

2010 ANNUAL REPORT



A. SORIANO CORPORATION

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CONCURRENT RESOLUTION OF THE BOARD OF DIRECTORS

The Board of Directors of A. Soriano Corporation by unanimous concurrence, submits herewith the Statement and Annual Report of the Chairman of the Board and President of the Corporation as its own Report to Stockholders for the year ended December 31, 2010.

Chairman's Message



The Economy in 2010

The world economy emerged from recession in better shape than many had expected, with early signs of a consumer spending rebound in the U.S. amid a surge in corporate profits, European governments adopting austerity measures to cope with sovereign debt crises, and strong growth in Asia and other emerging markets signaling an eastward shift in economic wealth and muscle.

Concerns still abound: over stubbornly high unemployment and a weak housing market in the U.S., budget cuts and reduced living standards in Europe, turmoil in North Africa and the Middle East, and inflation risk in Asia as demand pumps up commodity prices. Nonetheless, rising business confidence in the U.S. may lead to more aggressive hiring and domestic growth in Asia is a net positive for the world.

The Philippine economy performed impressively in 2010. Gross Domestic Product grew by 7.3%, its fastest pace since 1986, as election spending in the year's first half and a record high of \$18.7 billion in OFW remittances fueled domestic demand. The lingering effects of El Nino kept the farm sector growth flat, but private sector investment in construction and machinery, manufacture of electronics, coal and food, and expansion in business process outsourcing, hospitality services, and external trade drove GDP growth.

Higher government revenues and judicious spending under a new administration held the 2010 budget deficit below the targeted P325 billion ceiling. The government's successful global sale of peso-denominated bonds in September reflected the investor community's upbeat view of the country's prospects.

2010 Financial Performance

Anscor's consolidated net income in 2010 amounted to P1.98 billion, almost a six-fold rise over the previous year's P289.6 million profit. This increase is largely due to your Company's financial assets, which registered a gain on sale of Available-for-sale investments of P2.1 billion, mainly marketable equity securities, versus the P186.3 million income in 2009.

The bulk of these investments are in companies where Anscor holds substantial positions for the long term namely, ICTSI, Aboitiz Equity Ventures and Aboitiz Power. Considerable values still exist beyond cost on these investments and these additional values are reflected in the balance sheet but not yet in the income statement until the investments are sold. The Company's bond and foreign equity holdings, classified as Fair Value through Profit or Loss investments, also increased in market value and the income statement reports these as gains of P100 million.

The peso appreciated 5.1% against the U.S. dollar during the year, resulting in foreign exchange losses that tempered the financial portfolio's results. These losses could have been higher if not for the hedging transactions.

Results in the operating businesses were, on the whole, positive although the bottom line in specific companies was impacted by curtailed demand due to enduring U.S. unemployment or by the need for continuing upfront investment to upgrade operating capability.

Group Operations

Phelps Dodge Philippines Energy Products Corporation (PDP Energy)

PDP Energy's diversified product line registered a 16% hike in copper sales volume, as heightened business sentiment and purchasing power from OFW remittances sparked a turnaround in the construction industry and other sectors.

Copper sales were led by higher demand for building wires as well as special and power cables in housing and industrial projects, while consumer spending also spurred an increase in copper welding wire sales to food canners.

With copper prices advancing as sales volumes climbed, domestic sales rose 30% to P4.47 billion. Exports also grew handsomely with the completion of PDP's \$1.4 million expansion project and the coming into force of the ASEAN-Australia-New Zealand Fair Trade Agreement during the year. The PEZA-registered subsidiary, PD Energy International Corporation, reported an increase in sales to General Cable Australia by P516 million over 2009 level.

PDP's 2010 net income reached P228.0 million, a gain of 57.2% over 2009.

The company implemented a Daily Routine Process in 2010 to augment ongoing Phelps Dodge Order Fulfillment System and Total Production Maintenance programs to enhance manufacturing efficiency and customer service. Also during the year, it obtained Integrated Management Systems Certification for its quality, environmental and safety systems (ISO 9001 and 14000 and OHSAS 18000) from Certification International of the UK. It extended its Zero Recordable Injury record through 2010, earning a Department of Labor and Employment award for achieving One Million Safe Work Hours with No Lost Time Accidents for two consecutive years.

