Ayala

2011 Annual Report

"WE ARE WELL-POSITIONED TO PARTICIPATE IN THE DEVELOPMENT OF THE COUNTRY'S INFRASTRUCTURE NEEDS."

OUR COVER QUOTE IS TAKEN FROM THE MESSAGE OF OUR CHAIRMAN & CEO, JAIME AUGUSTO ZOBEL DE AYALA, WHICH BEGINS ON PAGE 10.

OUR COVER COLLAGE EMPHASIZES HOW AYALA'S STRATEGY REMAINS FOCUSED ON KEY INDUSTRIES THAT ARE FUNDAMENTAL TO OUR NATION'S ECONOMY. AS WE STRENGTHEN OUR PRESENCE IN THESE INDUSTRIES, WE WILL PURSUE OPPORTUNITIES IN THE POWER AND TRANSPORTATION INFRASTRUCTURE SECTORS TO BUILD A PLATFORM FOR LONG-TERM GROWTH WHILE REMAINING ALIGNED WITH NATIONAL DEVELOPMENT GOALS.

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OUR MISSION

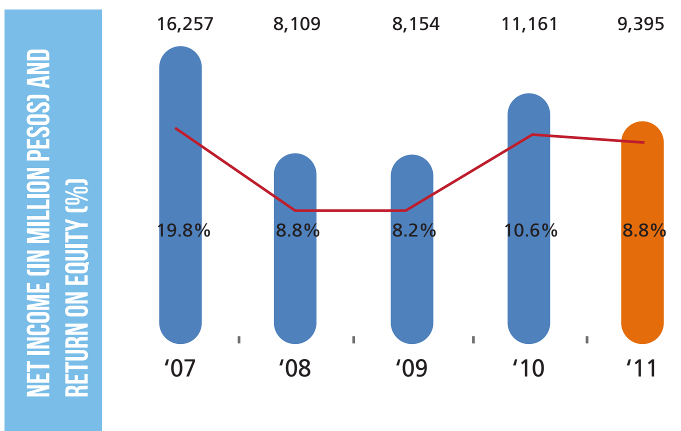
Ayala Corporation, a holding company with a diverse business portfolio, has a legacy of pioneering the future. Founded in 1834, it has achieved its position of leadership by being values oriented, goals driven, and stakeholder focused. Anchored on values of integrity, long-term vision, empowering leadership, and with a strong commitment to national development, it fulfills its mission to ensure long-term profitability and value creation. Ayala provides career opportunities and creates synergies as it builds mutually beneficial partnerships and alliances with those who share its philosophy and values. With entrepreneurial strength, it continues to create a future that nurtures to fruition its business endeavors and its aspirations for sustainable national development.

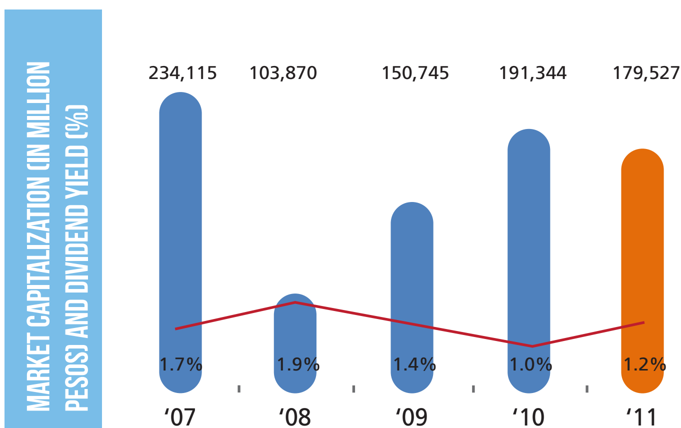
- Achieved 16% growth in consolidated core net income
- Committed ₱7 billion worth of investments in new business initiatives
- Established AC Energy Holdings Inc. as platform for investments in power sector, and assembled 180MW of capacity across hydro, wind and thermal technologies.
- Won the bid for the Daang Hari – SLEX Link Road Project, the first project rolled out under the PPP program
- Repurchased 5.5 million shares under its ₱10 billion buyback program

1.0% 5-YEAR AVERAGE NET INCOME GROWTH

11.2% 5-YEAR AVERAGE RETURN ON EQUITY

-1.2% 5-YEAR TSR CAGR



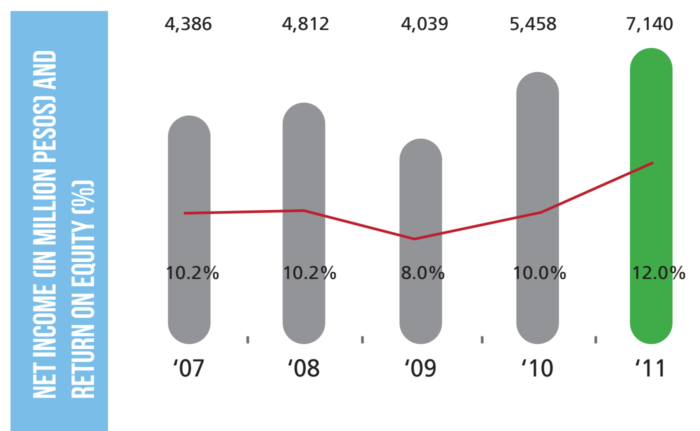


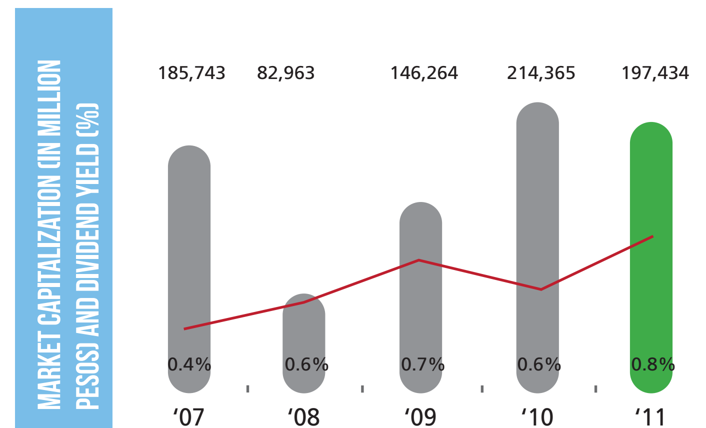
- All-time high consolidated revenues and net income of ₱44.2 billion and ₱7.1 billion respectively
- Doubled last year's residential unit launches to 20,613 with corresponding record take-up and sales booking across all brands
- Maiden offering in the socialized housing segment via *BellaVita* in Cavite
- Significant improvement in the Hotels and Resorts business largely due to the impact of consolidation of the *El Nido Resorts* operations in Palawan
- Capital expenditure reached a record ₱29.9 billion

14.6% 5-YEAR AVERAGE NET INCOME GROWTH

10.1% 5-YEAR AVERAGE RETURN ON EQUITY

4.2% 5-YEAR TSR CAGR



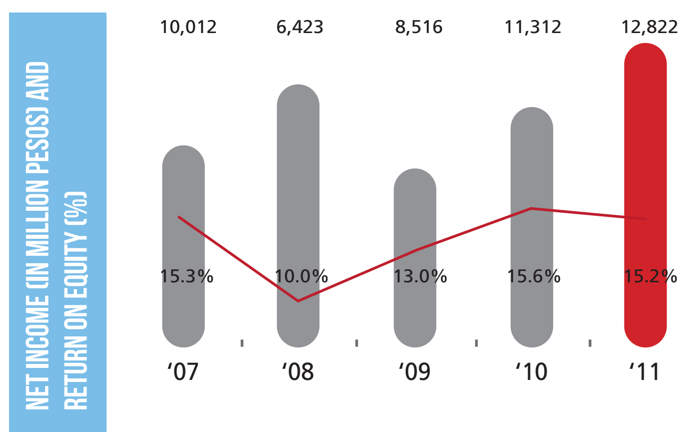


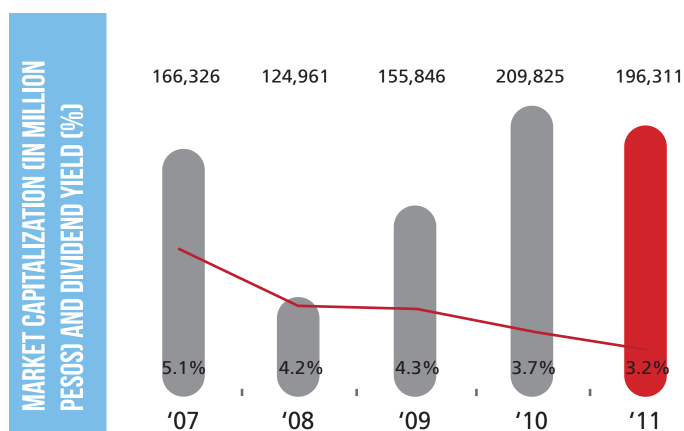
- Net income growth of 13.4% to ₱12.8 billion, with an ROE of 15.2%
- Exceeded goal of 5 million customer base
- Improved loan to deposit ratio from 54% to 68%
- Rolled out additional *BPI Express Assist* machines to 400 more branches
- Launched *ExpressLink Mobile*, the first mobile facility in the Philippines designed for business users
- Completed the acquisition of ING Investment Management Manila in March 2011
- Awarded Hall of Fame for *Best Respondent on Overseas Filipino Remittances* by the Bangko Sentral ng Pilipinas
- Released the results of the study on *Climate Risk Adaptation*, a project started in 2010 in partnership with World Wide Fund for Nature

10.7% 5-YEAR AVERAGE NET INCOME GROWTH

13.8% 5-YEAR AVERAGE RETURN ON EQUITY

6.3% 5-YEAR TSR CAGR



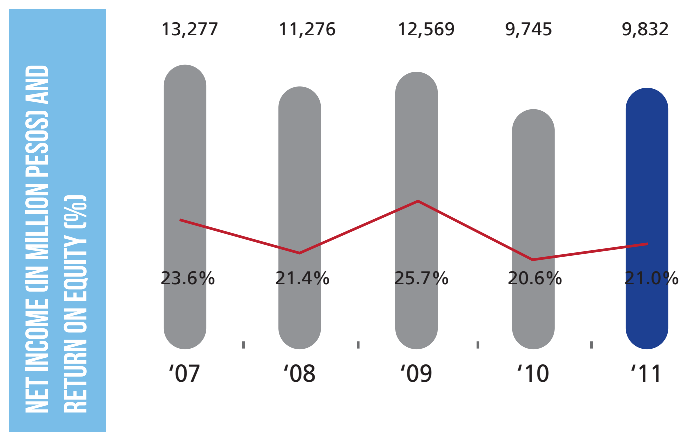


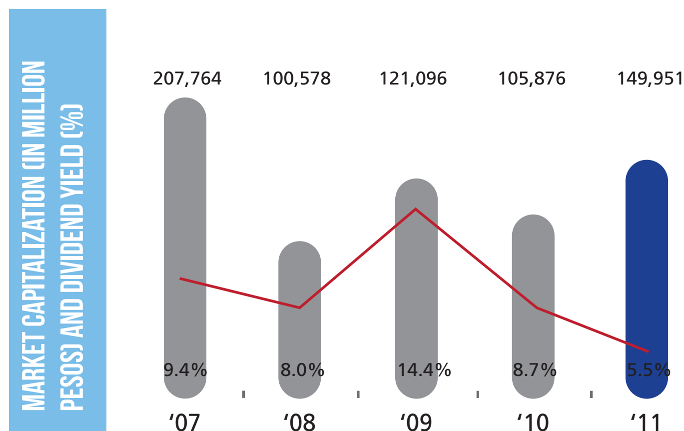
- Core net income growth of 11% to ₱10.0 billion
- All-time high consolidated service revenues of ₱67.8 billion
- Mobile SIM base grew by 13% to 30.0 million
- Postpaid subscribers reached nearly 1.5 million with record net adds of 389,000
- Broadband revenues of ₱7.5 billion, 30% higher than last year; subscriber base of 1.4 million, up by 31% year-on-year
- Announced a landmark US$790 million network modernization and IT transformation program

-2.4% 5-YEAR AVERAGE NET INCOME GROWTH

22.5% 5-YEAR AVERAGE RETURN ON EQUITY

5.7% 5-YEAR TSR CAGR





- Net income growth of 7.3% to ₱4.3 billion
- Billed volume growth of 1.0% year-on-year
- Non-revenue water of 11.2%
- Acquired 49.0% ownership of Thu Duc Water BOO in Vietnam
- Acquired 100.0% of Clark Water Corporation
- Recognized as the first Filipino company recipient of the Asian Human Capital Award for its outstanding practices in Human Resource

- Revenues up 40% to US$575.5 million
- China operations increased turnkey business
- Expanded global footprint with the acquisition of factories in Eastern Europe and Mexico
- Prepared Jiaxing facility for more automotive business as well as for manufacture of solar panels
- Positive cash balance of US$54.1 million at year-end

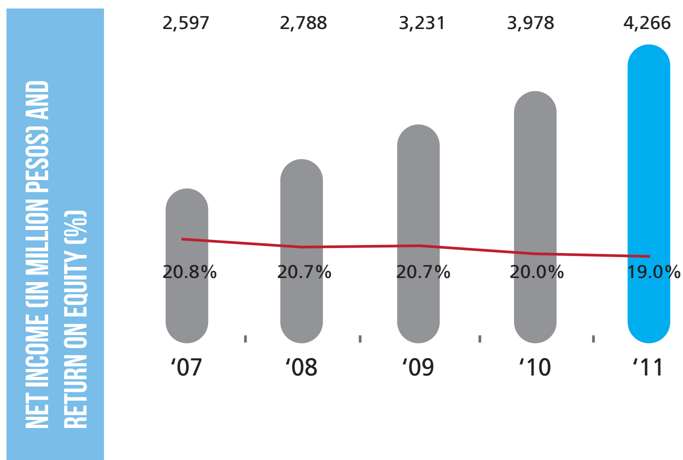
12.5% 5-YEAR AVERAGE NET INCOME GROWTH

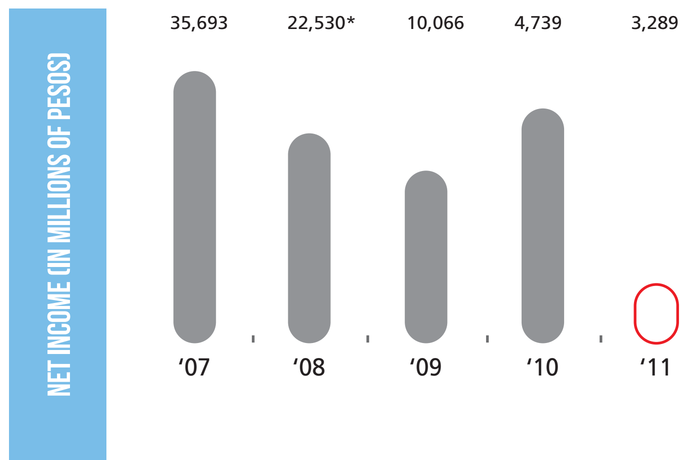
20.2% 5-YEAR AVERAGE RETURN ON EQUITY

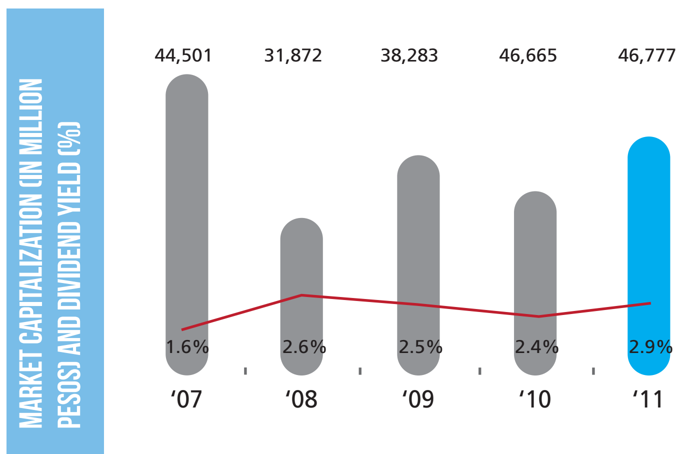
17.9% 5-YEAR TSR CAGR

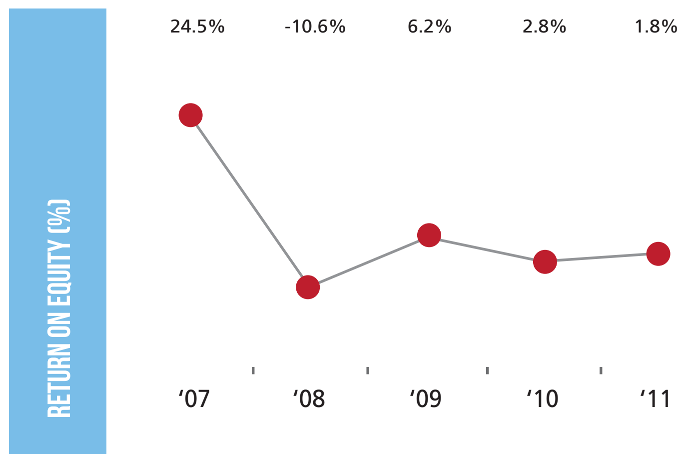
9.1% 5-YEAR AVERAGE NET INCOME GROWTH

5.0% 5-YEAR AVERAGE RETURN ON EQUITY









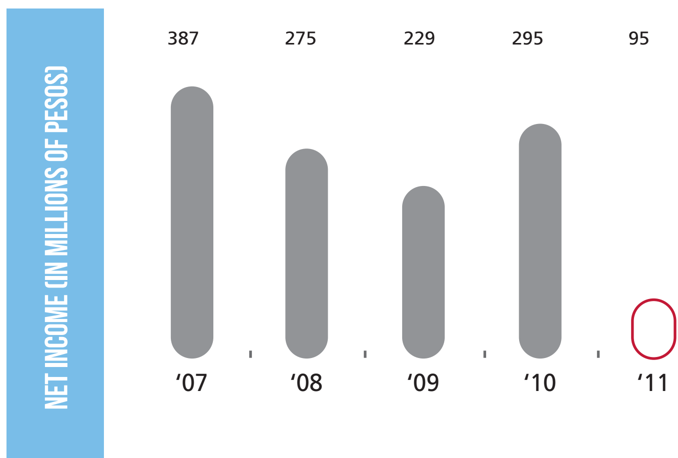
Live*it*

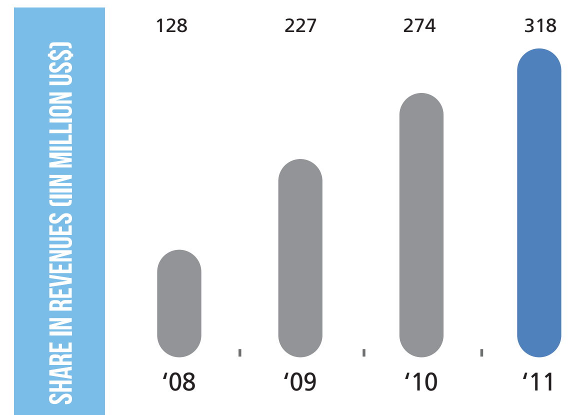
- Net income of ₱95 million, down 68% primarily attributable to lower sales volume due to supply disruptions
- Honda and Isuzu had a combined market share of 13% of total industry sales
- Ayala's Honda dealerships accounted for 47% of total Honda network sales
- Ayala's Isuzu dealerships cornered 31% of total Isuzu network sales

