Service revenues				
External customers:				
Voice	₱25,970,607	₱2,815,565	₱–	₱28,786,172
Data	24,451,917	3,487,999	80,335	28,020,251
Broadband	–	5,748,266	–	5,748,266
Nonservice revenues:				
External customers	2,374,542	618,759	–	2,993,301
Segment revenues	52,797,066	12,670,589	80,335	65,547,990
EBITDA	31,924,609	1,719,351	(84,928)	33,559,032
Depreciation and amortization	(11,734,900)	(6,346,429)	(4,510)	(18,085,839)
EBIT	20,189,709	(4,627,078)	(89,438)	15,473,193
NET INCOME (LOSS) BEFORE INCOME TAX[2]	18,768,054	(4,661,415)	(89,919)	14,016,720
Benefit from (provision for) income tax[2]	(4,518,236)	246,150	–	(4,272,086)
NET INCOME (LOSS)	₱14,249,818	(₱4,415,265)	(₱89,919)	₱9,744,634
Other segment information				
Intersegment revenues	₱35,545	(₱191,933)	(₱107,080)	(₱263,468)
Subsidy[1]	(900,760)	(344,899)	–	(1,245,659)
Interest income[2]	168,300	28,666	94	197,060
Interest expense	(1,975,932)	(5,823)	(30)	(1,981,785)
Equity in net losses of joint ventures	(2,968)	–	–	(2,968)
Impairment losses and others	(820,978)	(708,556)	–	(1,529,534)
Capital expenditure	(13,982,817)	(5,478,589)	(5,467)	(19,466,873)
Cash Flows				
Net cash provided by (used in):				
Operating activities	21,802,415	5,338,255	7,707	27,148,377
Investing activities	(12,194,022)	(4,729,510)	(5,281)	(16,928,813)
Financing activities	(10,171,150)	–	(859)	(10,172,009)

[1] *Computed as non-service revenues less cost of sales*
[2] *Net of final taxes*

2009

	Mobile Communications Services	Wireline Communications Services	Others	Consolidated
	(Audited and In Thousand Pesos)			
REVENUES:				
Service revenues				
External customers:				
Voice	₱26,497,050	₱2,794,855	₱–	₱29,291,905
Data	26,736,627	3,037,749	87,775	29,862,151
Broadband	–	3,289,462	–	3,289,462
Nonservice revenues:				
External customers	916,655	501,959	–	1,418,614
Segment revenues	54,150,332	9,624,025	87,775	63,862,132
EBITDA	34,509,924	1,997,203	(33,605)	36,473,522
Depreciation and amortization	(12,881,171)	(4,495,831)	(11,428)	(17,388,430)
EBIT	21,628,753	(2,498,628)	(45,033)	19,085,092
INCOME (LOSS) BEFORE INCOME TAX[2]	20,526,499	(2,549,049)	(45,315)	17,932,135
Benefit from (provision for) income tax[2]	(5,866,931)	501,115	2,554	(5,363,262)
NET INCOME (LOSS)	₱14,659,568	(₱2,047,934)	(₱42,761)	₱12,568,873
Other segment information:				
Intersegment revenues	(₱1,046,315)	(₱172,625)	(₱57,013)	(₱1,275,953)
Subsidy[1]	(1,146,914)	(382,422)	–	(1,529,336)
Interest income[2]	192,620	38,511	108	231,239
Interest expense	(2,086,307)	(10,455)	(183)	(2,096,945)
Equity in net losses of joint venture	(7,009)	–	–	(7,009)
Impairment losses and others	(683,953)	(116,393)	–	(800,346)
Capital expenditure	(17,609,324)	(7,086,349)	(6,653)	(24,702,326)
Cash Flows				
Net cash provided by (used in):				
Operating activities	29,576,009	3,796,387	3,818	33,376,214
Investing activities	(16,603,578)	(5,215,702)	(9,824)	(21,829,104)
Financing activities	(11,330,388)	(12,000)	(1,331)	(11,343,719)

[1] *Computed as non-service revenues less cost of sales*
[2] *Net of final taxes*

A breakdown of gross revenues to net revenues and a reconciliation of segment revenues to the total revenues presented in the consolidated statements of comprehensive income are shown below:

	2011	2010	2009
	(In Thousand Pesos)		
Gross service revenues	**₱77,764,964**	₱72,742,090	₱72,909,773
Interconnection charges	**(9,953,663)**	(10,187,401)	(10,466,255)
Net service revenues	**67,811,301**	62,554,689	62,443,518
Nonservice revenues	**3,753,283**	2,993,301	1,418,614
Segment revenues	**71,564,584**	65,547,990	63,862,132
Interest income	**297,388**	218,532	271,806
Other income - net	**574,768**	856,941	1,064,476
Total revenues	**₱72,436,740**	₱66,623,463	₱65,198,414

The reconciliation of the EBITDA to income before income tax presented in the consolidated statements of comprehensive income is shown below:

	2011	2010	2009
	(In Thousand Pesos)		
EBITDA	**₱35,115,073**	₱33,559,032	₱36,473,522
Gain on disposal of property and equipment - net	**319,250**	32,535	597,786
Interest income	**297,388**	218,532	271,806
Equity in net losses of joint ventures	**(27,345)**	(2,968)	(7,009)
Financing costs	**(2,579,714)**	(2,068,401)	(2,182,881)
Depreciation and amortization	**(18,941,227)**	(18,085,839)	(17,388,430)
Other items	**(86,356)**	385,301	207,908
INCOME BEFORE INCOME TAX	**₱14,097,069**	₱14,038,192	₱17,972,702

29.1 Mobile Communications Services

This reporting segment is made up of digital cellular telecommunications services that allow subscribers to make and receive local, domestic long distance and international long distance calls, international roaming calls, mobile data or internet services and other value added services in any place within the coverage areas.