New products – fire rated cables, medium voltage cables, aluminum building wires and all aluminum alloys conductors – have been developed and introduced to domestic and export markets.

Seven Seas Resorts and Leisure, Inc. (Owner of Amanpulo)

Amanpulo generated revenues of P487.5 million, 6.3% higher than 2009, mainly from increased villa occupancy and villa service fees. Room revenues dipped slightly due to lower room occupancy, but this was more than made up for by food and beverage and spa patronage, which grew 11.2% and 12.6%, respectively.

The Resort brought up the average room rate by \$38 to \$899 per night. Net profit came to P54.8 million, a 29.6% increase over 2009, mainly from improved operations.

To underscore its position as the region's premier deluxe beach resort, Amanpulo opened a new spa complex with facilities for hairdressing, gym and pilates, and hot and cold plunge pools in addition to a range of massage treatments. It also invested in cleaner and greener technology, installing a more energy-efficient system for the casitas, and initiating a switch from gasoline-fueled golf carts to solar-powered electric ones, making Amanpulo one of the first to use this transport mode.

Other environmental initiatives are studies of long-term reef protection and regeneration, acquisition of a chipper/shredder for compost fertilizer, and starting a free range chicken farm on a nearby island as source of meat supply to complement the existing piggery. The Resort continues to expand the vegetables grown on the island for use in the kitchens, enhancing the quality and freshness of ingredients used.

Cirrus Medical Staffing, Inc.

The U.S. continues to be affected by a persistently high unemployment rate which has impacted the demand for temporary healthcare staffing. Cirrus' nurse travel business has suffered during the downturn that began in 2009, while therapy staffing has grown modestly and now represents over 50% of the business. Cirrus Medical's combined revenues in 2010 drop 22.4% to ₱711.6 million, and consolidated losses for the year amounted to ₱23.7 million down from ₱62.2 million in 2009, due to steps taken to focus on the therapy market and reduce administrative expense. Most losses were incurred in the first half of the year and healthcare staffing appears to have bottomed in the fourth quarter. Efforts have begun to strengthen business development and account management functions.

Cirrus signed its first managed service agreement with a large East Coast hospital system which will contribute to performance in 2011 and is also an important step forward in providing higher "value added" services. Philippine operations are playing an increasingly important role in providing cost effective back-office support.

A promising development is the comprehensive healthcare reform package passed by the U.S. Congress in 2010, which is expected to broaden health insurance coverage and stimulate demand for healthcare services from 2014 onwards. On a less encouraging note, the U.S. Federation of State Boards of Physical Therapy (FSBPT) has sharply reduced the availability of license exams for physical therapy graduates from the Philippines and other countries, following reports of test question leakages in a Philippine review center. The Philippine Embassy in Washington, D.C. has asked FSBPT to reconsider.

KSA Realty Corporation

In the midst of a downtrend in office space occupancy in the Makati Central Business District and lower rents in secondary locations, The Enterprise Center (TEC) recorded an average occupancy rate of 80.84%, down from 85% in 2009, and gross revenues of ₱670.2 million, a 6.9% drop.

KSA Realty's net income of ₱417.7 million is 21.6% lower than last year, after the fair value adjustment in investment property of ₱130 million mentioned in last year's Annual Report. The company declared and paid cash dividends of ₱125 million, ₱14 million of which accrued to Anscor. TEC was cited as Outstanding Awardee at the Don Emilio Abello Energy Efficiency awards, an annual recognition of industry best practices in sustainable energy use.

Enderun Colleges, Inc.

Enderun's student population grew 23% to 800 full-time college and certificate students, and revenues rose 51.6% to ₱232 million in fiscal year 2009-2010. Noteworthy in this progress is the continuing education unit, Enderun Extension, where revenues grew 114% to ₱15 million and the reopened Restaurant 101 in the new Culinary Building, which generated ₱17 million, an eleven-fold jump over the previous year.