-7.4% 5-YEAR AVERAGE NET INCOME GROWTH

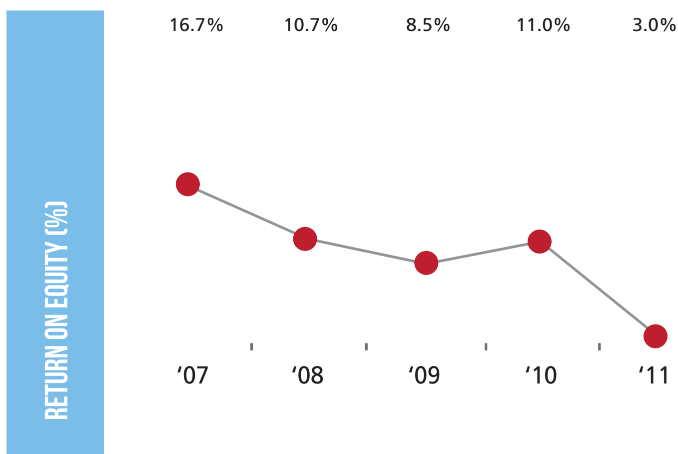
10.0% 5-YEAR AVERAGE RETURN ON EQUITY

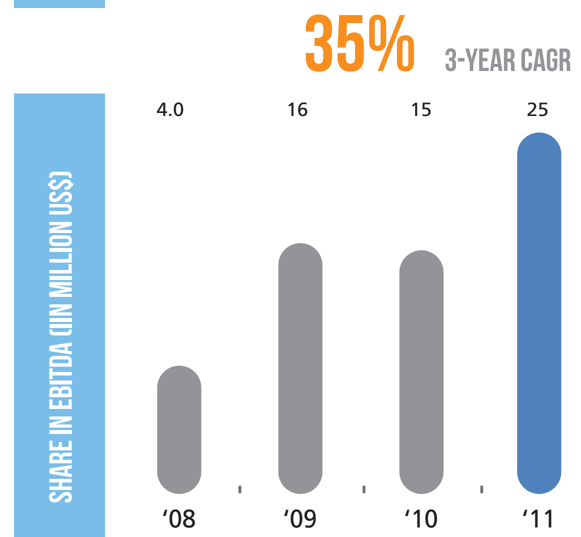
- Share of revenues of US$318 million, up 16%, and share of EBITDA of US$25 million, up 63%
- Stream achieved 10% improvement in employee satisfaction scores, 20% gains in client satisfaction, and almost 30% growth in EBITDA
- Integreon appointed Robert Gogel as CEO, with over 35 years of experience in global outsourcing, technology and consulting services
- Affinity Express was named to the *Global Services 100* list of leading outsourcers for the second year in a row
- HRMall acquired IQBackoffice, a provider of outsourced Finance and Accounting services to U.S. middle market companies





35% 3-YEAR CAGR



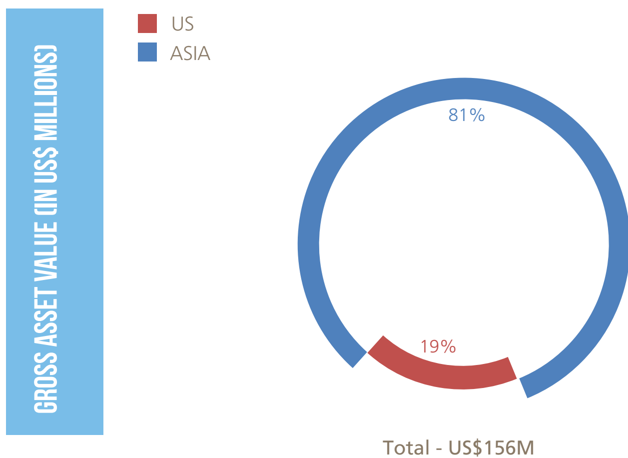


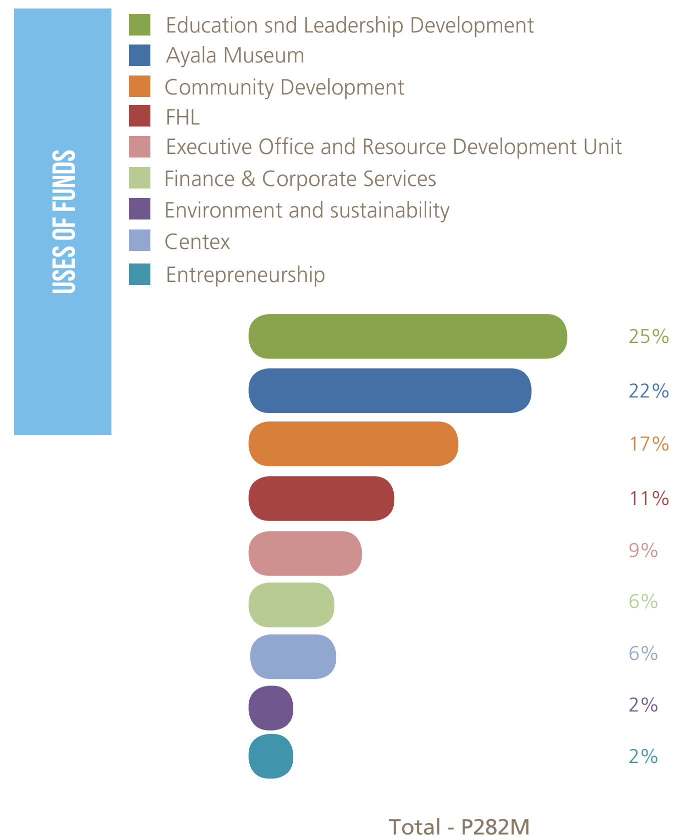
82% 3-YEAR CAGR

AG Holdings

- Completed exchange in ownership in ARCH Management and ARCH GP with The Rohatyn Group (TRG) Management and TRG Allocation interests
- After completing the exchange of ownership interests in ARCH Capital for an additional stake in TRG, AG Holdings committed to be an anchor investor in ARCH Capital – TRG Asian Real Estate Fund
- U.S. subsidiary saw continued progress in sales and leasing activities at its various projects as well as the completion of its condominium project
- *Seasons Marketplace*, its retail project in Northern California, achieved 97% lease-out rate

- Named project lead for *TEN Moves*, a multi-sector initiative that aims to build 10,000 public school classrooms in the country.
- Filipinas Heritage Library's *Our Library* completed three libraries for schools in Angeles, Pampanga and at *CENTEX* Tondo Campus
- The Ayala Museum launched the *Philippine Ancestral Gold* book, a companion catalogue of the museum's *Gold of Ancestors* exhibit
- Collected over 130 tons of recyclable materials under its *Solid Waste Management Program*
- Philippine Development Foundation established a *Superfund for Science and Engineering Scholarship*





FINANCIAL HIGHLIGHTS

	2011	2010	2009	2008
FOR THE YEAR (in million pesos)				
Revenues	107,532	98,071	76,294	79,109
Net Income Attributable to Equity Holders	9,395	11,161	8,154	8,109
Cash Dividends to Common Shares	2,124	1,946	1,994	1,989
Cash Dividends to Equity Preferred Shares	554	944	2,026	549
Stock Dividends	4,842	-	-	4,139
Stock Dividends (%)	20%	-	-	20%
AT YEAR END (in million pesos)				
Total Assets	357,627	315,588	232,149	220,188
Cash and Cash Equivalents	53,577	53,143	45,657	42,886
Short-Term Investments	1,613	3,994	4,561	1,009
Total Borrowings	106,717	82,836	56,523	54,484
Equity Attributable to Equity Holders	107,044	107,541	102,260	97,311
PER SHARE (in pesos)				
Earnings - Basic 1/	14.53	20.56	14.23	15.22
Earnings - Diluted 1/	14.43	20.47	14.19	15.17
Book Value of Common Shares 1/	175.13	197.24	181.73	172.26
Cash Dividends to Common Shares	4.00	4.00	4.00	4.00
FINANCIAL RATIOS				
Current Ratio	1.78	1.89	2.56	2.52
Debt-to-Equity Ratio	1.00	0.77	0.55	0.56

CONSOLIDATED FINANCIAL HIGHLIGHTS

	AYALA CORPORATION					AYALA LAND				
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
FOR THE YEAR (in million pesos)										
Revenues	107,532	98,071	76,294	79,109	78,767	44,206	37,814	30,455	33,749	25,707
Net Income Attributable to Equity Holders	9,395	11,161	8,154	8,109	16,257	7,140	5,458	4,039	4,812	4,386
Cash Dividends to Common Shares	2,124	1,946	1,994	1,989	3,312	1,911	1,211	780	780	782
Cash Dividends to Equity Preferred Shares	554	944	2,026	549	549	60	60	60	66	-
Stock Dividends	4,842	-	-	4,139	3,450	-	-	-	-	2,172
Stock Dividends (%)	20%	-	-	20%	20%	-	-	-	-	20%
AT YEAR END (in million pesos)										
Total Assets	357,627	315,588	232,149	220,188	196,131	154,619	121,675	107,742	100,453	82,981
Cash and Cash Equivalents	53,577	53,143	45,657	42,886	38,836	24,603	18,019	10,529	12,655	11,272
Short-Term Investments	1,613	3,994	4,561	1,009	3,688	192	1,434	4,561	1,009	2,036
Total Borrowings	106,717	82,836	56,523	54,484	50,032	34,531	20,971	18,812	16,752	10,139
Equity Attributable to Equity Holders	107,044	107,541	102,260	97,311	86,887	62,357	56,857	52,392	49,028	45,705
PER SHARE (in pesos)										
Earnings - Basic 2/	14.53	17.13	11.86	12.68	26.35	0.55	0.41	0.31	0.36	0.34
Earnings - Diluted 2/	14.43	17.01	11.77	12.60	26.19	0.55	0.41	0.31	0.36	0.33
Book Value of Common Shares 2/	175.13	164.37	151.44	143.55	135.99	4.68	4.26	3.93	3.68	3.41
Cash Dividends to Common Shares	4.00	4.00	4.00	4.00	8.00	0.15	0.09	0.06	0.06	0.06
FINANCIAL RATIOS										
Current Ratio	1.78	1.89	2.56	2.52	1.92	1.65	1.67	1.95	1.89	1.65
Debt-to-Equity Ratio	1.00	0.77	0.55	0.56	0.58	0.55	0.37	0.36	0.34	0.22

BPI					GLOBE					MANILA WATER				
2011	2010	2009	2008	2007	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
41,758	38,407	34,395	29,784	32,554	71,564	65,548	63,861	64,818	65,509	12,004	11,013	9,533	8,914	7,332
12,822	11,312	8,516	6,423	10,012	9,832	9,745	12,569	11,276	13,277	4,266	3,978	3,231	2,788	2,597
6,401	6,123	5,844	5,842	7,573	8,206	10,588	15,087	16,542	15,339	1,141	934	811	787	605
-	-	-	-	-	81	-	50	49	65	264	224	200	180	132
-	-	-	5,409	-	-	-	-	-	-		-	-	-	-
-	-	-	20%	-	-	-	-	-	-		-	-	-	-
842,616	878,146	724,420	666,612	637,285	130,839	130,628	127,644	119,743	116,621	60,897	48,621	43,758	36,368	27,942
106,154	146,638	81,524	70,788	86,121	5,159	5,869	5,940	5,782	6,191	5,235	2,413	4,038	3,989	1,537
86,140	123,972	124,962	98,228	112,758	658	-	3	-	2,850	658	1,546	3,724	3,368	1,388
25,853	31,868	38,942	16,430	6,678	48,679	50,371	47,477	40,588	30,373	23,268	14,134	14,361	13,352	6,236
89,152	81,031	66,798	62,934	70,011	48,428	46,869	47,709	50,092	55,417	22,637	19,815	16,817	14,458	12,479
3.61	3.38	2.62	1.98	3.09	74.02	73.29	94.59	84.75	100.07	1.74	1.62	1.31	1.13	1.06
3.61	3.38	2.62	1.98	3.09	73.77	73.12	94.31	84.61	99.58	1.73	1.62	1.31	1.13	1.06
25.07	22.78	20.56	19.39	25.89	359.91	348.15	354.50	372.52	412.78	10.67	9.31	7.92	6.70	5.88
1.80	1.80	1.80	1.80	2.80	62.00	80.00	114.00	125.00	116.00	0.56	0.46	0.40	0.35	0.30
-	-	-	-	-	0.60	0.61	0.55	0.52	0.68	1.24	1.09	1.76	2.03	0.93
-	-	-	-	-	1.01	1.07	1.00	0.81	0.55	1.03	0.71	0.85	0.92	0.51

CHAIRMAN'S MESSAGE

Fellow Shareholders:

The Philippine economy remained resilient in 2011, despite the weak global economic environment. Domestic consumption continued to drive the economy, underpinned by rising Filipino expatriate remittances, a benign inflationary environment, and low interest rates. These variables fuelled domestic liquidity and credit expansion, supporting the growth of businesses across various sectors of the economy.

This positive operating environment benefitted our core businesses—Ayala Land, Bank of the Philippine Islands, Globe Telecom, and Manila Water—given their respective industry positions as Philippine-centric businesses with leading positions in the market. These core businesses, combined, achieved record earnings in 2011 and continued to contribute to our goal of achieving double-digit growth in consolidated earnings. Over the period 2006 to 2010, our consolidated net income grew by an average of 14%. In 2011, while reported net income declined to ₱9.4 billion from ₱11.2 billion, core net income which excludes the extraordinary gains realized this year and the year prior, grew by 16%.

We see our core domestic businesses continuing to be the main drivers of earnings growth and value in the near future. They each have aggressive growth plans that capture opportunities presented by an ever-growing, and still largely underserved and untapped, domestic consumer market. They are expanding into new customer segments, redefining products and services, and exploring new geographies where they can replicate their business models around the Philippines or overseas, as in the case of Manila Water.

Our international businesses in electronics manufacturing and business process outsourcing have both built sufficient scale in recent years to create their own momentum for growth. This enabled us to take further steps in establishing a global footprint in manufacturing and services and enhance our capabilities to provide a differentiated value proposition for our customers. We are focused on improving profitability as well as revenues in these global businesses.

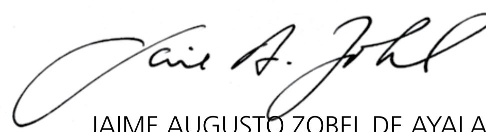
While our current portfolio of businesses has provided significant growth, we also recognize the need to establish new platforms for longer-term value creation. In 2010 we made a decision to invest in new sectors which encouraged private sector investment, particularly in the power and infrastructure industries. These are two vital industry groups that are linked to the country's development goals and future competitiveness. As a business group with significant financial and management resources, a successful track record for building telecom and water infrastructure, and the experience of operating within the framework of public-private sector partnerships (PPP), we believe we are well-positioned to participate in the development of the country's infrastructure needs.

We established AC Energy Holdings Inc. as our holding company for our power investments. Over the next five years we intend to build a portfolio of power generation assets of up to 1,000 megawatts (MW), combining conventional and renewable energy sources. While we recognize the need to develop alternative energy sources, we also have to be responsive to the urgent need for base load capacity as the country faces an imminent tightness in supply. Over the past year alone AC Energy assembled around 180 MW of capacity across thermal, wind, hydro, and solar technologies. We continue to explore opportunities in this space with the intention of investing as much as US$500 million over the next five years for these projects.

Our move to invest in the transport infrastructure space is driven both by our desire to contribute to the nation's development agenda and to execute on our capacity to develop large-scale projects. We see clear opportunities for selective toll road, rail, and airport-related projects under the government's PPP program that can enhance the value proposition of our existing businesses. Last year, we won the bid for the 4-kilometer Daang Hari-South Luzon Expressway link road project, which was the first PPP project under the Aquino administration. This project provides strategic access and convenience to Ayala Land's numerous projects in the Cavite area and serves as a relatively low-risk platform for investment as we pursue similar projects moving forward.

We remain optimistic that the positive macro-economic trends will sustain our growth momentum in the coming year, with increased public sector spending creating greater stimulus for the economy. Under these conditions we have taken an aggressive stance, as a group, to expand our Philippine portfolio. The Ayala group has allotted over ₱90 billion for capital expenditures in 2012 across our key businesses; an increase of 38% from our capital expenditures last year. This will be used primarily for real estate development as we broaden our reach to customers at the base of the economic pyramid, the transformation of Globe's telecom network as we prepare for the future demands of a new era of connectivity, and for investments in water infrastructure as we increase access to this vital service. Our country's future will be dependent on a progressive infrastructure base and we intend to participate in building that capacity across multiple sectors.

In closing, I thank our board of directors, our management team, our business partners, and our fellow shareholders for their continued trust in Ayala's capacity to deliver growth and value for the future. We hope to remain partners with you as we build a platform for sustainable long-term growth and value.



JAIME AUGUSTO ZOBEL DE AYALA

Fellow Shareholders:

Over the past few years the Philippines has enjoyed a very stable macro-economic environment with consistently low inflation and interest rates. This has created conditions supportive of investments and growth. Renewed confidence in the national leadership has also helped improve investor sentiment in the country. This has led the Philippine stock market to be the best performing market in Asia in 2011, reaching even newer highs in early 2012.

These conditions reinforced our earlier conviction on the Philippines' potential to raise its growth trajectory in the coming years. The country's highly consumer-driven economy which benefits from the regular inflow of overseas remittances, its young and expanding population, and the emergence of new industries that are becoming significant drivers of the economy, present great opportunities for business expansion for Ayala.

While the traditional markets we serve continue to grow, there are new sources of growth that can be derived from tapping a large segment of the population that remains underserved, if not unserved. This is increasingly evident as we focus on a strategy of social and economic inclusion in each of our core businesses.

Over the past three years we have embarked on an aggressive growth agenda across our real estate, banking, telecom, and water businesses. These growth imperatives are centered on: 1) expanding into new markets and customer segments; 2) diversifying into new geographies; 3) strengthening our businesses in our traditional markets; and finally, 4) entering new businesses to create a foundation for our long-term growth. In 2011, we moved progressively in each of these growth imperatives and achieved significant milestones across our businesses.

Expanding into New Markets and Customer Segments

Our real estate business, Ayala Land Inc., expanded aggressively across all product segments. Activity levels were unprecedented as the company deployed close to ₱30 billion in capital expenditures in 2011, 49% higher than the prior year. It launched a total

of 67 projects and doubled the number of residential unit launches to 20,613, once again setting a new all-time high. Ayala Land continues to pursue a broad-based approach to its expansion along various product lines and across different market segments of the economic pyramid.

In the residential business, Ayala Land entered the socialized housing segment where there is a significant housing backlog. Its maiden offering under the *BellaVita* brand is anchored on a value proposition of integrating comfortable living and livelihood. *BellaVita* brings Ayala Land's residential brands to a total of five and completes a range of residential product offerings that cover a significant segment of the socio-economic pyramid.

Its commercial leasing business is also opening in new markets and locations as it aims to double mall gross leasable area (GLA) and increase its BPO office portfolio in areas outside Metro Manila. By year-end Ayala Land's leasing portfolio had a total of 1.4 million square meters of GLA.

Ayala Land continues to extend its residential developments and commercial leasing projects into new areas around the country, from Davao, Cagayan de Oro, and Bacolod in the south, to Bataan, Pampanga, and Cabanatuan in the north.

The growing tourism industry in the Philippines also presents opportunities for Ayala Land to build its hotel and resorts portfolio. In 2011, it broke ground for two more *Kukun Hotels*, adding to the two that are already under construction. It is also nearing completion of the Pangulasian Island Resort in Palawan, which will add to its portfolio of award-winning resorts under the *El Nido Resorts* brand.

As a result of the sustained strong take-up of projects across its various products and consistent margin improvements, Ayala Land achieved a record net income of ₱7.1 billion, 31% higher than the prior year, with return on equity at 12%.

Our banking unit, Bank of the Philippine Islands (BPI), is also expanding its customer base. In 2011, it exceeded its goal to increase its customer base to 5 million. It is intensifying its presence in the middle market and consumer segment, while continuing to enhance the strength of its franchise in the top-tier corporate and high-net worth clients. In 2011, BPI increased its loans to the micro, small and medium enterprises segment by 20% to ₱71.5 billion with double-digit growth registered across these sectors.

BPI implemented the "community banking" concept through BPI Globe BanKO, a pioneering joint venture with Globe and Ayala Corporation. BanKO is the first mobile phone-based microfinance savings bank in the country that targets the estimated 72 million people that are still unbanked among the population. With the use of our telecom company's technology platform and by partnering with institutions that have a pervasive presence in low-income communities, BanKO is able to deliver basic banking services in a cost-effective manner to a broad segment of the population that previously had no access to formal banking channels.

With BPI's extensive branch network and ability to attract broad-based deposits, net interest income grew by 7% during the year as it expanded its asset base by ₱48 billion. The bank further improved net interest margins even amidst the low interest rate environment. BPI registered a record net income of ₱12.8 billion in 2011, 13.4% higher than prior year with a return on equity of 15.2%. It was also recognized by the *Alpha Southeast Asia Magazine* in 2011 as the *Best SME Bank* for its innovative products and services geared for the middle market.

Diversifying into New Geographies

Diversifying into new geographies is critical for our water infrastructure business, Manila Water Co. Building on its success in Metro Manila's east zone the company is expanding its growth platform outside the city. Its new businesses in Boracay and Laguna experienced healthy growth on its second year of operations as both contributed positively to group revenues and net income.

In 2011, Manila Water acquired Clark Water in Pampanga and Thu Duc Bulk Water BOO in Ho Chi Minh City, Vietnam. These acquisitions further diversify its presence in new geographies. We believe Clark Water is important in building a presence in a

"We believe that the growth strategy that we are pursuing will translate to sustained earnings momentum for Ayala in the coming years."

fast-growing metropolis outside Metro Manila, while the acquisition of Thu Duc enhances the company's position as a compelling water infrastructure provider in the region.