29.1.1 *Mobile communication voice* net service revenues include the following:

a) Monthly service fees on postpaid plans;
b) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments (CERA) net of loyalty discounts credited to subscriber billings;
c) Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 1 and 60 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and
d) Revenues generated from inbound international and national long distance calls and international roaming calls.

Revenues from (a) to (d) are net of any settlement payouts to international and local carriers.

29.1.2 *Mobile communication data* net service revenues consist of revenues from value-added services such as inbound and outbound SMS and MMS, content downloading, mobile data or internet services and infotext, subscription fees on unlimited and bucket prepaid SMS services net of any settlement payouts to international and local carriers and content providers.

29.1.3 Globe Telecom offers its wireless communications services to consumers, corporate and SME clients through the following two (2) brands: Globe Handyphone Postpaid and Prepaid and Touch Mobile Prepaid brands.

The Globe Group also provides its subscribers with mobile payment and remittance services under the GCash brand.

29.2 Wireline Communications Services

This reporting segment is made up of fixed line telecommunications services which offer subscribers local, domestic long distance and international long distance voice services in addition to broadband and fixed mobile internet services and a number of VAS in various areas covered by the Certificate of Public Convenience and Necessity (CPCN) granted by the NTC.

29.2.1 *Wireline voice* net service revenues consist of the following:

a) Monthly service fees including CERA of voice-only subscriptions;
b) Revenues from local, international and national long distance calls made by postpaid, prepaid wireline subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
c) Revenues from inbound local, international and national long distance calls from other carriers terminating on our network;
d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features; and
e) Installation charges and other one-time fees associated with the establishment of the service.

Revenues from (a) to (c) are net of any settlement payments to domestic and international carriers.

29.2.2 *Wireline data* net service revenues consist of the following:

a) Monthly service fees from international and domestic leased lines. This is net of any settlement payments to other carriers;
b) Other wholesale transport services;
c) Revenues from value-added services; and
d) One-time connection charges associated with the establishment of service.

29.2.3 *Broadband* service revenues consist of the following:

a) Monthly service fees on mobile and fixed wireless and wired broadband plans and charges for usage in excess of plan minutes; and
b) Prepaid usage charges consumed by mobile broadband subscribers.

29.2.4 The Globe Group provides wireline voice communications (local, national and international long distance), data and broadband and data services to consumers, corporate and SME clients in the Philippines.

a) *Consumers* - the Globe Group's postpaid voice service provides basic landline services including toll-free NDD calls to other Globe landline subscribers for a fixed monthly fee. For wired broadband, consumers can choose between broadband services bundled with a voice line, or a broadband data-only service. For fixed wireless broadband connection using its WiMax network and 3G with High-Speed Downlink Packet Access (HSDPA) network, the Globe Group offers broadband packages bundled with voice, or broadband data-only service. For subscribers who require full mobility, Globe Broadband Tattoo service come in postpaid and prepaid packages and allow them to access the internet via 3G with HSDPA, Enhanced Datarate for GSM Evolution (EDGE), General Packet Radio Service (GPRS) or WiFi at hotspots located nationwide.

b) *Corporate/SME clients* - for corporate and SME enterprise clients wireline voice communication needs, the Globe Group offers postpaid service bundles which come with a business landline and unlimited dial-up internet access. The Globe Group also provides a full suite of telephony services from basic direct lines to Integrated Services Digital Network (ISDN) services, 1-800 numbers, International Direct Dialing (IDD) and National Direct Dialing (NDD) access as well as managed voice solutions such as Voice Over Internet Protocol (VOIP) and managed Internet Protocol (IP) communications. Value-priced, high speed data services, wholesale and corporate internet access, data center services and segment-specific solutions customized to the needs of vertical industries.

29.3 Others

This reporting segment represents mobile value added data content and application development services. Revenues principally consist of revenue share with various carriers on content downloaded by their subscribers and contracted fees for other application development services provided to various partners.

Notes to Consolidated Statements of Cash Flows

The principal noncash transactions are as follows:

	2011	2010	2009
		(In Thousand Pesos)	
Increase (decrease) in liabilities related to the acquisition of property and equipment	**(₱1,353,939)**	₱612,613	₱2,548,409
Capitalized ARO	**27,403**	41,473	96,959
Dividends on preferred shares	**35,295**	–	50,492

The cash and cash equivalents account consists of:

	2011	2010	2009
		(In Thousand Pesos)	
Cash on hand and in banks	**₱1,182,895**	₱944,866	₱1,104,231
Short-term placements	**3,976,151**	4,924,120	4,835,696
	₱5,159,046	₱5,868,986	₱5,939,927

Cash in banks earn interest at the respective bank deposit rates. Short-term placements represent short-term money market placements.

The ranges of interest rates of the above placements are as follows:

	2011	2010	2009
Placements:			
PHP	**1.50% to 4.88%**	2.00% to 4.25%	2.00% to 5.00%
USD	**0.05% to 1.75%**	0.09% to 1.55%	0.05% to 1.63%

30. Events after the Reporting Period

On February 10, 2012, the BOD approved the declaration of the first semi-annual cash dividend of ₱32.50 per common share, payable to common stockholders of record as of February 24, 2012. Total dividends amounting to ₱4,301.44 million will be payable on March 16, 2012.

On February 10, 2012, the BOD approved and authorized a corporate bond program to fund the Globe Group's capital expenditures with a principal amount of up to ₱15,000.00 million for issuance in one or more tranches due in up to seven and/or ten years. The Globe Group management has been authorized to determine the final features and other terms and conditions of the offer and issuance of the corporate bonds, including all agreements related to such offer and issuance.