The Culinary Building was opened in February 2010 by renowned chef Alain Ducasse, head of the institute in France and the three Michelin 3-star restaurants that bear his name. Two months later, in April 2010, Enderun held its first graduation rites, with 18 students receiving degrees in Bachelor of Science in International Hospitality Management. During the year, over 150 students completed internships in the Alain Ducasse Paris restaurant and other establishments around the world.

As it continues to invest in campus facilities, Enderun incurred an operating loss of ₱50 million, down from a ₱119 million loss in the previous fiscal year. In our last Annual Report we anticipated that earnings before interests, taxes, depreciation and amortization (EBITDA) would turn positive at year-end. However, this was not to be; a mandated accounting standard on the treatment of rental rates requires that the company expenses the average rent to be paid out over the school's 25-year lease contract. While the actual rent paid in 2010 is considerably lower than that average since the rental rate escalates yearly, this leads to lower earnings in the first half of the lease, and higher in the second half.

Prople, Inc.

The outsourcing solutions provider Prople focused on three priority areas in 2010: delivering responsible growth, building capability, and improving operational excellence. Investments in these areas caused EBITDA to drop from negative ₱10.35 million in 2009 to negative ₱18.5 million in 2010, even as total revenues increased 2.3% to ₱82.9 million.

The company won new clients and expanded relationships with existing ones, signing two contracts with two-year term in 2010 (versus the usual one-year term) at higher productivity rates and contribution margins. Reductions in finance and accounting BPO services due to one client's lower budget were offset by growth in knowledge-based consultancy and payroll services. To gear up for new business, Prople transferred to new premises in Robinson's Cybergate Towers in Mandaluyong, which offer a 24/7 operating environment and diminished risk of disruptions from power outages.

With human resources systems becoming a core service in 2010, the company expanded its HR information system, launched other web-based HR management tools, and upgraded its hardware and software infrastructure, network capacity, and internet connectivity. It also invested in technical, soft skills and sales training, and in reward and recognition programs to ensure top talent growth and retention.

Prople has relaunched its North America operations by establishing a satellite office in Calgary, Canada, and maintains a business partner network in key cities in the U.S., Japan and Australia.

Multi-media Telephony, Inc. (MTI)

The case filed by MTI seeking reversal of the National Telecommunications Commission's disapproval of its application for a 3G license remains docketed at the Court of Appeals. The company expects a positive resolution within the next 12 months and is currently working on a roll-out plan for expansion of its network, entailing construction of over 200 base stations.

Alphion Corporation

Alphion is the first fiber optic network company to market products geared to Gigabit Passive Optical Networks (GPON) or installations that deliver massive data bandwidth at great speed over very long distances. Some 95% of current business comes from Bharat Sanchar Nigam, Ltd. (BSNL) and Mahanagar Telephone Nigam, Ltd. (MTNL), India's two largest telecommunication companies.

Based on Alphion's preliminary financial statements (subject to audit adjustments) for the year ended December 31, 2010, the company generated \$52.6 million in revenues, a 209% increase from the previous year's \$17.0 million. Consequently, net loss improved from \$13.3 million in 2009 to \$9.3 million in 2010.

In July 2010, the company won 100% of MTNL's GPON tender offer worth \$7.4 million. In addition, the Indian government approved Alphon's and BSNL's joint proposal for a Fiber-to-the-Panchayat (small town local government) Program, which plans to connect 250,000 Panchayats and 600,000 rural villages by broadband over the next three years. The project's pilot center was inaugurated in September 2010 by Member of Parliament and All India Congress Committee General Secretary Rahul Gandhi.

Alphon continues to diversify its customer base and has made initial shipments to customers in Europe, the Middle East, India and Africa (EMEA) area.

New Investments

In December 2010, your Company, through Cirrus Medical, paid \$550,000 to acquire NurseTogether.com. NurseTogether owns two (2) online properties that cater to healthcare professionals. These sites and its management team will enhance Cirrus' recruiting capabilities, which will be critical as the healthcare staffing market recovers. The sites also generate revenues from advertisement, partnerships and job postings. Contingent payments of up to \$510,000 will be made if NurseTogether.com meet its financial goals over the next two years.