Water is a critical resource and its reliable supply is vital to the sustainable growth of any nation. Manila Water's proven capability gives it an advantage in participating and expanding its business in the water supply chain. It persists in its efforts to develop new water sources for Manila and the company is in the process of securing the permit to develop the Laguna Lake as an additional water source for the city. It also recently won a bulk water supply project in Cebu. The company spent a total of ₱9.2 billion in capital expenditure in 2011, half of which was allocated for expansion projects. Manila Water posted a record net income of ₱4.3 billion in 2011, 7% higher than prior year.

Strengthening Business in Traditional Markets

Our telecom business, Globe, exhibited a remarkable turnaround as it consistently regained market share over the past year. Its mobile business delivered a strong performance driven by record acquisitions in the postpaid segment and competitive value offers in the prepaid brands. This was encouraging given an environment of peaking penetration rates and price pressure. Its fixed line and broadband business also sustained double-digit revenue growth. As a result, Globe posted all-time high service revenues of ₱67.8 billion, 8% higher than the prior year and ahead of the industry's 1% growth.

Globe is embarking on a massive US$790 million network and IT transformation over the next five years that will dramatically improve network quality and customer experience as well as increase voice and data capacity. This will allow Globe to respond more effectively to the demands of a data-driven telecommunications environment, particularly in this smartphone era. Ultimately, this will further strengthen and solidify Globe's presence in the mobile market and improve its competitiveness following the market's reversion to a two-player industry. The network transformation should also give revenues an uplift and generate savings over the next five years.

With healthy subscriber and revenue growth, Globe posted a net income of ₱9.8 billion in 2011, slightly higher than the prior year. Core net income, however, grew by 11% to ₱10.0 billion. Return on equity, based on reported net income was at 21%.

New Businesses—Planting Seeds for Long-Term Growth

To ensure Ayala's continued growth, we recognize the need to establish a platform today to enhance and secure future sources of growth. In the same manner we built Globe and Manila Water by investing in these businesses a decade ago, we believe we have to plant the seeds today for the future.

We have made significant progress in the past year. In the power sector, we formed South Luzon Thermal Energy Corp., a 50-50 joint venture with Trans-Asia Oil and Development Co. which is a member of the Phinma Group to build and operate a P12-billion 135-MW thermal plant in Calaca, Batangas. This plant is expected to be operational by the end of 2014.

We have also extended our renewable energy portfolio to include run-of-the-river hydro projects in partnership with Sta. Clara International Corp., a company highly focused and experienced in building hydropower infrastructure. There is strong potential to build this portfolio given it has a number of approved service contracts in place. We are conducting pre-development work in selected areas across the country and we are piloting our first mini-hydro project in the Visayas.

These two projects add to our initial investments in Northwind Development Corporation which has a 33-MW wind farm operating in Bangui, Ilocos Norte, and our solar power joint venture with Mitsubishi Corporation under PhilNewEnergy Corp. which is in the process of pre-development work.

In transport infrastructure, we were awarded the first toll road project under the government's PPP program in December 2011. We expect to complete the 4-kilometer Daang Hari-SLEX connector road by 2013. We continue to monitor opportunities in the transport infrastructure sector and we intend to participate in select toll road, rail, and airport projects which we believe will be strategic and value-enhancing for our real estate portfolio.

Outlook

We believe that the growth strategy that we are pursuing will translate to sustained earnings momentum for Ayala in the coming years. We anticipate a strong domestic macro-economic environment. We expect the government's efforts to accelerate the country's infrastructure through public-private partnerships will create further stimulus for economic growth and open new investment opportunities for the Group. Competition, however, will remain intense in the sectors where we participate but we believe we are well-positioned in the market to offer products and services that have a compelling value proposition and are relevant to the needs of a much broader base of customers.

In closing, I thank our management team and staff as well as our business partners for their continued support, our board of directors for their support and guidance and our shareholders for their unwavering trust in the company.

FERNANDO ZOBEL DE AYALA

EXPANDING INTO NEW MARKETS

BROADENING OUR PRODUCT OFFERINGS

Ayala Land is attracting new customers as it offers well-designed, high quality residential products at price points that are affordable for the country's young and emerging households.

Amaia launched 6 new projects in 2011 totaling nearly 7,300 units under three new development concepts: *Amaia Steps, Amaia Skies*, and *Amaia Scapes*. This is expected to double in 2012. *BellaVita's* maiden offering of over 600 units in the socialized housing segment was launched in December 2011.

NUVALI LIVELIHOOD

Ayala Land has been assisting the communities surrounding its developments with various employment and livelihood opportunities.

ECO-FRIENDLY RESORTS

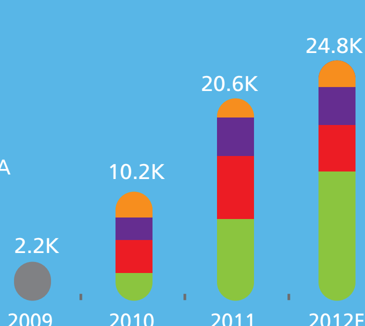
Together with Asian Conservation Foundation, Ayala Lnad installed and continued maintenance of mooring buoys in 21 sites around Bacuit Bay, Palawan, where *El Nido Resorts* are located.

MOVING DOWN THE ECONOMIC PYRAMID

Ayala Land is expanding into a broader market and diversifying its products. It is increasingly moving down the base of the economic pyramid to address the huge domestic housing backlog in a sector in dire need of quality affordable homes. Ayala Land launched the *Amaia* and *BellaVita* residential brands in 2010 and 2011, respectively, precisely to meet the needs of this market at the base of the economic pyramid. This sector comprises nearly 70% of the country's household population. In 2011, Ayala Land launched a total of 20,600 residential units, of which 40% were in the economic and socialized housing segments.

By 2012, about 50% of its planned residential unit launches will be in the economic and socialized housing segments. As the company continues to expand aggressively across the country, these new products are expected to contribute to Ayala Land's platform for sustainable long-term growth.

REDSIDENTIAL UNIT LAUNCHES



₱61B

VALUE OF RESIDENTIAL UNITS LAUNCHED IN 2011

PIONEERING IN COMMUNITY BANKING

BanKO partner outlets bring financial services within reach of the unbanked sector.

FUNDING SUSTAINABLE ENERGY

BPI's Sustainable Energy Finance (SEF) provides loans for energy efficiency projects of SMEs.

EMPOWERING MICRO, SMALL AND MEDIUM ENTERPRISES

Bank of the Philippine Islands (BPI) is expanding in the micro, small and medium enterprise segment. This segment makes up 99% of all registered businesses in the country, generates 63% of jobs and contributes 35% of sales in the manufacturing industry. In 2011, BPI increased credit to this segment by 20% to ₱71.5 billion, with the micro-enterprise segment growing by 40% and medium-size enterprises expanding by 19%.

BPI Globe BanKO, a joint venture with Globe Telecom and Ayala Corporation is the country's first mobile-microfinance bank that promotes financial inclusion. By utilizing mobile technology and establishing community partner outlets, BanKO is able to deliver affordable financial services to a sizable population currently unserved by and out of reach of traditional banks. BanKO customers who previously had no access to financial services now have easy access to BanKO's financial products, which include savings, loans, insurance, load purchase and bills payment through the use of a Globe mobile phone.

By end-2011, BanKO accredited over 1,000 fully operational partner outlets, lent P2.1 billion in loans to microfinance customers, and reached over 400,000 customers from the low-income sectors.

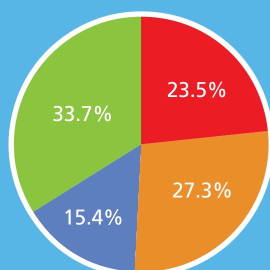
PIONEERING IN FINANCIAL INCLUSION

Through products like the *Ka-Negosyo* Business Loans, BPI creates innovative financing packages to meet the needs of every small and micro entrepreneur. In addition, BPI in partnership with the International Finance Corporation has also expanded its *Sustainable Energy Finance* program for sustainable energy loans that benefit the SME sector in multiple industries across the country.

For these efforts, BPI was recognized by the *Alpha Southeast Asia Magazine* as the Best SME Bank in 2011.

LOAN BREAKDOWN PER SEGMENT

CONSUMER
TOP-TIER
MIDDLE MARKET
SME



20%

GROWTH IN NET LOAN PORTFOLIO TO ₱454 B

DIVERSIFYING GEOGRAPHIES

INCREASING PRESENCE OVERSEAS

Thu Duc Water BOO Corporation is the largest private bulk water supply company in southern Vietnam serving two new urban and three suburban districts in Ho Chi Minh City. Manila Water's acquisition of a 49% stake in the company strengthens its presence in Vietnam, one of its key focus areas for business expansion. Currently, Manila Water has an on-going leakage reduction project in Zone 1 of Ho Chi Minh City under Saigon Water Corporation (SAWACO). The company is presently exploring projects in other zones.

EXPANDING TO CENTRAL LUZON

Manila Water acquired 100% of Clark Water Corporation (CWC), the water and wastewater concessionaire of Clark Freeport Zone (CFZ) located in Angeles, Pampanga. Manila Water views this as a strategic entry into another promising market, given the projected urbanization in the area.

PROTECTING THE SHORES OF BORACAY

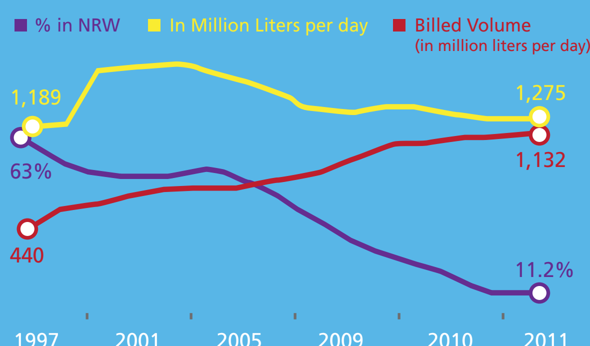
The rehabiliation and upgrade of Boracay Island Water's wastewater facilities have resulted to the doubling of the wastewater treatment capacity. Currently at 6.5 million liters per day (mld), Boracay Island Water will significantly contribute to the reversal of the degradation of the island's water shore quality.

ENHANCING GROWTH IN THE EAST ZONE

As the East Zone enters a new phase of growth, Manila Water will continue to deliver quality service to customers amidst various market conditions and challenges. Network expansion will remain one of the growth drivers of the company with an additional one million people expected to be connected to the water network within the next five years. Continued economic development and the need to support the requirements of an increasing population have also sustained demand for new commercial and mixed-use developments. Manila Water also embarked on new initiatives to deeply understand the diverse needs of key customers in the East Zone and develop value propositions that can help build longer-term partnerships and ensure service sustainability.

Manila Water is also preparing for the Rate Rebasing in 2013 with the guiding theme of "*Partnering towards Sustainability*". This will serve as the blueprint of the business plan for the East Zone for the next five years. The proposed investment plan will focus on four pillars: Service Continuity, Water Security, Service Accessibility, and Environmental Sustainability.

NRW, WATER SUPPLY AND BILLED VOLUME



₱9.2B

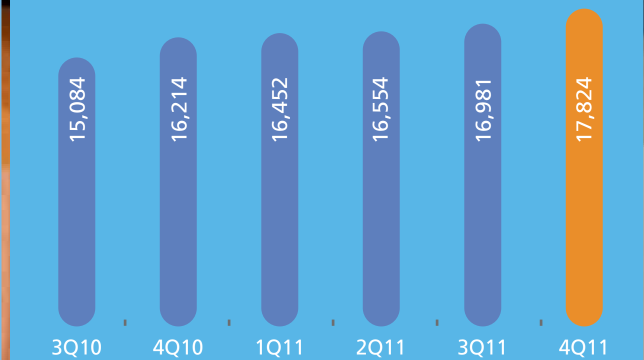
IN CAPEX INVESTED IN 2011

STRENGTHENING THE CORE

₱67.8B

SERVICE REVENUES AT AN ALL-TIME HIGH AND OUTPERFORMING INDUSTRY GROWTH

QUARTERLY CONSOLIDATED REVENUES
In Million Pesos



NETWORK MODERNIZATION FOR IMPROVED CUSTOMER EXPERIENCE AND SUSTAINED GROWTH

As telecommunications become more pervasive, Globe Telecom is modernizing its infrastructure to respond to the challenges of globalization, the explosion of data traffic, and the demands of a smartphone era. Globe is investing up to US$790 million over the next five years to support the sector's continued growth and development and significantly improve its cost structure.

In 2011, Globe unveiled a massive network modernization and information technology transformation program that cuts across all network elements, across all layers, and across all regions of the country. Globe's network transformation program will result in dramatic improvements in call quality, SMS delivery times, speed, coverage, and network availability and reliability. It will also reduce operating and maintenance costs and result in improved energy efficiency as it adopts more green solutions that reduce carbon footprint and energy consumption.

DELIVERING RELEVANT AND PERSONALIZED SERVICES

Globe introduced new products and services for its core mobile and broadband services. Its customizable postpaid plan was popular among subscribers while its launch of the new *Apple™ iPhone 4S* in December was its biggest and most successful ever with subscriber take-up exceeding forecast. *Tattoo* broadband services also introduced new prepaid sticks and enhanced promos that offered different browsing speeds to suit the varied needs of subscribers.

Globe provides a differentiated customer experience through its 69 new stores which opened in Metro Manila and in key cities across the country. These stores offer an integrated retail environment, giving customers total shopping experience.

CASH FOR WORK

Globe's mobile cash-transfer service is used to deliver immediate assistance for humanitarian services as part of the *Cash-for-Work* endeavor of the United Nations World Food Programme.

EMPOWERMENT THROUGH EDUCATION

Globe's *Internet in Schools* program connected more than 2,000 public schools to the Internet and its *Global Filipino Teachers* program enhanced teachers' knowledge through training.

INVESTING IN NEW BUSINESSES

PLANTING THE SEEDS FOR FUTURE GROWTH

As Ayala invests in new growth platforms, it recognizes the need to support public infrastructure. This is imperative for any country's growth and an important foundation for businesses to flourish in the long term. Ayala is uniquely positioned to deploy resources and risk capital to help build capacity and accelerate the country's infrastructure development.

In 2011, Ayala committed ₱7 billion in capital as it began to carve a niche in the power generation and transport infrastructure sectors. These are two highly important sectors for the Philippine economy that present investment opportunities under well-established frameworks that enable private sector participation.

Ayala has the capacity to invest and will build its portfolio in both these sectors over the next five years. These not only create a steady source of future earnings and value for Ayala, but also enhance the value proposition of its existing businesses while contributing to national growth and development.

AYALA WINS FIRST PPP PROJECT

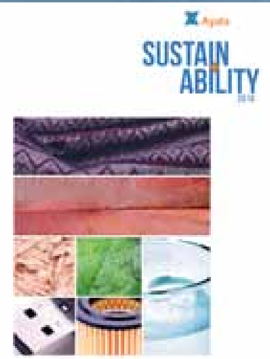
In December 2011, Ayala won the bid for the first public-private partnership project under the Aquino government. This is a 30-year concession for the construction, operation and maintenance of a 4-kilometer road that will link Daang Hari Road in Cavite to the South Luzon Expressway (SLEX). Daang Hari is a major arterial road connecting rapidly expanding towns in Cavite to Metro Manila. This project provides opportunities for synergies, especially with Ayala Land Inc., as it improves access to its residential and commercial projects in this fast-growing part of the metropolis. Ayala engaged Getinsa, a Spanish engineering company with deep expertise in infrastructure projects globally, to conduct the detailed design and engineering. Ayala expects to begin road construction in 2012.

THERMAL ENERGY

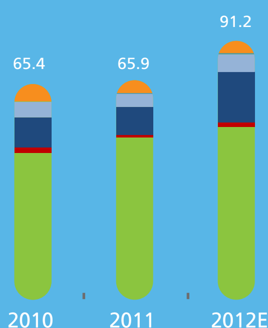
Joint venture partners in South Luzon Thermal Energy Corporation lead the groundbreaking ceremony for the construction of a circulating fluidized bed thermal plant in Calaca, Batangas.

SUSTAINABILITY REPORTING

In 2011, Ayala published its 2nd conglomerate-wide sustainability report with a self-declared rating of "B" using the Global Reporting Initiative (GRI) G3 Guidelines.



CAPITAL EXPENDITURE
In Billion Pesos



US $1B

AMOUNT AYALA IS PREPARED TO INVEST OVER THE NEXT FIVE YEARS FOR POWER AND TRANSPORT INFRASTRUCTURE PROJECTS

SUSTAINABLE DEVELOPMENT IN AYALA

COLLABORATING FOR COLLECTIVE IMPACT

"Creating shared value is an ambitious goal, but the challenges that our company and our country face at this time are numerous. We have no choice but to meet these challenges head on, with imagination and rigor, while aiming to be a positive contributor to the broader goals of civil society."

Jaime Augusto Zobel de Ayala

Practicing sustainability as a conglomerate, Ayala contributes to national development goals with solutions that we scale up for more immediate, sizable benefits.

In 2011, in our second conglomerate sustainability report Sustain+Ability, we reported a wider adoption of the triple bottom line across our subsidiaries with the addition of Integrated Micro-Electronics Inc. and Ayala Automotive Holdings Corporation, alongside the improved performance of sustainability pioneers Manila Water and Ayala Land. Year-on-year monitoring within our companies also improved, as did comparability, so that we were able to disclose results of 30 indicators of the Global Reporting Initiative across eight companies.

As our companies mature into the practice, we commit to responsible growth, managing our impact on the environment and creating shared value for the broadest possible base of stakeholders.

Our Management Approach

Last year, we disclosed Ayala's overall approach to managing its economic, environmental, and social responsibility issues. Below are the general principles that provide context to our strategies and drive individual company efforts.

- **Sustaining and Sharing Value.** We believe that Ayala is a major economic driver in the country, thus

TECH TO TEACH

Globe Telecom uses mobile and Internet technology to enhance the educational experience of students and teachers.

BUILDING GREEN

Ayala Land's *One Evotech* in Nuvali is the first Philippine office building to receive a LEED Silver Certification from the United States Green Building Council.

Ayala Foundation and its partners use technology to foster cultural respect between Muslim and Christian youth

our companies' long-term profitability is closely linked with the well being of the country. We improve our economic value when we meet the needs of a larger community in ways that encourage overall development.

- **Greening and Growing Our Business.** We promote sustainability amidst progress. Climate change is a legitimate business risk, thus we commit to resource stewardship, solid waste management, impact mitigation, supplier engagement, and regulatory compliance to reduce our collective carbon footprint even as portfolios diversify and businesses continue to grow.

- **Changing the Social Landscape.** We make a difference in society by practicing strategic corporate social responsibility, creating sustainable solutions to benefit the bottom of the pyramid. Throughout our activities, we abide by the principle of "doing the right thing," conducting ourselves with integrity, transparency, and accountability. We adhere to the ideals of justice and fairness in all dealings with our employees, customers, contractors, and communities.

Our Sustainability Stories

To Ayala, the country's development challenges serve as catalysts for innovation. Our companies made headway into their respective objectives, innovating on products and services, strengthening policies, engaging the supply chain, raising the bar on performance targets, and broadening exposure to new markets particularly in the low-income segments. A more focused application of the sustainability principles vis-à-vis the goals and strategies of each subsidiary marked the reporting period. We shared best practices as various initiatives evolved according to each company's vision and context.

Ayala Land's **One Evotech** in NUVALI received the Leadership in Energy and Environmental Design (LEED) Silver Certification from the United States Green Building Council (USGBC) in 2010. As the first office building in the country to be awarded the prestigious award, **One Evotech** has green building features such as an energy efficient district cooling facility; occupant-controlled air-conditioning to conserve energy; water recycling for toilet flushing, irrigation, and cooling; optimized building design; the use of low-volatile organic compound materials; and methods to ensure good indoor air quality. Ayala Land also participated in discussions on green policy measures to shape relevant national and local regulations. It pushed for the widespread use of the Philippines' green rating system BERDE by adopting the standard in eight other buildings.

BPI led the Philippine banking industry in the financing of investments in energy efficiency and renewable energy. Under the *Sustainable Energy Finance (SEF)* program of the International Finance Corporation, BPI conducted 119 energy walkthrough-audits to assist business owners

FINANCING FOR A BETTER WORLD

BPI invests in sustainable energy programs, including the country's first green hotel in Puerto Princesa, Palawan.

A DRINK FROM EVERY TAP

Manila Water ensures water supply security amidst climate change.

identify ways to improve their profitability while engaging in climate change mitigation through less carbon-intensive operations. These companies have potential *SEF* opportunities of ₱17 billion, and BPI completed a total of 22 projects under the program at the end of 2010, approving *SEF* loans worth ₱2 billion. *SEF*-financed projects included the purchase of energy-efficient equipment for carton manufacturing, solar absorption cooling system for a hospital, and the financing of the first green hotel and spa in Palawan among others.

"Implicit in our undertakings are creativity, innovation, and commitment to sustainability. As these benefit both our clients and our businesses, we expect their success to last for the long term."

Fernando Zobel de Ayala

Globe's *Internet-in-Schools* program has connected a total of 2,012 public elementary and high schools all over the country as of 2010. For almost a decade now, Globe has been providing public schools with access to the latest e-learning tools so that teachers can design efficient and up-to-date working and learning processes regardless of their location. Globe also created *Global Filipino Teachers (GFT)*, a holistic teacher-enhancement program to help educators adapt to their new ICT learning environment. In 2010, *GFT* expanded its coverage in Luzon, Western Visayas, Eastern Visayas, and Cagayan de Oro, training 247 *GFTs* all over the country. *Global Filipino Schools*, a competency-building initiative that envisions ICT-excellent public schools in the regions, was also launched in December 2010, piloting in Palo National High School in Leyte and Bilar National High School in Bohol.

Manila Water continued to uphold the principles of its Climate Change policy to ensure environmental sustainability and business continuity amidst disaster. Customers enjoyed uninterrupted water service during *El Niño* because of the company's very efficient network. Non-revenue water was also significantly reduced from 1997's 63% to a new low of 11% by end-2010, down by almost three percentage points from the end-2009 level of 15.8%. Each percentage point reduction means an additional supply of 13 million liters per day. The company also fine tuned its disaster-preparedness program and re-evaluated the resilience of its facilities. Through its long-running *Tubig Para Sa Barangay*, it addressed the water security and water quality issues of more than 1.7 million residents in low-income communities, while minimizing company losses due to leakage and pilferage.

AN OASIS IN THE CITY

The Ayala Triangle Gardens in Makati City fosters a unique outdoor community experience using elements of sustainable design.

COLLECTIVE EFFORT

Employees participate in various energy and environmental conservation programs in the Ayala group.

IMI engaged in responsible manufacturing as it established *IMI Energy Solutions*, a strategic partnership with California-based Renewable Energy Test Center, to engage in the manufacture of solar panels and other related technologies. IMI also implemented the Hazardous Substance Process Management System, which restricts the use of hazardous and controlled substances in its products and complies with all applicable environmental laws and regulations. To promote green procurement, IMI worked with suppliers to check and validate the content of hazardous chemicals and choose the best and fully compliant items for its products. It developed the Hazardous Substance Process Management (HSPM) Database, which stores all the information necessary to analyze raw materials in compliance with its HSPM, and a system for compliance with the Europe's Registration, Evaluation, Authorization and Restriction of Chemical Substances.

Ayala Automotive engaged with its network of Honda and Isuzu dealers to identify the most pressing sustainability issues and common to all was proper waste management. Adhering to local and national government regulations, our network developed a waste management policy to limit the dealerships' impact on the environment. Ayala Automotive measured, evaluated, and improved on day-to-day operations according to these regulations. It reviewed and addressed how dealers conducted their segregation, collection, storage, and waste disposal. It also contracted government-accredited vendors who follow rigid waste-handling procedures for various categories, especially those identified as hazardous.

Ayala Foundation Inc. (AFI) spearheaded the conglomerate's disaster management efforts as a member of *Our Lighthouse Alliance*, which implements a community-based disaster preparedness project called *Noah's Ark*. The project consists of the construction of an evacuation center; retrofitting of schools and other public places into suitable evacuation areas; capacity building of vulnerable communities to prepare for flooding; risk-mapping activities to delineate areas of high-, moderate-, and low-risk areas; contingency planning and institutionalization of a local, real-time Early Warning System on floods; and simulation exercises and drills. Ayala, through AFI, provided the ₱1.8 million funding. In 2010, the project was piloted in Barangay Malanday in Marikina City, where 2,079 families were affected by *Typhoon Ondoy*. Barangay Guitnang Bayan 1 in Rizal was identified as the next *Noah's Ark* project site.

Our Commitment to Sustainability

Ayala commits to sustainability because it a powerful driver of national development. All companies will continue to pursue profitability mindful of managing the impact of their growth on the environment and society through adaptation and mitigation measures, conservation and efficiency improvements, equitable and inclusive development, and stakeholder and supplier engagement. More companies will be included in the reporting and more performance indicators will be applied to improve the materiality, comparability, accuracy, and robustness of our data. Ayala also makes it a priority to be responsive to stakeholders' inputs and expectations on sustainability. We believe these commitments allow Ayala to truly deliver on its promise to be a transformational force in nation building.

RESPONSIBLE MANUFACTURING

Integrated Micro-Electronics Inc. practices responsible manufacturing for the protection of the environment and the health and safety of its skilled workers.

BREATHE EASY

Ayala Automotive promotes proper solid waste management in its Honda and Isuzu dealerships.

REAL ESTATE

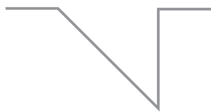
Ayala Land achieved another banner year in 2011. Net income and revenues reached a record ₱7.1 billion and ₱44.2 billion, respectively, 31% higher than net income the previous year and 17% higher than revenues in 2010. This yielded a return on equity of 12%, significantly higher than when it started its aggressive 5-year growth plan in 2010.

Capital expenditures reached an all-time high of ₱30 billion, 50% higher than the previous record of ₱20 billion in 2010 as it launched 67 projects in all its business lines, for new segments of the market, and in new areas across the country.

Revenues from the residential development business grew by 29% in 2011 to ₱24 billion. The company launched 20,613 residential units in 2011, double the launches in 2010. Offerings extended to the southern areas of the country like Cebu, Davao, Cagayan de Oro, and Bacolod, as well as to the north in Bataan, Pampanga, and Cabanatuan. As it expands into new markets and geographies around the country, Ayala Land also continues to build around its strategic landbank areas in Makati, Bonifacio Global City, and NUVALI.

Its latest breakthrough in the residential business last year was its entry into the socialized housing segment under the *BellaVita* brand. There remains a huge housing backlog in this segment of the market. *BellaVita's* maiden project in Cavite which is anchored on its value proposition of

"Real estate is key to economic growth. We will continue to build more homes and excellent venues for work and leisure."



CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

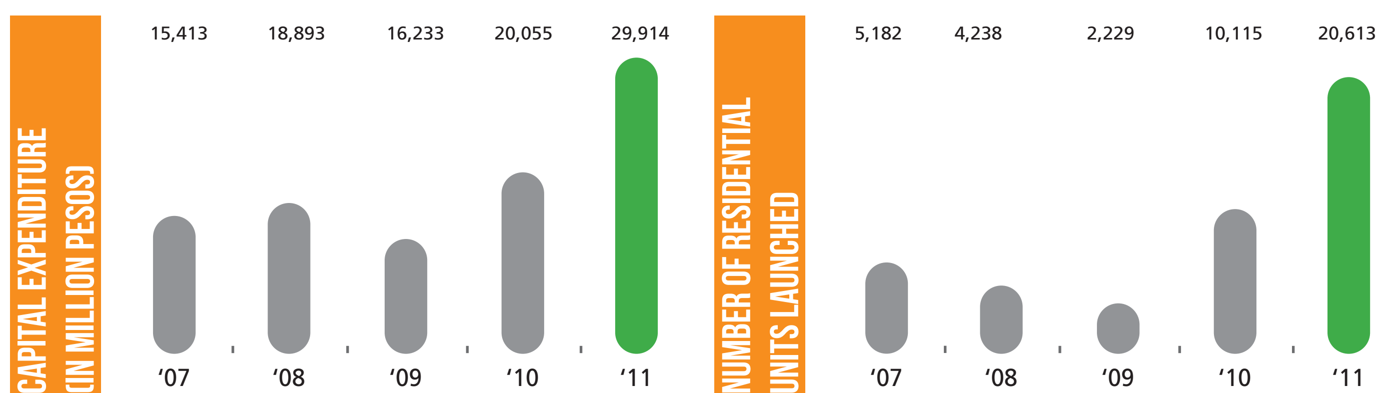
	2011	2010
Total assets	**154,619**	122,302
Stockholders' equity	**62,357**	56,857
Revenues	**44,205**	37,813
Net income attributable to equity holders	**7,140**	5,458
Per share		
Earnings	**0.55**	0.41
Return on equity	**12.0%**	10.0%
Top Shareholders		
Ayala Corporation	**53.2%**	53.2%
Aberdeen Asset Management Asia Ltd.	**19.7%**	**8.9%**

GOING BOUTIQUE

Kukun Bonifacio Global City, the first in a new chain of boutique hotels, will open its doors to guests in 2012.

MASTER-PLANNED, SUSTAINABLE

ALI's strategic landbank areas such as NUVALI in Laguna continue to grow.



integrating comfortable living and livelihood generated strong interest from the market. *Bella Vita* completes Ayala Land's range of residential brands that cater to all segments of the Philippine economic pyramid. Moving forward, *BellaVita* and *Amaia* will account for half of its residential unit launches as they target and serve mostly the "end-user" residential market.

Ayala Land's strategy of geographic expansion, market broadening, and diversification was duplicated in its commercial leasing business as it aims to double gross leasable area (GLA) by 2014. In 2011, it launched a total of 141,000 square meters of mall GLA and a total of 46,000 square meters of BPO GLA. By year-end, occupied mall GLA reached over 1 million square meters and occupied BPO GLA was at 230,000 square meters. Revenues from the leasing business rose by 16% to ₱7.4 billion in 2011.

Ayala Land continued to build its hotels and resorts portfolio and broke ground for two more *Kukun Hotels* in NUVALI and Cagayan de Oro. It is also nearing completion of its *Pangulasian Island Resort* to add to its portfolio of award-winning resorts under the El Nido Resorts chain.

The company continues to position for land parcels within key urban and provincial areas nationwide to sustain its expansion and growth. Landbanking in areas like Manila, Bicutan, Alabang, NUVALI, Bataan, Pampanga, Cebu and Bacolod will serve as platforms for its growing portfolio of masterplanned, integrated, mixed-use and sustainable developments. These are acquired via an asset-light approach through joint development agreements and long-term leases.

Margins improved with strict spend management programs geared towards reducing project cost, and direct and general administrative expenses. It also expanded its shared services arrangements to further enhance operational efficiencies. As a result, consolidated net income after tax margin rose by 2 percentage points in 2011 to 16% from 14% the prior year.

Ayala Land paid out ₱1.9 billion in cash dividends in 2011, representing a dividend payout of 35% of 2010 net earnings.

Ayala Land will sustain its expansion plan in 2012 anchored on its strategy of geographic diversity, product variety, and a deliberate move into the base of the economic pyramid. Ayala Land plans to launch in 2012 nearly 25,000 more residential units in new and existing growth centers nationwide across its five brands. It also has in the pipeline around 365,000 square meters of commercial leasing GLA for its office and shopping centers, and will break ground on two more *Kukun hotels* in the coming year. As it expands and grows aggressively, Ayala Land will leverage on its competitive advantages to ensure the highest level of quality, service, and satisfaction for its broad range of customers.

₱7.1B NET INCOME, 31% HIGHER THAN PREVIOUS YEAR

20,613 RESIDENTIAL UNITS LAUNCHED, DOUBLE THE NUMBER IN 2010

17% INCREASE IN REVENUES, A RECORD P44.2 BILLION

₱30B ALL-TIME HIGH CAPITAL EXPENDITURES IN 2011

FINANCIAL SERVICES

Bank of the Philippine Islands recorded a net income of ₱12.8 billion in 2011, up 13.4% from prior year's ₱11.3 billion. This yielded a return on equity of 15.2% and return on assets of 1.6%.

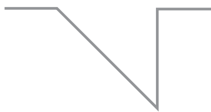
Total revenues grew by 9% as net interest income improved by 9% due to the ₱49 billion expansion in average asset base combined with the 12 basis point improvement in net interest margin. Non-interest income was up by 8% due to higher service charges, trust fees, income from the insurance companies and credit card income.

Operating expenses grew by 12% while cost to income ratio was at 56.2%. Impairment losses were lower at ₱2.1 billion in view of the decline in non-performing assets.

With the prevailing low interest rate environment, BPI pursued a strategy of increasing low-cost deposits to fund its loan growth. Total resources declined slightly by 4% to ₱843 billion as the bank focused on the safety of its assets and the preservation of its yields over asset growth. Total deposits likewise contracted by about 5% to ₱681 billion, but total intermediated funds increased by 12% to ₱1.3 trillion as assets under management grew by 38%.

Net loans grew by 20% to ₱454 billion, while asset quality continued to improve with net 30-day non-performing loans ratio down to 1.9% from prior year's 2.1% and a reserve coverage ratio of 116%.

"We will differentiate through cost and capital efficiency, Relationship Managers for key clients, and superior on-line and mobile banking for all."



CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

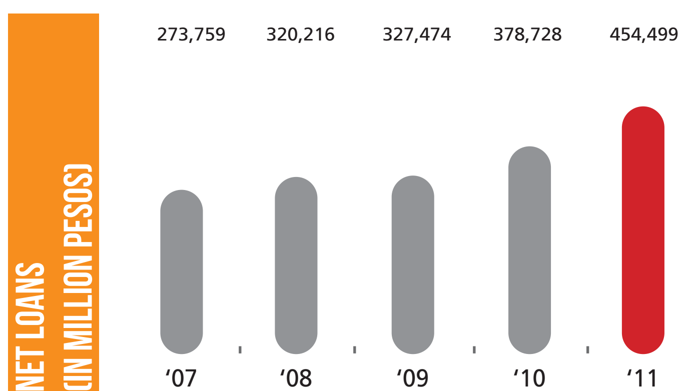
	2011	2010
Total assets	**842,616**	878,146
Stockholders' equity	**89,152**	81,031
Revenues	**41,758**	38,407
Net income attributable to equity holders	**12,822**	11,312
Per share		
Earnings	**3.61**	3.38
Book Value	**25.07**	22.78
Return on equity	**15.2%**	15.6%
Top Shareholders		
Ayala Corporation	**33.5%**	33.6%
Ayala DBS Holdings, Inc.	**20.3%**	**21.3%**

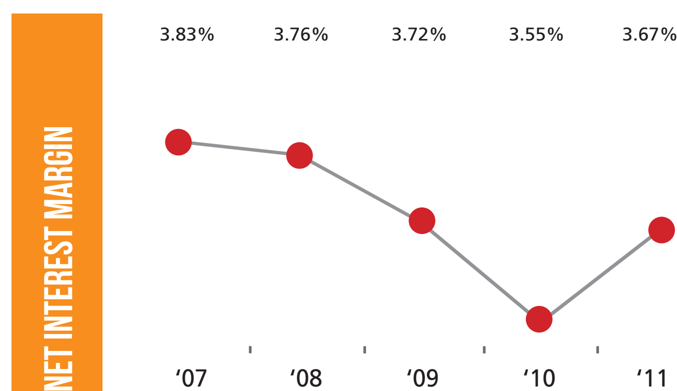
BEST SME BANK IN 2011

BPI was awarded Best SME Bank in 2011 by the Alpha Southeast Asia Magazine for its creative and innovative products targeted to the micro, small and medium enterprise segment.

EMPOWERING SMES

BPI Family Savings Bank's Ka-Negosyo Business loans make it easy for small and micro entrepreneurs to grow their businesses.





Total cash dividends declared for the year amounted to ₱6.4 billion, equivalent to a payout ratio of 50%.

BPI continued to expand its presence in the small and medium enterprise and middle market segments.

Credit to the micro, small and medium enterprise (MSME) segment in 2011 grew by 20% to ₱71.5 billion. Double-digit growth was registered in all sectors, most noteworthy of which was to the micro (40%) and medium-size (19%) customer base. The MSME segment accounted for 15% of the bank's loan portfolio.

The robust loan demand came from SMEs in the construction, utilities, transportation/storage, agriculture, services and wholesale/retail trade industries. This was further augmented with BPI offerings of a full suite of financial solutions and services for funds management and trade financing to deepen its banking relationships in this segment.

In addition, BPI Family Savings Bank introduced *Ka-Negosyo Business Loans*, a loan program for small and micro entrepreneurs. In February 2011, it launched its *Ka-Negosyo Franchising Loan* which was designed for start-up entrepreneurs who want to own a franchise business. This product featured the *Pay Lite* variant where franchisees need only to pay interest for the first 6 months and the full amortization from the seventh month onwards. A franchisee acquiring a franchise from any of the bank's accredited franchisors enjoyed unsecured credits.

For its efforts in serving the MSME sector, the bank was awarded the Best SME Bank by the *Alpha Southeast Asia Magazine* in 2011.

BPI's *Sustainable Energy Finance (SEF)* program also played a vital role in expanding relationships with SMEs. Now on its third year of partnership with the International Finance Corporation, sustainable energy loans and leases extended by the bank grew to ₱4.0 billion benefitting mostly the SME sector. The loans were mostly for energy efficiency projects catering to several industries that included manufacturing, real estate, tourism, health care and education, among others. The sustainable initiatives provided immediate impact on SME business operations in terms of cost savings and operational efficiency.

One of the bank's sustainability activities was the *Climate Risk Adaptation* project in partnership with World Wide Fund (WWF) for Nature. It aimed to gather city-specific socio-economic baseline data for those most likely to be adversely affected by climate change. In 2011, results of the study were released for four major cities: Cebu, Davao, Baguio and Iloilo. The governing bodies of these cities were advised on how to create an adaptive strategy to climate change.

Notwithstanding a challenging year, BPI, under its tagline *"Let's Make It Easy"*, delivered innovative products and services and sustainability initiatives to its 5 million customers.

68% LOAN-TO-DEPOSIT RATIO FROM 54% IN 2010

12% IINCREASE IN TOTAL INTERMEDIATED FUNDS TO P1.3T

20% GROWTH IN NET LOANS

15% RETURN ON EQUITY

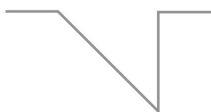
TELECOMMUNICATIONS

Globe Telecom's consolidated service revenues soared to an all-time high of ₱67.8 billion, up 8% against ₱62.6 billion in 2010. The latter included a one-time upward adjustment of ₱526 million from prepaid load credits that have either expired or have been used up. Its mobile business delivered a strong performance. Mobile revenues rose by 7% year on year to about ₱54.0 billion from ₱50.5 billion, driven by innovative customizable postpaid plans, revitalized prepaid brands, robust growth in mobile browsing services, and differentiated customer service. *Globe Postpaid* net acquisitions reached a record 389,000 in 2011, 81% higher than last year. It ended the year with about 1.5 million subscribers. *Globe Prepaid* had 15.5 million subscribers, up 12% from the previous year's level, while *TM* ended with 13.1 million subscribers, 13% from prior year. Combined, Globe's total mobile subscriber base reached over 30.0 million by year-end. Demand for mobile services was also fuelled by the introduction of gadgets like the *Apple™ iPhone 4S*, *iPad 2*, the newest *BlackBerry®* handsets, and the popular *Android* devices.

Globe's broadband business expanded with revenues up 30% to about ₱7.5 billion in 2011. This was driven by a 31% growth in subscriber base. Globe ended the year with over 1.4 million broadband customers compared to about 1.1 million in 2010. During the year, Globe also rolled out its *4G* network via the *HSPA+* standard, enabling the business to upgrade the speed performance of key products for *Tattoo-On-The-Go* services.

Fixed-line data revenues grew by 9% to ₱3.8 billion as a result of sustained demand for domestic leased lines and

"The customer is at the heart of Globe. This drives our transformation and innovation for an experience that truly delights."



CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

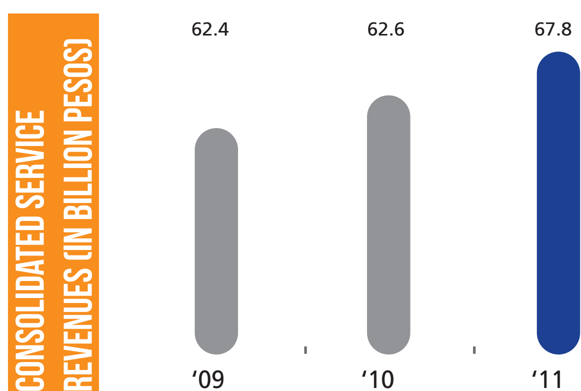
	2011	2010
Total assets	**130,839**	130,628
Stockholders' equity	**48,428**	46,869
Revenues	**71,564**	65,548
Net income attributable to equity holders	**9,832**	9,745
Per share		
Earnings	**74.02**	73.63
Book Value	**359.91**	348.15
Ratios		
Current ratio	**0.61**	0.60
Debt-to-equity ratio	**1.01**	1.07
Return on equity	**21.0%**	20.6%
Top Shareholders		
Ayala Corporation	**30.5%**	30.5%
Singapore Telecom International Pte Ltd	**47.3%**	47.3%

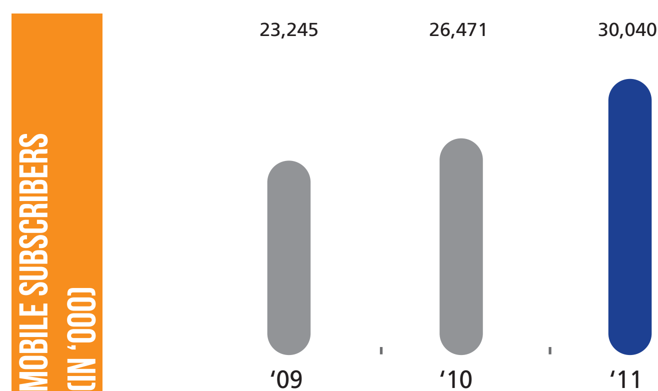
PSTD AWARD

Globe's training program wins big in the first-ever Philippine Society of Training and Development *Gawad Maestro Awards*

FULL NETWORK UPGRADE

Globe launched a US$700 million network upgrade program. This will ensure more stable and reliable network coverage for its 30 million subscribers.





high-speed Internet services for large enterprises.

Operating expenses and subsidies increased by 13% to ₱32.7 billion due to the overall rise in marketing and subsidy costs. Notwithstanding this, consolidated EBITDA grew by 5% to ₱35.1 billion. Consolidated EBITDA margin, however, was lower at 52% from previous year's 54%. But mobile EBITDA margin remained healthy at 60% of mobile revenues, while fixed-line and broadband margins improved to 22% from 14% along with improved scale.

As a result, net income after tax improved by 1% to ₱9.8 billion in 2011 from ₱9.7 billion in 2010. Core net income, which excludes foreign exchange and mark-to-market gains and losses, as well as non-recurring items, was up 11% to ₱10.0 billion from ₱9.1 billion in 2010.

Globe's balance sheet and cash flows remained strong. Gearing was within optimum levels. Gross debt to equity ratio on a consolidated basis was at 1.01:1, while net debt to equity was at 0.90:1 as of year-end 2011 from 0.95:1 in 2010.

The company's strong financial position enabled it to finance its operating and capital investments during the year, while sustaining dividends to shareholders. Capital expenditures in 2011 amounted to ₱17.4 billion, 11% lower than previous year's ₱19.5 billion. These were used to expand and upgrade the company's broadband and mobile networks as well as deploy *4G* mobile technology via *HSPA+* in key areas nationwide.

Globe paid out ₱8.2 billion in cash dividends, representing 84% of 2010 net income. This was in line with the company's dividend policy of distributing 75% to 90% of prior year's net income.

NETWORK TRANSFORMATION

In November 2011, Globe embarked on a network modernization program designed to significantly improve network quality and customer experience, increase voice and data capacity, and drive down costs. The company is also initiating an information technology (IT) transformation project to create a streamlined and integrated information environment that is more responsive to market and business demands. Total capital expenditures over the next five years for these initiatives are estimated to reach around US$790 million, of which US$700 million is allotted for the network modernization program and US$90 million for the IT transformation initiative. Around US$530 million is expected to be spent in 2012 and US$110 million in 2013. Once in place, the improved network and IT facilities are expected to help lift revenues and generate savings in operating expenses and capital expenditures of around US$180 million and US$210 million, respectively over the next five years.

It is expected, however, that assets worth around US$388 million will be decommissioned as the program will involve the replacement of old network equipment and IT systems. This may impact Globe's profitability through an acceleration of the depreciation over the remaining useful life of the assets. As these accelerated depreciation charges are non-recurring and non-cash in nature, these will not compromise the company's cash flows and ability to pay cash dividends moving forward. These charges will likewise not be considered in the determination of the company's core net income in 2012.

₱67.8B ALL-TIME HIGH CONSOLIDATED SERVICE REVENUES

US$790M TOTAL CAPEX OVER THE NEXT FIVE YEARS FOR NETWORK MODERNIZATION AND IT TRANSFORMATION

81% INCREASE IN GLOBE POSTPAID NET ACQUISITIONS

₱8.2B CASH DIVIDENDS PAID OUT, REPRESENTING 84% OF 2010 NET INCOME

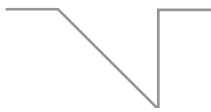
WATER AND WASTEWATER SERVICES

Manila Water Company Inc.'s (MWC) consolidated net income grew by 7% to ₱4.3 billion in 2011 from nearly ₱4.0 billion in 2010. This growth was brought about by higher consolidated revenues and well-managed operating expenses.

Consolidated revenues rose by 9% in 2011 to ₱12.0 billion. Water revenues grew by 7.3%, boosted by a 7.7% increase in average tariff and a 0.8% increase in billed volume. New businesses Laguna AAA Water Corporation (LWC), Boracay Island Water Company (BIWC) and Clark Water Corporation (CWC) contributed a total of 8.2 million cubic meters (mcm) in billed volume in 2011. This was a 37% improvement from that of last year with the addition of CWC in December of 2011. The increase in volume was partly due to the 58% growth in connections. Billed volume in the East Zone grew by 0.4% to 411.6 mcm versus last year's 409.8 mcm. This was likewise supported by the expansion in billed connections to 857,981 from 813,942 in 2010.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 12.3% to ₱8.4 billion from ₱7.5 billion, underpinned by continued improvements in operating efficiencies. Its non-revenue water was at 11.2% while net income margin was steady at 36.0%

"We continue to build on 15 years of service, improving lives and upholding sustainability."



CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

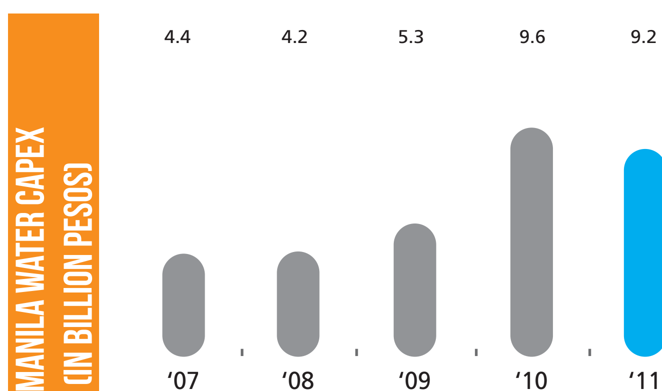
	2011	2010
Total assets	**60,897**	48,621
Stockholders' equity	**22,812**	19,978
Revenues	**12,004**	11,013
Net income attributable to equity holders	**4,266**	3,978
Per share		
Earnings	**1.74**	1.62
Book Value	**10.67**	9.39
Ratios		
Current ratio	**1.24**	1.09
Debt-to-equity ratio*	**1.03**	0.71
Return on equity	**19.0%**	20.0%
Top Shareholders		
Ayala Corporation	**43.1%**	43.1%
Mitsubishi Corporation	**8.31%**	8.31%

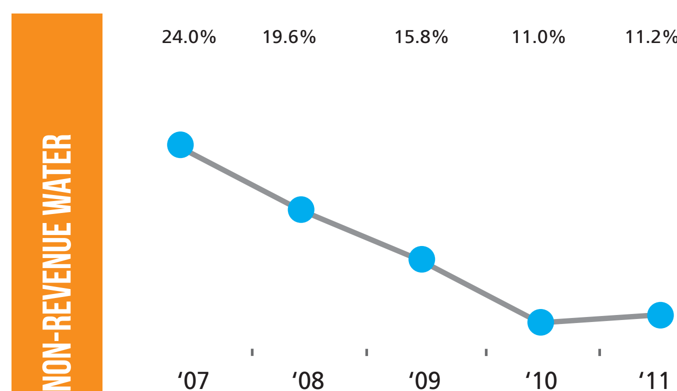
55,270 NEW SERVICE CONNECTIONS ESTABLISHED

44,039 new connections were established in the East Zone; LWC, BIWC and CWC generated a combined total of 11,231 new service connections.

1% CONSOLIDATED BILLED VOLUME GROWTH

The East Zone generated a modest growth of 0.4% while LWC and BIWC agressively increased billed volumes by 25% and 22%. CWC generated a robust billed volume increase of 32% on December 2011.





CAPITAL EXPENDITURE

Total capital expenditure reached ₱9.2 billion in 2011, mainly for projects to ensure reliability of water supply and the expansion of water and wastewater services. Expansion projects accounted for 52% of the year's capex and included the development of new water sources, network and wastewater projects. Reliability projects accounted for 40% and consisted of water supply, network, wastewater and natural calamity projects.

Manila Water laid, replaced, rehabilitated and maintained 4,156 kilometers of pipelines in the East Zone to ensure 24/7 water supply for all its customers. Manila Water will also increase its water supply capacity by 150 million liters per day (mld) through the Rodriguez Water Treatment Plant and Network. This will be complemented by the construction of the Southeast Transmission line geared to improve the overall supply distribution in the network. The total wastewater supply capacity is currently at 135 mld.

Manila Water persists in its efforts to develop a new water source. The company is in the process of securing its applied water permit to execute the Laguna Lake project. This will contribute an additional minimum supply of 50 mld to serve the expansion areas, aside from diversifying the risk of having a single water source.

NEW BUSINESS

The New Business portfolio was boosted by the recent acquisition of Clark Water Corporation and Thu Duc Water BOO Corporation (TDW). Clark Water is an important presence in a budding metropolis while Thu Duc Water BOO strengthens Manila Water's presence in Vietnam. TDW will provide a minimum supply of 300 mld to SAWACO. Both businesses are already net income positive and will contribute to Manila Water's bottomline more meaningfully in 2012.

The operating subsidiaries, LWC, BIWC and CWC contributed total revenues of ₱307 million, while the management contract in Vietnam added ₱169 million to Manila Water's consolidated revenues.

The new business portfolio accounted for 2.5% of Manila Water's consolidated revenues and 1.2% of consolidated net income.

11% NON-REVENUE WATER

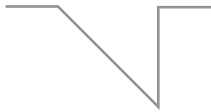
135 MLD TOTAL WASTEWATER CAPACITY

6.1M TOTAL POPULATION SERVED

US$1B TOTAL INVESTMENTS SINCE 1997

ELECTRONICS

" Future growth will be driven by our broader global presence, expanded technical capabilities and renewed focus on high value products."



CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million U.S. dollars except per share amounts and ratios)

	2011	2010
Total assets	**445**	339
Stockholders' equity	**190**	169
Revenues	**575**	412
Net income attributable to equity holders	**3**	5
Per Share		
Earnings	**0.001**	0.002
Book Value	**0.10**	0.10
Ratios		
Current ratio	**1.51**	1.23
Debt-to-equity ratio	**0.42**	0.33
Return on equity	**1.8%**	2.8%
Top Shareholders		
Ayala Corporation	**66.9%**	67.8%
Resins, Inc.	**16.81%**	16.81%

Integrated Micro-Electronics registered consolidated sales revenues of US$575.5 million in 2011, 40% higher than the US$412.3 million in 2010. The above-industry average revenue growth was due to increased turnkey businesses in China, the strong growth in the automotive and industrial segments, and additional revenues from its recent acquisitions.

Operations in China and Singapore posted combined revenues of US$279.7 million, a 12% growth versus the prior year due mainly to new turnkey programs for major customers. Philippine operations generated 8% growth in revenues to US$154.2 million driven by programs in the automotive and industrial sectors. New acquisitions PSi Technologies and the new IMI entities in Eastern Europe and Mexico contributed a combined US$140.2 million. Towards year-end, IMI's assembly operations for the storage device manufacturers also increased as hard disk drive manufacturers affected by the floods in Thailand transferred production to the Philippines.

Higher material and direct labor costs, however, negatively impacted margins. This resulted in a 31% drop in consolidated net income to US$3.3 million. This also included a one-time non-cash gain realized from IMI's acquisition of the EPIQ subsidiaries.

Overall, IMI maintained financial stability, ending the year with cash of US$54.1 million. Current ratio and debt-to-equity ratio were 1.5:1 and 0.42:1, respectively.

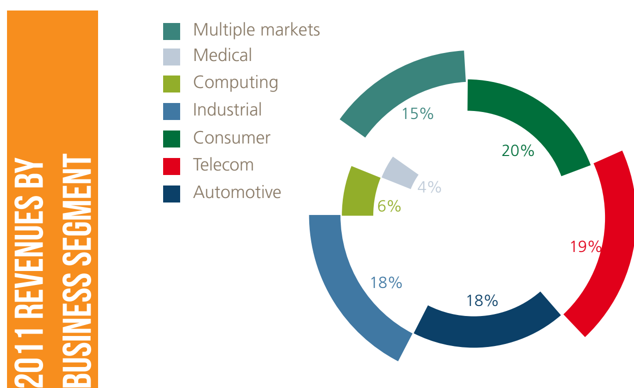
RENEWABLE ENERGY

IMI will venture into mass production of solar panels in 2012.

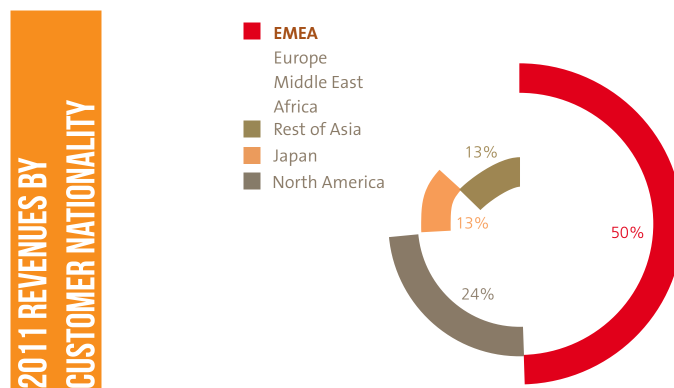
GLOBAL FOOTPRINT

Recent acquisitions lead to a diversity in markets and operations and an increase in programs.

2011 REVENUES BY BUSINESS SEGMENT



2011 REVENUES BY CUSTOMER NATIONALITY



GLOBAL EXPANSION

The acquisition of the EPIQ subsidiaries in Bulgaria, the Czech Republic, and Mexico, marks the culmination of IMI's long-term plan in 2003 to expand IMI's global footprint and thus bring its services to various original equipment manufacturing (OEMs) across the globe.

Following the acquisition of the EMS assets of Saturn Electronics and Engineering Inc. and Speedy-Tech Electronics Ltd. in 2005, IMI founded IMI Energy Solutions and acquired power semiconductor company PSi Technologies Inc. in 2010. It also established its sixth manufacturing facility in China. The acquisition of EPIQ facilities in 2011 strengthens IMI's capabilities in the automotive and industrial equipment.

IMI's international presence diversifies its markets in multiple segments of the electronics industry around the world. This mitigates the impact of any market downturn and minimizes dependence on any single customer, market, or site. IMI now operates in 17 manufacturing sites with a combined area of 241,295 square meters in various locations in the Philippines, China, Singapore, the United States, Mexico, Bulgaria, and the Czech Republic. Total manpower count by year-end was 15,372.

BUSINESS IN RENEWABLE ENERGY

IMI is pursuing opportunities in the renewable energy market. Following its partnership with RETC (Renewable Energy Test Center), a California-based engineering services, test, and certification provider for photovoltaics (PV) and renewable energy products, IMI established IMI Energy Solutions to develop and manufacture solar panels and other related technologies. In 2011, IMI Energy Solutions provided solar panel co-development, prototyping, and low-volume production to North American companies with varied technologies. By 2012, IMI will venture into mass production of solar panels.

Complementary to this, IMI's Design and Development Group in Singapore which has more than 20 years of experience in power electronics also developed a solar inverter platform, a critical component in a photovoltaic system. In the near-term, IMI will offer this product to a PV inverter OEM or a PV system integrator.

IMI's expanded reach and capabilities and its growing presence in the region and in more profitable and less volatile markets such as the automotive and industrial sectors will be a competitive advantage. Asia is expected to grow healthily which will push electronics and automotive consumption higher. IMI will continue to focus on China's large market base. Despite rising costs, it will remain the center of low-cost manufacturing. IMI sees pockets of growth outside Asia where its global footprint provides an ideal platform to cross-sell its services.

US$575.5M 40% INCREASE IN CONSOLIDATED SALES REVENUES

241,295SQM COMBINED MANUFACTURING AREA

15,372 TOTAL MANPOWER COUNT BY YEAR END

17 MANUFACTURING SITES AROUND THE WORLD

AUTOMOTIVE DEALERSHIP

The Philippine auto industry was impacted by supply shortages caused by the natural disasters that hit Japan in March 2011 and the massive flooding that hit Thailand in October 2011. This resulted in an industry-wide decline in unit sales by 3% to 161,914 in 2011. Honda's unit sales dropped by 30% to 11,611 while Isuzu reached unit sales of 9,820, 8% lower than previous year.

Despite the impact of these challenges, Ayala Automotive maintained leadership in the country's Honda and Isuzu networks. Its Honda dealerships remained the dominant dealership group with a 47% market share, capturing 4 of the top 6 dealership slots nationwide. Its Isuzu dealerships strengthened its leadership position in the Isuzu network with an increase in market share to 31% while securing 2 of the top 3 dealerships nationwide.

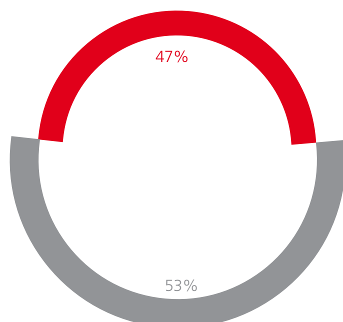
47% DOMINANT MARKET SHARE OF HONDA DEALERSHIPS

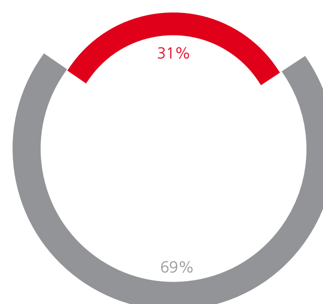
Due to the supply disruptions, Ayala Automotive unit sales declined to 8,485 units from 11,440 units the prior year. Consolidated revenues fell by 23% to ₱8.8 billion. As a result, consolidated net income, which includes equity share and dividend income from its principals Honda Cars Philippines Inc. and Isuzu Philippines Corporation, dropped to ₱95 million in 2011, 68% lower than prior year's net income of ₱295 million.

AAHC continues to pursue new business initiatives to enhance its growth platform in the domestic auto market in the coming years. It also continues to expand and improve its service facilities by launching new services and year-round promotions to complement traditional service offerings as well as deliver higher levels of customer service.

The company expects supply conditions to normalize in the first half of 2012. Honda recently launched the full model change *Civic* and is expected to introduce as well the all-new *CRV* in 2012. Isuzu will also unveil a competitively-priced base variant of the *Crosswind* for the fleet segment. These new model launches are expected to reinvigorate sales in the coming year.

AYALA AUTO DEALERSHIPS' SHARE OF TOTAL NATIONWIDE SALES





INTERNATIONAL REAL ESTATE

In 2011, AG Holdings benefitted from the rationalization of cost and management operations in the U.S. and Asia.

ASIA

AG Holdings continues to be the largest investor in ARCH Capital Asian Partnership (ARCH), which completed its second investment in Singapore consisting of a prime office space in Samsung Hub at Raffles Place at the central business district.

ARCH's project in Chengdu, China launched three out of four towers comprising 504 units. The project is 88% sold. In the meantime, the *Concordia* project in Macau sold 99% of Phase 1 totaling 863 units and 94% of Phase 2's 664 units. Phase 3 which has 1,056 units is targeted to launch in the first quarter of 2012.

AG Holdings received a return of capital from ARCH representing distributions from its successful projects in Thailand and Macau. It committed to support a second Asian property fund, ARCH Capital-TRG Asian Partners LP, which has over US$300 million in commitments. This fund is expected to close in mid 2012.

AG Holdings exchanged its ownership interests in ARCH Capital's management company and general partner for additional ownership interests in The Rohatyn Group (TRG), an emerging markets-focused private investment firm with approximately US$3 billion in assets under management. The transaction resulted in a significant gain for AG Holdings. It also made an additional investment in TRG to become one of its largest outside investors.

NORTH AMERICA

Residential take-up improved slightly in the U.S., particularly in the lower-priced segments. This was driven by an improving labor market and historic low mortgage rates. In the higher end segment, leases with options to purchase were attractive for the market. We expect this to continue in 2012 due to the tight credit environment for residential developments.

There were also noticeable improvements in the Fontana and Milpitas retail projects. Fontana successfully renewed and extended its loan at a competitive rate. Strong interest from investors resulted in a sale of a parcel of the development. The Milpitas project also secured 5-year financing at a competitive rate. The project ended the year with a lease rate of 97%. Improving retail market conditions are also expected to continue in 2012.

NET ASSET VALUE (USD Mn as of Dec. 31, 2011)

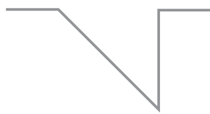
	2011
Asia	125.5
U.S.	29.5
Net Other Assets/ (Liabilities)	1.0
TOTAL	156.0

US$156M NET ASSET VALUE AS OF YEAR-END 2011, DRIVEN BY 28% INCREASE IN THE INVESTMENTS IN ASIA INCLUDING THE ADDITIONAL STAKE IN TRG.

US$4.6M FULL YEAR 2011 NET INCOME, A TURNAROUND OVER LAST YEAR'S $50.0 MILLION LOSS WHICH INCLUDED ONE-TIME REVALUATION AND RESTRUCTURING CHARGES.

BUSINESS PROCESS OUTSOURCING

"Combined revenues of LiveIt's four BPO businesses increased by 10% to US$1 billion, and combined EBITDA increased by 39% to US$92 million, due to significantly better performance across all investees."



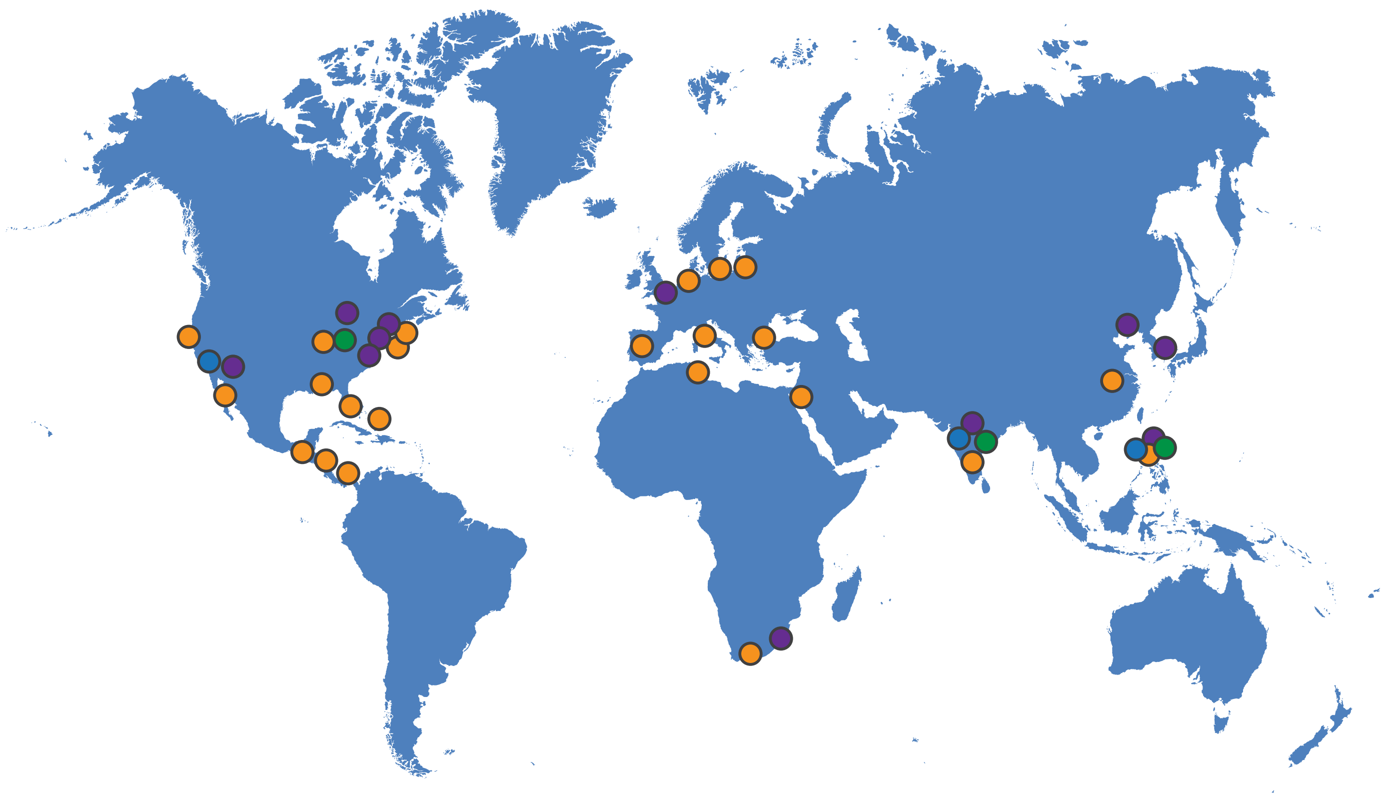
LIVEIT'S GLOBAL EMPLOYEE BASE

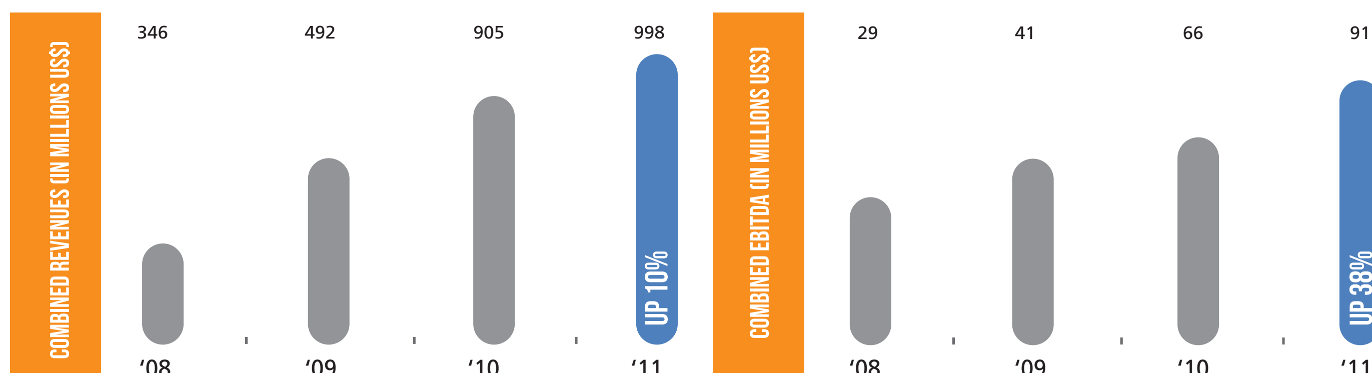
STREAM	33,587
INTEGREON	2,006
AFFINITY	1,009
HRM/IQB	349
GLOBAL TOTAL	36,951
PHILIPPINE TOTAL	12,321

LiveIt's share of revenues was US$318 million, up 16% versus 2010, and its share of EBITDA was US$25 million, up 63%, as a result of greater scale and operational efficiencies. Its net loss was US$18 million, inclusive of US$22 million in non-operating items such as non-cash amortization of acquisition-related intangibles and interest expense from the leveraged buyout of Stream.

LiveIt exited 2011 with record fourth quarter share of revenues of US$84 million, up 14% year-on-year, and record fourth quarter share of EBITDA of US$9 million, up 102%, resulting in fourth quarter net income of US$1 million.

In 2012, LiveIt expects continued growth and margin improvement for all of its investees as a result of further scale and operating leverage. However, it will remain vigilant against risks of a double dip global slowdown and a weakening of the dollar.





STREAM GLOBAL SERVICES
Stream is a leading Customer Relationship Management BPO company with over 33,000 employees globally, of which 35% are in the Philippines.

In 2011, Stream's revenues grew by 6% to US$847 million, due to growth of its existing customers and new logos in wireless, travel and e-commerce. Stream ended the fourth quarter of 2011 with record EBITDA of US$31 million, up 32% year-on-year, and net income of US$4 million, as a result of growth and cost efficiency initiatives.

Stream significantly enhanced its geographic offering by opening its first site in China, a market of great interest to its multinational clients.

INTEGREON
Integreon is the largest provider of integrated legal, research and business support solutions to corporations and law firms. It is a trusted partner to 9 of the top 10 global law firms, 9 of the top 10 investment banks, and 17 of the top 50 global brands, with over 2,000 associates operating from 17 offices across North America, Europe, Asia and Africa.

In 2011, Integreon's revenues grew by 43% to US$125 million and significantly improved its profitability. Its notable successes include expanding an agreement with Microsoft to provide legal process outsourcing (LPO) services, and signing the largest outsourcing agreement in the history of the legal profession with CMS Cameron McKenna, a leading law firm in the United Kingdom.

AFFINITY EXPRESS
Affinity Express maintained its status as the leading provider of outsourced digital and print advertising and marketing production for multi-media publishers. It has a proven onshore/offshore production model with over 1,000 employees and an innovative cloud-based digital workflow.

In 2011, Affinity Express grew its revenues by 22% to US$19 million and expanded margins significantly. It also made significant progress in its high-growth interactive, pre-media and editorial categories target segments, with an emphasis on new digital media offerings including video, iPad ad, mobile ad, website and email services. The company was named to the *Global Services 100* list of leading global outsourcing companies for the second consecutive year.

HRMALL/IQ BACKOFFICE
HRMall grew revenues by 183% to US$7 million in 2011, largely due to the acquisition of IQ BackOffice, a Los Angeles-based specialist provider of outsourced finance and accounting services to U.S. companies. HRMall's HR outsourcing business grew by 22% to US$3 million due to the addition of new clients. EBITDA margins improved to the high teens as a result of the combination.

The combined companies are now able to provide a complete suite of low-cost, best-in-class HR, finance and accounting services to the underserved mid-sized enterprise sector in the U.S. and Asia, with over 300 employees across sites in Manila, Chennai and Los Angeles. Clients now include over 30 U.S. companies in the manufacturing, restaurant, hotel and property management sectors and several Ayala group companies.

37,000 EMPLOYEES
50+ SITES IN 23 COUNTRIES

US$318M SHARE OF REVENUES, UP 16%
US$ 25M SHARE OF EBITDA, UP 63%

SOCIAL COMMITMENT

Ayala Foundation, Inc. (AFI), one of the pioneering corporate foundations in the country, has always believed in the value of establishing and nurturing partnerships to ensure the success and continuity of its programs. Since 1961 its partnerships have allowed it to serve well over 5 million individuals from more than 5,000 schools and communities across the country. As it celebrated its 50th year in 2011, AFI reaffirmed its commitment to build collaborative partnerships to create significant scale and lasting impact in addressing the country's critical socio-economic challenges.

"We recommit ourselves to these: to envision a future that embraces all Filipinos, to empower our community partners to shape their own future, and to excel in programs that will live on beyond us."

KEY MILESTONES

Gearing up Internet Literacy and Access for Students (GILAS), a multi-stakeholder initiative for which AFI served as the secretariat, officially turned over its operations to the Department of Education in November 2011. This is the first private-sector-initiated project that was officially adopted and scaled up by the national government. It is a significant accomplishment to have this project mainstreamed by the Department of Education after more than six years of multi-sectoral collaboration. Throughout that period *GILAS* was able to provide computer laboratories with Internet access to about 4.4 million students across 3,349 public high schools, equivalent to 47% of the total number of public high schools in the country. It has also trained 13,538 teachers to improve their competency in Internet-assisted instruction. *GILAS* mobilized as much as ₱367.9 million from multi-sectoral sources that include national and local government agencies, local and international profit and non-profit organizations, as well as donors from Filipino-Americans via the Philippine Development Foundation (formerly Ayala Foundation USA). These broad-based and robust partnerships were the foundation of *GILAS*'s success.

ART IN THE CITY

Ayala Museum remained one of the country's top private institutions for art and culture. Its membership grew by 30% in 2011.

RECYCLABLES FAIR

More than 100 tons of recyclable materials were collected by accredited recyclers at weekly fairs held in various locations in Metro Manila and its outskirts.

In 2011, AFI initiated new projects and engaged new partnerships to expand its reach.

In March 2011, AFI launched *Enabling Education Communities (EEC)*. EEC brings together key stakeholders in a community to assess their various educational challenges with the goal of developing a vision and course of action for their education sector. The project was brought to five sites—Tiwi and Ligao City in Albay; Malaybalay City, Bukidnon; Camiguin; and Sibalom, Antique. AFI partnered with Agencia Española de Cooperación Internacional para el Desarrollo (AECID) and the Australian Agency for International Development as well as with the local government units in these areas and other members of the community.

AFI's flagship youth development program, the *Ayala Young Leaders Congress (AYLC)*, continued to expand in 2011 through *Leadership Communities (LeadCom)*. *LeadCom* is a partnership initiated by AFI and the rest of the Ayala group with various colleges and universities in different parts of the country to establish their own local leadership congress and build a network for community-based young servant leaders. Prior to its launch in November, *LeadCom* was piloted in Catanduanes and Oriental Mindoro. It will be expanded to 12 new sites in the country in 2012.

AFI marked another milestone with the signing of a contract with the United States Agency for International Development (USAID) for the implementation of the project, "*Strengthening the Capacity of Civil Society Organizations in the Philippines*." The project seeks to build the capacities of 120 selected civil society organizations so they can better serve their target communities through sustainable solutions, improved accountability, and better management of donor resources. The project will be implemented by AFI and its consortium partners over a three-year period. Among its partners are the Association of Foundations, Caucus of Development NGOs (CODE-NGO), National College of Public Administration and Governance (NCPAG), Philippine Business for Social Progress (PBSP), and the Philippine Council for NGO Certification (PCNC).

In 2011, AFI also became the project lead for *The Entire Nation Moves! (TEN Moves)*. This is a multi-sector initiative that aims to build 10,000 public school classrooms in different parts of the country. The project estimates that if at least 2 million Filipinos donate ₱10 over a period of 10 months, it would be able to raise a total of ₱6 billion for the construction of the classrooms. *TEN Moves* is a project of the 57-75 Movement, led by the League of Corporate Foundations and Philippine Business for Social Progress, of which AFI is a member.

EXPANDING REACH

Many of the foundation's on-going projects also continued to expand.

EDUCATION

Text2Teach, a program that uses mobile technology to deliver educational materials for public elementary schools, completed its third phase. As of December 2011, it reached 337 out of its 350 target schools, serving over 54,000 students and over 1,500 teachers. It signed an agreement with Nokia, the Department of Education, Globe Telecom and SEAMEO-INNOTECH to start the fourth phase which will step up the program by reviewing and updating its existing materials, upgrading old technology, and reaching out to 850 new schools.

NURTURING DREAMS

CENTEX Manila obtained one of the highest average scores in the Department of Education's National Achievement Test.

MAINSTREAMING GILAS

The GILAS initiative was formally turned over to the Department of Education after providing Internet access to nearly half of the country's public high schools.

OurLibrary, a project under the Filipinas Heritage Library (FHL), also worked with various partners to develop community libraries all over the country and promote a culture of reading. The project completed three libraries—a public high school library at Sapang Bato National High School and a music library and recording studio at Holy Angel University, both located in Angeles, Pampanga. These were completed through a partnership of international recording artist Apl.de.Ap of the *Black Eyed Peas*, the FHL and the Philippine Development Foundation. The third library was a grade school and community library at the *Center of Excellence in Public Elementary Education* in Tondo, Manila which was made possible by the officers and members of the Ayala Multi-Purpose Cooperative.

FHL is now on its 15th year and has increased efforts to reach out to a broader audience through the Internet. A part of the library's collection of rare books and other materials are now online (onlinelibrary.filipinaslibrary.org.ph). It also established the FHL Online English–Filipino Dictionary. FHL also organized events promoting reading and literature, such as the *First Libros Festival*, which featured book sales, storytelling sessions, and lectures; and the Second Manila International Literary Festival, co-organized with the National Book Development Board, which featured talks by some of the world's most respected publishers, editors, literary agents, and writers, including Pulitzer winners Junot Diaz and Edward P. Jones.

Center of Excellence in Public Elementary Education (CENTEX) continued to provide quality education to its students in its Manila and Batangas schools. It continued to implement programs that nurtured students' academic capabilities and talent in music, dance, and sports, with the support of JP Morgan Chase & Co. and Steps Dance Studio. In addition, *CENTEX* teachers received training as well as scholarship grants to enhance teaching skills. *CENTEX* continued to provide scholarships for its students and alumni. With the help of donors from different sectors, *CENTEX* is able to keep bright students from poor families in school, providing them opportunities to continue to high school and college education.

For school year 2010-2011 *CENTEX* Manila had a total of 508 students, 66 of whom graduated from Grade 6, while *CENTEX* Batangas had 470 students, 70 of whom graduated from grade school. *CENTEX* Manila registered one of the highest average scores in the National Achievement Tests (NAT) administered by the Department of Education. For school years 2009-2010 and 2010-2011, *CENTEX* Manila students had a mean percentage score of 77.35 in the NAT—the highest in the Division of Manila of the DepEd.

The Ayala Museum remained one of the country's top private institutions for art and culture. Its various exhibitions and programs attracted a total of 78,671 visitors in 2011, while museum membership grew by 30%. Aside from its permanent exhibitions, the museum also hosted a number of shows, including a photo exhibit by photojournalist Kim Komenich, featuring photos from the EDSA Revolution in 1986; retrospectives featuring Araceli Limcaco-Dans and Jose Joya; an exhibition of new works by Jaime Zobel de Ayala and Igan D'Bayan; *El Guernica: Deconstrucción*, featuring works inspired by Picasso's *Guernica*; *Manga Realities*, featuring the art of Japanese manga; and *Ang INK: 20 Taon*, a celebration of the works of the group, *Ang Ilustrador ng Kabataan*. The museum's educational programs—including the lecture series, *History Comes Alive!* and *DesignTalks* were also well attended.

Complementing the museum's highly popular *Gold of Ancestors* exhibition, the museum launched *Philippine Ancestral Gold* in March, a scholarly publication and companion catalog for this exhibit. The book sheds light on Philippine life and culture before the Spanish Colonial period, depicting a wide collection of 1,000-odd pre-colonial gold artifacts and crafts that scholars say evoke a renewed understanding of Philippine history. After the official launch in Manila, *Philippine Ancestral Gold* was launched in New York and subsequently in Singapore. The book was edited by former Ayala Museum director (and *Gold of Ancestors* curator) Florina Capistrano-Baker and co-written by John Miksic and John Guy, curator of South and Southeast Asian Art at the Metropolitan Museum of Art in New York City. The book also features images by photographer Neal Oshima.

ENVIRONMENT

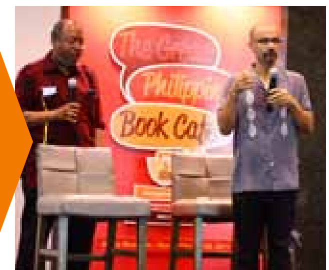
The *Solid Waste Management* (SWM) program continued to grow in 2011 with 262 buildings, representing roughly 70% of all the buildings in the Makati Central Business District, now implementing the program. As much as 1,852 tons of recyclables was recovered from these buildings, 4% in 2010 with an estimated value of ₱16.46 million. This was 22%

TEXT2TEACH

Project partners agreed to upgrade educational materials and technology and reach out to more schools in the fourth phase of this unique program enabled by mobile technology.

LITERARY FEAST

Filipinas Heritage Library co-organized the Second Manila International Literary Festival whose speakers included Pulitzer Prize winners Edward Jones and Junot Diaz.



higher in value than 2010's ₱12.84 million. This program was complemented by the regular *Recyclables Fair (RF)*. In 2011, a total of 88 RFs were held in various locations which collected a total of 131.21 tons of recyclables worth ₱1.42 million.

ENTREPRENEURSHIP

The *Ayala Technology Business Incubator (Ayala TBI)* continued to provide much-needed technical assistance to the country's new breed of techno-entrepreneurs. Aside from hosting start-ups in the fields of business process outsourcing, e-learning, and software development, *Ayala TBI* also encouraged start-ups focused on developing solutions to social problems. *Telehealth*, or the use of telecommunications services in health-care delivery, became a productive jump-off point for its series of regular forums and training programs—*Kape + Teknolohiya*, *Innovation Forum*, and *TechBootCamp*.

AFI also enhanced its educational, health, livelihood, and housing programs for the Iraya Mangyans of Puerto Galera, Oriental Mindoro. Several Iraya-Mangyan families had the opportunity to move into their new homes, the construction of which was facilitated by the foundation. In addition to regular scholarships, daycare services, and feeding programs, AFI also started implementing a basic literacy program, an alternative learning system for the benefit of 65 Iraya Mangyans initially. In addition, 60 Iraya Mangyan adults benefited from skills training in basic masonry, soap making, and dressmaking.

A year after being turned over to the program's natural stakeholders (the Filipino-American community), the Philippine Development Foundation (PhilDev) continued its efforts in building "an ecosystem of science and technology–based entrepreneurship and innovation for social and economic development in the Philippines." One of its first initiatives to achieve this goal was the establishment of a *Superfund for Science and Engineering Scholarship*. PhilDev also hosted two separate forums in Manila and in New York to discuss the importance of innovation and competitiveness for Filipinos to succeed in the global market.

Moving Forward

Dear partners and stakeholders,

Ayala Foundation's mission of contributing to the eradication of poverty in all its forms is the bedrock upon which all its programs and activities stand. In the past 50 years, this mission has inspired the foundation to introduce and sustain innovative programs that have become best practices in the fields of corporate social responsibility and social development.

In the past 20 years alone, under the chairmanship of Jaime Zobel de Ayala and the presidency of Victoria Garchitorena, AFI experienced unprecedented growth: its operations expanded, its partnerships multiplied, and its projects achieved greater reach and impact.

I join AFI as its president with the knowledge that it has a solid history of service and innovation, but also with the knowledge that there is still much that it can do for the country. While AFI's past successes are truly worth celebrating, they also present us with new opportunities to grow and evolve. Guided by our vision for our country, we shall continue to develop and implement strategic, scalable, and sustainable projects, and we are hoping that you, our partners, donors, and friends, will continue to support us.

As AFI enters its 51st year, I am counting on your continued enthusiasm for our programs. The climb toward freeing our country from various forms of poverty is steep and challenging, but I am hopeful that if we strengthen our partnerships and continue to work closely together, we will be able to achieve this vision.

Maria Lourdes Heras-de Leon
President
Ayala Foundation, Inc.

DIFFERENT STROKES

Aside from permanent exhibitions and educational lectures, Ayala Museum hosted notable art shows such as Ilustrador ng Kabataaan's 20th anniversary collection.

A CULTURE OF READING

OurLibrary completed three community libraries with various partners to foster a culture of reading among the youth.

"Corporate Governance has become a highly complex task. It requires continuous review, monitoring, and coordination among key stakeholders. Governance starts with the board of directors and management executives, and continues on to the corporation's internal and external auditors, institutional investors, and regulatory bodies. Combined, they comprise an ecosystem where each component is accountable to another and each must perform with equal diligence, vigilance, and rigor."

- Fernando Zobel de Ayala
Keynote Speech at the Institute of Corporate Directors' 6th Annual Dinner

Ayala remains at the forefront of good corporate governance. This is attested by the recognitions given by various reputable institutions. In 2011, Ayala was cited as *Best in Corporate Governance* by *FinanceAsia* and *AsiaMoney* in their regional polls. *Corporate Governance Asia* also named Ayala as among the *Best in Asia* for its adherence to good corporate governance. Likewise, after having been a a Gold awardee since 2005, Ayala received the prestigious Platinum award from the Institute of Corporate Directors (ICD), one of a handful of companies to be so honored since ICD started its Annual Corporate Governance Scorecard for Publicly-Listed Companies. These citations seal our commitment to keep the trust of our stakeholders.

BOARD STRUCTURE AND PROCESS

Key Role and Responsibilities

The Board represents the company and the shareholders and is accountable to them for creating and delivering value, as well as protecting their best interests through effective and good governance.

The Board establishes the vision, strategic objectives, key policies, and procedures of the company, as well as the mechanism to properly monitor and evaluate management performance. The Board also ensures that internal control mechanisms for good governance are adequate.

Composition

The Board is composed of seven directors elected annually by the stockholders.

The Board represents a diversity of experience, background, and knowledge disciplines in the area of business, finance, and legal competencies, with each director 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. The Board structure provides a clear division of responsibilities between the Board and Management.

None of the independent directors owns two or more percent of the outstanding capital stock. The name and profile of each director are found in the Board of Directors section of this annual report on pages 56 and 57 . All the directors have attended training on corporate governance.

Independent Directors

Ayala complies with the rules of the Securities and Exchange Commission (SEC) on the qualifications,

nomination, and election of independent directors. The seven-member Board includes three independent directors who can effectively exercise their best judgment for the company. The three members make up more than 40% of Board membership.

Each of our independent directors has no interest or relationship with the company that may hinder his independence from the company or management or interfere with his exercise of judgment in carrying out his responsibilities as a director. Ramon R. del Rosario, Jr., Xavier P. Loinaz and Antonio Jose U. Periquet sit as the independent directors. Nobuya Ichiki, general manager of Mitsubishi Corporation's Manila Branch, is a non-executive director.

Chairman and Vice Chairman
The Chairman of the Board is Jaime Augusto Zobel de Ayala, who assumed the position in 2006. Fernando Zobel de Ayala holds the position of Vice Chairman.

Board Performance
Board meetings are held quarterly 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 advises directors about their duties. Discussions during board meetings are open and independent views are given due consideration. Average attendance in the Board's six meetings last year was more than 90%. Five directors, namely, Jaime Augusto Zobel de Ayala, Xavier P. Loinaz, Ramon R. del Rosario, Jr., Delfin L. Lazaro and Nobuya Ichiki had perfect attendance. Fernando Zobel de Ayala, and Antonio Jose U. Periquet were absent from one board meeting last year.

Board Committees
The Board has established committees to assist in exercising its authority in monitoring the performance of the business. Four committees, namely, Executive, Personnel and Compensation, Nomination and the Audit and Risk Committee—provide organized and focused means for directors to achieve specific goals and address issues, including those related to corporate governance.

Executive Committee (ExCom). The ExCom exercises the Board's powers in the intervening periods between the Board's meetings. The ExCom cannot approve: 1) actions requiring shareholders' approval; 2) filling of vacancies in the Board; 3) amendment or repeal of By-Laws or the adoption of new By-Laws; 4) amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable; and 5) distribution of cash dividends.

Compensation Committee. The Compensation Committee establishes a policy for a formal and transparent procedure for determining the salaries of officers and directors. It also oversees the pay of senior management and other key personnel. The Compensation Committee had two meetings in 2011, where it approved: 1) the increase in directors' compensation and the amendment of By-Laws authorizing the Board to fix directors' compensation; 2) the performance bonus for 2011; 3) the merit increase for 2011; 4) the 2011 Executive Stock Option Plan (ESOP); and 5) amendments to the new retirement plan.

Nomination Committee. The Nomination Committee ensures that all nominees to the Board have all the qualifications and none of the disqualifications under the Company's By-Laws and the Manual of Corporate Governance, as well as under the rules of the SEC. The Nomination Committee also reviews the qualifications of all persons nominated to positions requiring appointment by the Board. After a meeting in 2011, the Nomination Committee approved the final list of nominees for directors for election at the 2011 annual stockholders' meeting.

Committee	Executive	Personnel and Compensation	Nomination	Audit and Risk
Jaime Augusto Zobel de Ayala	C		M	
Fernando Zobel de Ayala	M		M	
Nobuya Ichiki**	M	M		M
Ramon R. del Rosario, Jr.*		C	C	M
Delfin L. Lazaro		M		
Xavier P. Loinaz*				C
Number of Meetings held in year 2011	0	2	1	6

C- Chairman M- Member *Independent Director
**Non-executive Director

Audit and Risk Committee. The Audit and Risk Committee oversees the internal control, financial reporting and risk management processes of the company. The Committee held six meetings in 2011 where it reviewed and approved the 2011 consolidated audited financial statements of Ayala as audited by the external auditors, Sycip Gorres Velayo & Co. (SGV), the unaudited financial statements of the company for January to September 2011 and the 2012 Internal Audit Plan. The Committee likewise recommended the appointment of SGV as the company's external auditor for 2011 and the approval of the proposed fee of SGV. The activities of the Audit and Risk Committee are further discussed in the Accountability and Audit section on page 53 and the Report of the Audit and Risk Committee to the Board of Directors on page 66.

Director and Senior Executive Compensation

Non-executive directors are Board members who are not officers or consultants of the company and who receive remuneration consisting of: 1) a retainer fee of ₱1,200,000; 2) per diem of ₱200,000 for each board meeting attended; 3) per diem of ₱100,000 per Audit and Risk Committee meeting attended; and 4) ₱50,000 per diem for other committee meetings attended. The remuneration of non-executive directors was ratified during the annual stockholders' meeting in 2011. None of the non-executive directors has been contracted and compensated by Ayala for services other than services provided as a director.

Ayala adopts a performance-based compensation scheme for its senior executives. As additional incentive to Management, the Board approved stock option plans for officers covering 3% of the company's authorized capital stock. The grantee is selected based on performance over a three-year period.

The total compensation paid to non-executive directors and officers is disclosed yearly in the Definitive Information Statement sent to shareholders at least 15 business days before the annual stockholders' meeting. The total annual compensation includes basic salary, guaranteed bonus, and variable pay (i.e., performance-based bonus and gains from exercise of stock options).

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. Jaime Augusto Zobel de Ayala is the chief executive officer (CEO) and concurrently serves as chairman of the board, while Fernando Zobel de Ayala is the president and chief operating officer (COO).

The respective roles of the CEO and the President/COO are complementary and ensure a strategic distribution of leadership roles with defined accountability. The CEO takes the lead on company strategy, visioning, and developing business partnerships in close coordination with the President/COO who is primarily responsible for the day-to-day operations, new business initiatives, corporate policy and resource allocation. In all functions and critical issues, both coordinate closely with each other. The Chairman/CEO and President/COO are supported by a management committee composed of key executives who meet twice a month to discuss business performance and other issues critical to the growth of the company. This operating structure with permeable boundaries speeds the flow of strategic and operational information among executive decision makers.

A culture of good governance is fostered throughout the organization, with Management and Board equally responsible in ensuring that the mechanisms and structure for good governance are in place.

The Chairman/CEO, President/COO, and members of the management committee attend the annual stockholders' meetings.

Enterprise Risk Management

In line with its corporate governance infrastructure, Ayala adopted a group-wide enterprise risk management framework in 2002. The Audit and Risk Committee approved the Enterprise Risk Management Policy in 2003 and regularly reviews and updates it. The policy enhances the risk management process and institutionalizes a focused and disciplined approach to managing the company's business risks. The risk management policy was updated in 2008 following the framework and standards recommended by the Committee of Sponsoring Organization.

The risk management framework covers the following:

- Identification and assessment of business risks;
- Development of risk management strategies;
- Assessment, design, and implementation of risk management capabilities;
- Monitoring and evaluation of risk mitigation strategies and management performance; and
- Identification of areas and opportunities for improvement in the risk management process.

The Audit and Risk Committee provides oversight of the risk management function.

In 2008, a more focused enterprise risk management framework was rolled out with the help of an external consultant. This included a formal risk-awareness session and self-assessment workshops with the functional units of the company. The Audit and Risk Committee has initiated efforts to institutionalize an enterprise risk management function across all the subsidiaries and affiliates.

In May 2010, the Chief Finance Officer was appointed as the Chief Risk Officer (CRO) in concurrent capacity.
The CRO oversees the risk management function and provides periodic reports on risk management initiatives and mitigation efforts to the Audit and Risk Committee.

At present, the policy, procedures and processes are under study for further enhancement and a review of the assessment done in 2008 began in 2011. The work is in progress and the company shall continue to engage external technical support as it deems necessary to strengthen its Enterprise Risk Management expertise and capabilities.

Ayala's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala group.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee oversees the performance of external and internal auditors. The roles and responsibilities of the Committee are outlined in the expanded Audit and Risk Committee Charter on the company's website. The internal audit function is governed by a separate Internal Audit Charter.

Independent Public Accountants

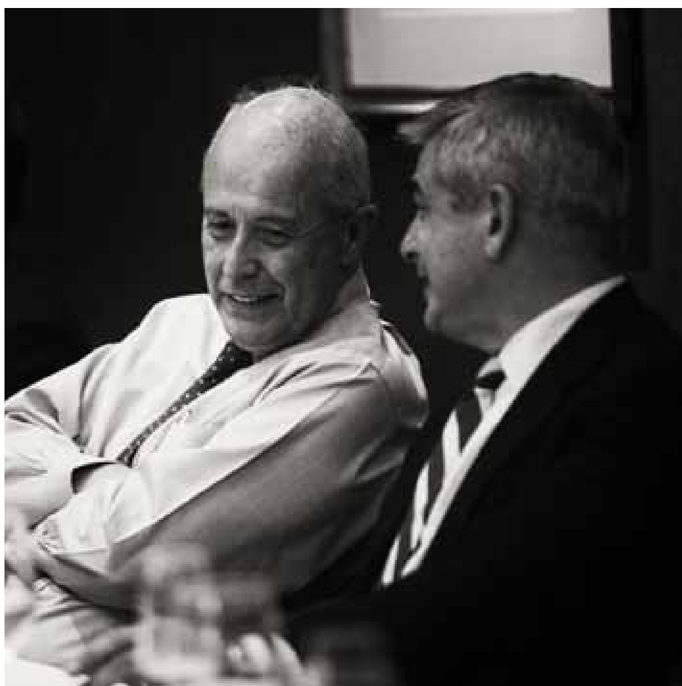
The external auditor of the company is SGV & Co., a member of Ernst and Young. Lucy L. Chan has been the partner-in-charge since 2007.

The Audit and Risk Committee reviews Ayala's financial reporting to ensure its integrity and oversees the work of the external auditor.

The Committee recommends to the Board and stockholders the appointment of the external auditor and appropriate audit fees.

The company paid or accrued the following fees, including VAT, to its external auditor in the past two years:

	Audit & Audit-related Fees (in pesos)	Other Fees
2011	5.30 M	1.15 M
2010	3.18 M	3.52 M



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 ₱3.52 million for the following services:

i. Due diligence review for a potential acquisition
ii. Financial review of operations of a foreign subsidiary

No tax consultancy services were secured from SGV & Co. for the past two years.

Internal Audit
The Internal Audit unit independently reviews Ayala'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 annual audit programs approved by the Audit and Risk Committee.

In 2011, the Audit and Risk Commitee received, noted, and/or approved audit reports from Internal Audit Management according to the approved Internal Audit Plan. The Internal Audit function was rated "Generally Conforms" after a thorough third-party quality assessment review (QAR) by the Institute of Internal Auditors Inc. (USA) in May 2007. The rating, considered the highest possible score in connection with the QAR, confirmed that Internal Audit's activities conformed with the International Standards for the Professional Practice of Internal Auditing. The QAR has to be undertaken every five (5) years. The company continues to improve the internal audit function by using a risk-based audit approach and by benchmarking against best practices.

Compliance Officer
The Compliance Officer ensures that Ayala adheres to sound corporate governance and best practices. Solomon M. Hermosura, managing director and 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.

The Compliance Officer conducts a yearly performance assessment of each member of the Board to assess the level of the Board's compliance with leading practices and

principles of good corporate governance. This is a formal self-rating system that takes into account factors such as independence, effectiveness, experience, judgment, knowledge, time commitment and team work, and identifies clear areas for improvement.

DISCLOSURE AND TRANSPARENCY

Ayala is committed to the 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.

Ayala highly conforms to the best practices set by the Philippine Stock Exchange (PSE) in its Corporate Governance Guidelines which were released in November 2010.

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. held 303.7 million common shares representing 52.61% of Ayala's total outstanding common shares. PCD Nominee Corporation held 170.18 million common shares or 29.48% and Mitsubishi Corporation held 63.08 million common shares or 10.93%. Out of the total 577 million outstanding common shares, 199 million or 34.47 % were beneficially owned by non-Filipinos.

There were 12 million outstanding listed Preferred A shares, 95.28% of which were owned by various holders registered under through the PCD Nominee Corporation. Of the outstanding Preferred A shares, 0.16% were beneficially owned by non-Filipinos.

Out of the 200 million outstanding non-listed voting preferred shares, 34.36 million shares or 17.18% were owned by foreigners.

Of the 789 million total issued and outstanding common and preferred shares of the company, 233.38 million common and preferred shares or 29.57% were owned by foreigners.

As of the end of the fiscal year December 2011, 35.42% of Ayala's common shares were owned by the public.

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 and which are readily available on the company's website: *www.ayala.com.ph*.

Aside from compliance with periodic reportorial requirements, Ayala punctually discloses major and market sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, as well as other material information that may affect the decision of the investing public.

In 2011, the company filed, among others, unstructured disclosures involving the amendment of the company's Articles of Incorporation on the increase in capital stock and the payment of 20% stock dividend on common shares; the amendment of the company's By-laws on directors' compensation and electronic communication to shareholders; submission of the highest bid for the Daang Hari/SLEX Road Project; the early redemption of the P6 billion Bonds and of the preferred "B" shares; the development of run-of-the-river hydroelectric power projects through the subsidiary, AC Energy Holdings, a wholly-owned subsidiary of the company; the acquisition of 50% interest in NorthWind Power Development Corporation; together with Ayala Land, the exchange of ownership interests in ARCH Capital with The Rohatyn Group; SEC approval of bonds; and the company's buy-back purchases of its common shares in accordance with the company's share buyback program.

Consolidated audited financial statements for the latest financial year were submitted to the SEC by the April 15 deadline, while the audited annual report was submitted at least 15 working days before the annual stockholders' meeting.

In 2011, the audited financial statements as contained in the Definitive Information Statement were submitted to the SEC and PSE on March 18, 2011 and to the PSE on the same day, more than three weeks before the April 18, 2011 annual stockholders' meeting.

Interim or quarterly financial statements were released between 30 to 45 days from the end of the financial period. The results were disclosed to the regulators within 24 hours from the time the Audit and Risk Committee met to accept the results. The results were also provided to financial and stock market analysts during an 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 Accounting Standards and 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 and noncontrolling interests, and earnings per share.

A more comprehensive disclosure of business 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, pages 149 to 151: 1) total revenue, 2) operating profit, 3) net income, 4) segment assets, 5) investments in associates and jointly controlled entities, 6) segment liabilities, and 7) depreciation and amortization.

A section on Geographical Segment includes the following information: 1) Revenue, 2) Segment Assets, and 3) 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 market prices. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements on pages 166 to 169.

Information on Ayala's financial instruments is guided by the company's risk management objectives and policies to allow 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 insider trading stock transactions to ensure compliance with disclosure rules and prevent unlawful 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 or disposal, or change in their shareholdings in the company.

Ayala 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 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 have knowledge of material facts or changes in the affairs of Ayala which have not been disclosed to the public. Covered persons are prohibited from buying or selling the company's securities during trading blackouts. The company's securities include policy covers the company's shares of stock, 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 the foundation for long-term, beneficial relationships.

Shareholder Meeting and Voting Procedures

Stockholders are informed at least fifteen (15) business days in advance of the scheduled date of their meetings. The notice of 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 and voting preferred shares of stock entitles the registered holder to one vote.

Shareholder and Investor Relations

Ayala believes that open and transparent communication is 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 Corporate Strategy and Development, 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 stockholders' meetings, one-on-one meetings, conference calls, road shows and investor conferences, website, and e-mails or telephone calls.

The company holds regular briefings and meetings with analysts, including financial analysts from the banking community. In 2011, four briefings were held announcing the 2010 year-end results and 2011 first quarter, first semester, and third quarter results. Analysts were also given access to senior management during these briefings.

Ayala has updated the Investor Relations section of its website to include the organizational structure, performance, ownership and governance of the company. The section is updated as disclosures to the regulators

are made, while presentations at analysts' briefings are immediately made available on the Web to provide easy access for the investing community.

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. The company encourages employees to participate in various company-sponsored interest groups, sports programs, volunteerism opportunities and social events to foster camaraderie and engagement.

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 are guided by four core values: integrity, long-term vision, empowering leadership, and commitment to national development. These values are expressed in the company's 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 to ensure that potential conflicts of interest are brought to management attention.

Recognitions

In 2011, various organizations recognized the company's governance practices. *FinanceAsia* ranked Ayala 1st overall in the Philippines in its Best Managed Companies Poll, as well as Best in Corporate Governance, 1st for Best for Corporate Social Responsibility, and 2nd for Investor Relations. The company also topped *Asiamoney's* Corporate Governance Poll, while *Corporate Governance Asia* cited Ayala as the Best in Asia for the sixth consecutive year.

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.

WEBSITE

Additional information on the company's corporate governance initiatives may be viewed at *www.ayala.com.ph*.

OUR CORE VALUES

Values drive behavior in an organization. Over the years, the corporate character of Ayala has not substantially changed in nature and orientation. It has evolved only to become stronger. These are the four core values that guide the way Ayala citizens work in all aspects of the business and its interaction with various stakeholders:

Integrity

Integrity means "doing the right thing" - being held accountable for all our actions. Doing the right thing has earned Ayala a position of trust among its stakeholders.

Long-Term Vision

Ayala's track record of success was built by looking to the future. In banking, real estate, telecommunications, and utilities, our CEOs had a vision that they transformed into reality by fostering the spirit of entrepreneurship, excellence and synergy and by rewarding intelligent risk-taking while holding each one accountable for doing the best thing today in order to reap tomorrow's rewards.

Empowering Leadership

At Ayala, we realize that leaders today need to manage a whole range of issues in increasingly complex situations. These challenges can only be met by empowering people at all levels of the organization to make decisions and to take action, within the framework of a shared vision and a shared corporate culture of innovation, responsibility and accountability.

Committment to National Development

We take seriously our responsibilities as corporate citizens over and above compliance with the rule of law. We believe that beyond our business objectives, we must also do our share in nation building through programs in corporate social responsibility that help develop individuals, communities, and the country as a whole.

By remaining true to these values, keeping them vibrant and relevant, and using them to bring out the best in its people, partners and other stakeholders, Ayala can count on keeping its position of trust and leadership for years to come.

BOARD OF DIRECTORS

1

JAIME AUGUSTO ZOBEL DE AYALA

Director, Ayala Corporation (since 1997). 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 Ayala Foundation Inc.; Director of Manila Water Co. Inc., 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.

4

RAMON R. DEL ROSARIO, JR.

Independent Director of Ayala Corporation (since 2010). President and Chief Executive Officer of Philippine Investment Management (PHINMA), Inc.; President, Chief Executive Officer and Vice-Chairman of 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.

6

DELFIN L. LAZARO

Director of Ayala Corporation (since 2007). Member of the Management Committee of Ayala Corporation. Chairman of Philwater Holdings Company Inc. and Atlas Fertilizer & Chemicals Inc.; Chairman and President of Purefoods International Ltd., and A.C.S.T. Business Holdings Inc.; Director of Globe Telecom Inc., Ayala Land Inc., Integrated Micro-Electronics Inc., Manila Water Co. Inc., Ayala DBS Holdings Inc., AI North America Inc., Probe Productions Inc., and Empire Insurance Company.

2

FERNANDO ZOBEL DE AYALA

Director, Ayala Corporation (since 1994). Vice Chairman, President, and COO, Ayala Corporation; Chairman, Ayala Land Inc., Manila Water Company Inc., Ayala DBS Holdings Inc., Alabang Commercial Corporation, AC International Finance Limited and Ayala International Pte Ltd.; Co-Vice Chairman, Ayala Foundation Inc. and Mermac Inc.; Director, Bank of the Philippine Islands, Globe Telecom Inc., Integrated Micro-Electronics Inc., and Asiacom Philippines Inc.; Member, The Asia Society, World Economic Forum, INSEAD East Asia Council, and World Presidents' Organization; Vice Chairman, Habitat for Humanity International, and Chairman, Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; Member, Board of Directors of Caritas Manila, Kapit Bisig para sa Ilog Pasig Advisory Board, Pilipinas Shell Corporation, and Pilipinas Shell Foundation.

5

XAVIER P. LOINAZ

Independent Director of Ayala Corporation (since 2009). 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; Chairman of the Alay Kapwa Kilusan Pangkalusugan.

7

ANTONIO JOSE U. PERIQUET

Independent Director of Ayala Corporation (since September 2010). 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 the Philippine Seven Corp.; Member of the Board of Trustees of Lyceum of the Philippines University.

3

NOBUYA ICHIKI

Director of Ayala Corporation (since 2009). 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.

MANAGEMENT

1 | 2 | 3 | 4

①

Left to Right

Fernando Zobel de Ayala (standing), Jaime Augusto Zobel de Ayala, Delfin C. Gonzalez, Jr., Solomon M. Hermosura, John Eric T. Francia (standing), Gerardo C. Ablaza Jr.

COMMITTEE

②

Left to Right

Alfredo I. Ayala, John Philip S. Orbeta, Ernest L. Cu

③

Left to Right

Aurelio R. Montinola III, Arthur R. Tan

④

Left to Right

Rufino Luis T. Manotok, Victoria P. Garchitorena, Antonino T. Aquino

SENIOR LEADERSHIP TEAM

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

GERARDO C. ABLAZA, JR.
President and Chief Executive Officer
Manila Water Company, Inc.

ANTONINO T. AQUINO
President and Chief Executive Officer
Ayala Land, Inc.

ALFREDO I. AYALA
Chief Executive Officer
LiveIt Investments, Ltd.

ERNEST L. CU
President and Chief Executive Officer
Globe Telecom, Inc.

JOHN ERIC T. FRANCIA
Group Head
Corporate Strategy and Development

VICTORIA P. GARCHITORENA[1]
President Ayala Foundation, Inc.

DELFIN C. GONZALEZ, JR.
Chief Finance Officer
Chief Risk Officer

SOLOMON M. HERMOSURA
General Counsel
Group Head, Legal and Compliance
Corporate Secretary[2]

RUFINO LUIS T. MANOTOK
Chairman and Chief Executive Officer
Ayala Automotive Holdings
Corporation

AURELIO R. MONTINOLA III
President and Chief Executive Officer
Bank of the Philippine Islands

JOHN PHILIP S. ORBETA
Group Head
Corporate Resources

ARTHUR R. TAN
President and Chief Executive Officer
Integrated Micro-Electronics, Inc.

MANAGING DIRECTORS

Ferdinand M. De La Cruz[3]
Maria Lourdes Heras-de Leon[4]
Gil B. Genio
Ronald Luis S. Goseco
Ricardo Nicanor N. Jacinto[5]
Jose Teodoro K. Limcaoco
Rufino F. Melo III
Sherisa P. Nuesa[5]
Ramon G. Opulencia
Treasurer
Luis Juan B. Oreta
Ginaflor C. Oris
Virgilio C. Rivera, Jr.
Jaime E. Ysmael
Ramon M. Zialcita

ASSOCIATE DIRECTORS

Fatima P. Agbayani
Ruby P. Chiong
Alexander T. Cordero
Emily C. De Lara
Rosallie A. Dimaano
Felipe Antonio P. Estrella
Romualdo L. Katigbak
Noel Eli B. Kintanar[6]
Erwin P. Locsin
Guillermo M. Luz
Monina C. Macavinta
Rafael Nestor V. Mantaring
Jenara Rosanna F. Ong
Ma. Teresa S. Palma
Rene D. Paningbatan
Maria Angelica B. Rapadas
Alfonso Javier D. Reyes
Ma. Victoria P. Sugapong
Sheila Marie U. Tan
Norma P. Torres
Jaime P. Villegas

CONSULTANTS/ADVISERS

Delfin L. Lazaro
Mercedita S. Nolledo
Corporate Secretary[7] and Senior Counsel[8]
Patrice R. Clausse
Carlos C. Reyes
Eliezer C. Tanlapco

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[1] Up to December 31, 2011
[2] Appointed April 18, 2011
[3] Transferred from Globe Telecom, Inc. effective July 1, 2011
[4] Appointed President of Ayala Foundation January 1, 2012
[5] Retired as of December 31, 2011
[6] Transferred from Ayala Land, Inc. effective January 1, 2011
[7] Up to April 18, 2011
[8] Up to December 31, 2011

FULL YEAR 2011 UNAUDITED CONSOLIDATED FINANCIAL RESULTS

Ayala Corporation's unaudited consolidated revenues reached a total of ₱107 billion in 2011, 10% higher than full year consolidated revenues in 2010 of ₱98 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 ₱94 billion mainly due to higher sales of Ayala Land Inc. (ALI) and Integrated Micro-Electronics 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 ₱44.2 billion, driven by the sustained growth across all its business segments. Its residential development revenues grew by 27% to ₱25.2 billion as sales take-up and bookings increased across all its residential brands. Revenues from its commercial leasing portfolio also grew by 16% to ₱7.4 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 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 programs 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 ₱12 billion as a result of higher average tariff rates and a slight increase in higher billed volume. MWC also began to recognize revenues of around ₱476 million from its new businesses in Vietnam and from its operations in Laguna, Boracay, and Clark.

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 ₱8.8 billion in 2011.

Ayala's share in the net earnings of associates and jointly controlled entities grew by 26% to ₱7.7 billion. The increase was mainly due to higher equity share in the net earnings of its banking unit, Bank of the Philippine Islands (BPI), as well as lower equity losses from LiveIt Investments, its

holding company for its BPO investments.

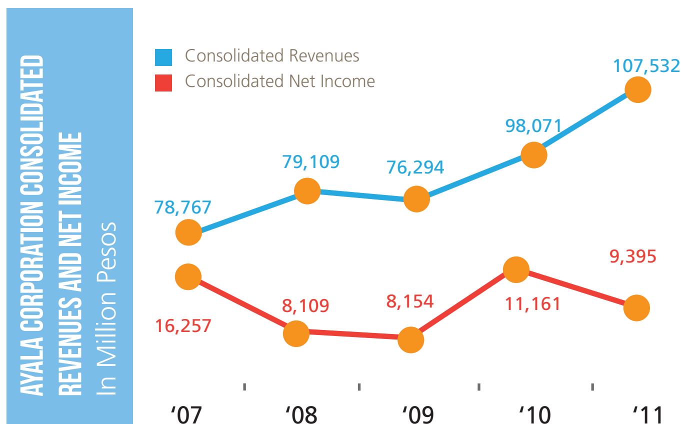
BPI posted a net income of ₱12.8 billion for full year 2011, a 13% increase over the ₱11.3 billion earnings it reported in 2010. This was mainly on the back of a 7% growth in revenues as net interest income improved by 10% due to a healthy growth in average asset base and a slight expansion in net interest margin. Non-interest income also increased, albeit marginally by 3%. The bank's loan growth was strong as it grew by 20% during the year driven by all market segments.

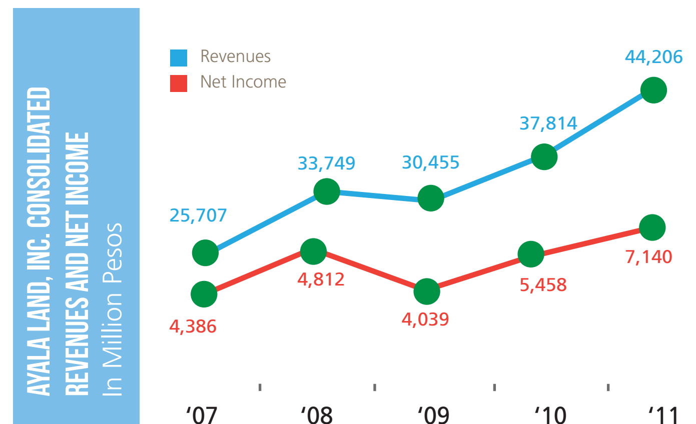
Telecom unit, Globe Telecom, reported stable net income of ₱9.8 billion in 2011, 1% higher than last year's ₱9.7 billion. The latter included a one-time upward adjustment of ₱526 million from prepaid load credits that have either expired or have been used up. Core net income, however, which excludes foreign exchange and mark-to-market gains and losses, as well as non-recurring items, was up by 11% to ₱10.0 billion from ₱9.1 billion the prior year. Globe continued its upward momentum as it hit record consolidated service revenues of ₱67.8 billion, up 8% against prior year and significantly outperforming the industry's less than 2% 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 four 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 was after non-operating items of US$22 million related to acquisitions such as non-cash amortization of intangibles and interest expense for the leveraged buyout of Stream.

Ayala's consolidated interest income increased by 30% to ₱3.3 billion mainly due to higher funds invested by ALI and MWC. Other income, however, declined by 66% to ₱2.5 billion in 2011 as 2010 included an extraordinary net gain of ₱6.4 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. the purchase price allocation gain on the acquisition of MWC preferred shares and the revaluation gain of the investments in Integreon arising from the entry of Actis.

Consolidated costs and expenses reached ₱91.7 billion, 12% higher versus 2010. Cost of sales and services increased by 14% to ₱70.1 billion in line with the growth in consolidated sales and services. Consolidated general and administrative expenses declined slightly to ₱10.91





billion from ₱11.0 billion the prior year. Interest and other financing charges grew by 30% to ₱6.2 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.

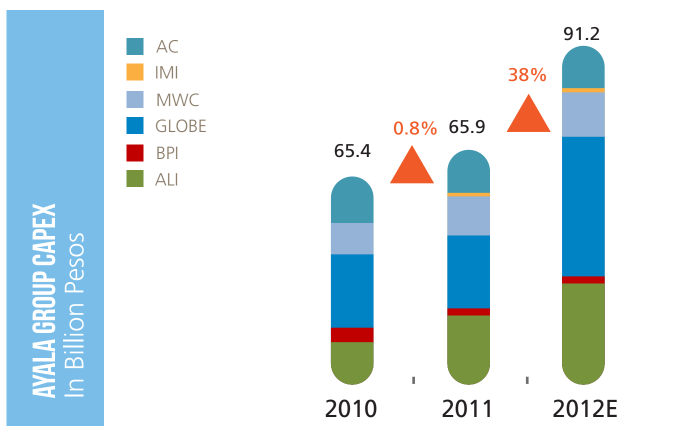
These resulted in a consolidated net income of nearly ₱16 billion. Excluding minority interest, net income attributable to the parent company was at ₱9.4 billion, 16% lower than reported net income in 2010 of ₱11.2 billion. Excluding extraordinary gains in 2010 of ₱3.6 billion and in 2011 of around ₱600 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 ₱8.8 billion, 16% higher than 2010's core net income of ₱7.6 billion.

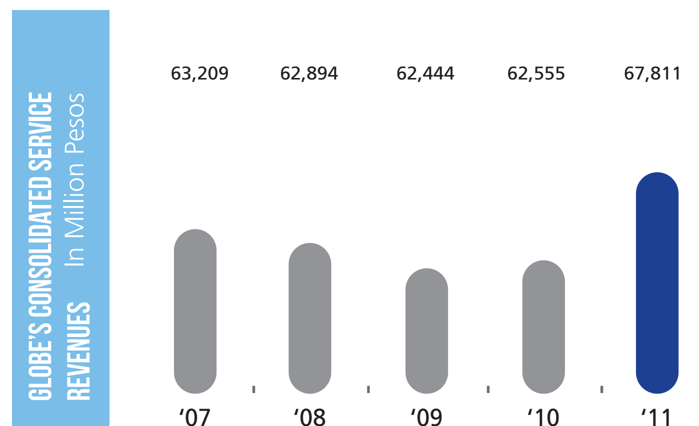
Ayala's balance sheet remains very strong. Current assets rose by 14% on a consolidated basis to ₱124 billion largely due to higher inventory of new projects of ALI and IMI's acquisition of EPIQ. Accounts receivables likewise increased in these two subsidiaries. Cash and short-term investments combined was at ₱55 billion by year-end 2011, slightly lower than the ₱57 billion at the start of the year. Consolidated current ratio at year-end stood at 1.78 times versus 1.89 the prior year.

Consolidated non-current assets grew by 13% to ₱234 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 ₱186 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 ₱66 billion in 2011 across the group. This is expected to increase by 38% in 2012 with group capex estimated at ₱91 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.





FINANCIAL STATEMENTS

REPORT OF AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

For the Year Ended 31 December 2011

The Audit and Risk Committee's roles and responsibilities are defined in the Audit and Risk Committee Charter approved by the Board of Directors. The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to: (a) the integrity of the Company's financial statements, the financial reporting process and the systems of internal controls; (b) the quality and integrity of the risk management process; (c) the performance of the Company's internal audit function and independent auditors; and (d) the compliance with legal and regulatory matters and other reporting standards.

In compliance with the Audit and Risk Committee Charter, we confirm that:

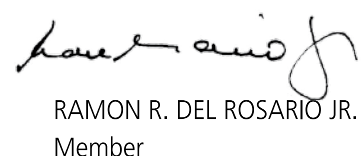
- An independent director chairs the Committee;
- We had four (4) regular meetings and one (1) special meeting during the year;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Ayala Corporation and Subsidiaries, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with the management, internal auditors and SGV & Co., the independent auditor of Ayala Corporation. These activities were performed in the following context:
    - That management has the primary responsibility for the financial statements and the financial reporting process; and
    - That SGV & Co. is responsible for expressing an opinion on the conformity of the Ayala Corporation's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed the results of their audits and their assessment of the Company's internal controls and the overall quality of the financial reporting process including their management letter of comments;
- We have reviewed and approved all audit, audit-related and permitted non-audit services provided by SGV & Co. to Ayala Corporation and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have reviewed the reports of the internal auditors ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in accordance with the Standards for the Professional Practice of Internal Auditing;
- We have reviewed the results of the work outsourced to Isla Lipana & Co. related to the reviews of the Treasury function and the Finance function processes and internal controls.
- The Company's enterprise risk management procedures and processes are currently under review for further enhancement. A company-wide risk assessment was conducted in December 2011 and completed in February 2012. We will review the adequacy of the risk management process and the effectiveness of the control environment in succeeding periodic reviews.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2011, for filing with the Securities and Exchange Commission and the Philippine Stock Exchange. We are also recommending to the Board of Directors the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2012 based on their performance and qualifications.

08 March 2012

XAVIER P. LOINAZ
Chairman

NOBUYA ICHIKI
Member


RAMON R. DEL ROSARIO JR.
Member

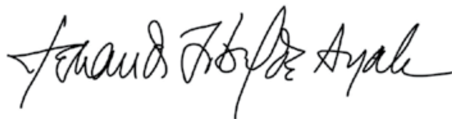
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S 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
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

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
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											
	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)	Treasury Stock (Note 21) Common Stock	Treasury Stock (Note 21) 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
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)

(Forward)

	Years Ended December 31		
	2011	2010	2009
Additions to:			
Service concession assets (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)
Decrease 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.

AYALA CORPORATION AND SUBSIDIARIES
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 (British Virgin 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
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 (BHL) (incorporated in Hong Kong) 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. (AYCFL) (Cayman Island Company)	**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 the 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 the 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 the 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.

AYALA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 pertain 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 Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the 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 sells 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 consolidated 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 succeeding 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 recognizes 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 recognizes 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.

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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 accessories are 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.

Commission Expense
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.

Expenses
Cost of services and general and administrative expenses, except for lease agreements, are recognized as expense as they are incurred.

Borrowing Costs
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 borrowing costs 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.

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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).

<u>Management's Use of Estimates</u>
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.

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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.

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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	US$28,287	₱1,192,019	US$725	₱30,571	US$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)	(US$11,662)	(₱491,423)	US$650	₱27,408	(US$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

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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 15.0% 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 6.0% 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 combinations (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

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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

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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
Revenue	**847**	**36,675**	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 of 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 to US$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 share of profit 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.

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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
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 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.

<u>POL Concession Fees</u>
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.

<u>Boracay Island Water Company, Inc. (BIWC) Concession Fees</u>
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; and

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**
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.

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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$3.0 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$5.0 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
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, respectively, 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.

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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" by 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-, 3- 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 0.8% 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$40.0 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$20.4 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 2011 amounting 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; and
- 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 million.

Homestarter Bond due 2012
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 bonds 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 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 ₱1,830.0 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%.

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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 ₱100.0 per share; and 200 million voting preferred shares with par value of ₱1 per share. On June 17, 2011, the 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 the 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 58.0 million new class of Preferred B shares with a par value of ₱100 per share or an aggregate par value of ₱5,800.0 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, nonvoting 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

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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.

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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)	
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 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.

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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).

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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 US$12.5 million (₱535.0 million).

From the date of acquisition, the Group's share in the revenue and net income of IQB amounted to US$2.3 million (₱100.6 million) and US$0.1 million (₱3.6 million) ,respectively. If the contribution had taken place at the beginning of the year, the revenue would have been US$2.2 billion (₱94.1 billion) and net income of the Group would have been US$0.4 billion (₱15.9 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.

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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

(Forward)

	In US$	In Php*
	(In Thousands)	
Liabilities		
Accounts payable and accrued expenses	US$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).

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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.

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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 consolidated 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

(Forward)

	In US$	In Php*
Liabilities		
Loans payable	US$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 US$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
AFS 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 share of profit 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 in 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.

AYALA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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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	55,667	81,755	–	–	39,151	10,923	330	968	1,758	(10,282)	180,270
Deferred tax liabilities	–	744	–	–	5,109	204	9	43	10		6,119
Total liabilities	₱55,667	₱82,499	–	–	₱44,260	₱11,127	₱339	₱1,011	₱1,768	(₱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

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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

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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

<u>Finance leases - as lessee</u>
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.

<u>IMI Group</u>
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.

<u>AIVPL Group</u>
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

<u>Operating lease commitments - as lessee</u>
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.

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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.

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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

(Forward)

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	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
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
Dividend receivable	**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	**₱95,629,202**	**₱96,393,825**	₱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
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.

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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 Increase (Decrease) in net income	2010 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

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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% to 3.72%	Monthly, quarterly	2,035,874	2,035,874	–	–	2,035,874
	Ranging from 3.50% to 8.0%	Monthly, quarterly	2,483,413	2,483,413	–	–	2,483,413
Long-term debt							
Fixed							
	Fixed at 4.57% to 9%	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
Liabilities				
Accounts payable and accrued expenses	**1,657**	**72,643**	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).*

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	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.

<u>ALI Group</u>
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.

<u>MWC Group</u>
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

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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.

ALI Group
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 postdated 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.

IMI Group
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.

MWC Group
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 of 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
Dividend receivable	**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	₱22,861,238	₱1,410,158	₱724,122	₱565,675	₱450,286	₱1,574,483	₱4,724,724	₱715,518	₱28,301,480

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 not impaired**	**Individually Impaired**	**Total**
	High Grade	**Medium Grade**	**Low Grade**	**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 and 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**
	₱86,957,385	**₱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
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$150.0 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$150.0 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.

CWC's Concession Agreement
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 ₱16.8 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.

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;

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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 INR2.5 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 authorized 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 the 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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