Corporate Social Responsibility

In its 42nd year, the Andres Soriano Foundation expanded its Small Islands Sustainable Development Programs (SISDEP) in Northeastern Palawan while maintaining its Cancer Abatement and Rehabilitation Efforts (CARE).

SISDEP's principal activities centered on environmental protection, health, education and livelihood. As the Quiniluban island group's ecology is threatened by cyanide- and dynamite- fishing, the Foundation has established eight (8) fish sanctuaries protected by "Bantay Dagat," an ocean watch team conducting random patrols; sourced funds to regenerate mangrove forests serving as marine life habitat; launched a waste management advocacy targeting island government, schools and households; and is implementing a vermi-composting project using biodegradable wastes and a biogas project to turn hog waste into cooking gas.

In the Foundation's 4th annual medical mission, 12 volunteer doctors treated 2,446 individuals (versus last year's 1,976) in three island communities. The supplemental feeding program for undernourished children reported last year has been complemented by health and nutrition classes for their mothers. The Foundation completed construction of a satellite TB laboratory in partnership with Department of Health Region 4-B and the Agutaya Municipal Health office, with funds from the Share Foundation.

Donors likewise helped the Foundation construct a one-room preschool building, provide school supplies and workbooks for 11 classes comprising 234 children in nine island communities, and send one high school graduate from Manamoc island to enroll in a college course in Manila. The ongoing marketing tie-up with Amanpulo Resort benefited 233 families engaged in hog raising, fishing and vegetable farming.

Highlights of the Foundation's CARE programs include provisions for a new computer for cancer registry in Davao, chemotherapy drugs for indigent women patients at UP-PGH, and the 23rd Andres Soriano, Jr. Memorial Lecture during the 7th Asia-Pacific Musculoskeletal Conference in Shangri-La Cebu.

Outlook and Investment Strategy

Global economic recovery is proceeding slowly and unevenly. The developed nations face years of austerity and low growth, as governments grapple with mounting deficits, shaken confidence, and taxpayer unrest over bailout costs and spending cutbacks. The emerging economies progress more vigorously, but their rising appetites will push up food and fuel costs, compounding problems posed by income inequality. Moreover, in an interconnected world, trade and fiscal policies pushed by one part of the globe may be resisted strongly by another.

If the turmoil in the Middle East and North Africa (MENA) continues over an extended period, it will affect the global economy and result in slower growth and even a return to a recessionary environment in most regions. In any event, the transition in MENA countries will not occur immediately and the world economies that are affected by events in the region will need to adapt.

Nevertheless, the next wave of opportunities is likely to appear in emerging markets, where a growing middle class will want not just more goods and services, but new product designs and technology, market infrastructures and value chains. These aspirations should in turn encourage innovators and entrepreneurs in both East and West.

Given this scenario, the Philippines should respond with disciplined and unswerving pursuit of business competitiveness, which is key to satisfying the public's needs and aspirations. In this regard, the Joint Foreign Chambers of Commerce in the Philippines monograph entitled "Arangkada" offers a rich menu of prescriptions for accelerating economic growth by promoting investment and job creation in priority sectors led by agribusiness, information technology and business process outsourcing, and infrastructure, supported by reforms that address business costs, curb corruption, and strengthen education.

For its part, Anscor's strategic mindset will be characterized by the commitment to operational efficiency, customer focus, and sustainability, as in the case of PDP and Amanpulo; the fortitude to build for the long term in enterprises like Cirrus and Enderun, whose enduring potential will prevail over current obstacles; and the zest for new technologies and applications, new markets and business models, as exemplified by Prople and Alphion. The constant in these endeavors, and in the choices we make in our financial portfolio, is our purposive quest for opportunities that ensure and propel shareholder value.

Acknowledgment

Once again, we express in behalf of your Board of Directors our warmest thanks for our shareholders' steadfast support, our customers' loyalty and patronage and our employees' dedication and professionalism.



ANDRES SORIANO III
Chairman of the Board and President

Financial Highlights

(In Million Pesos Except for Ratios and Per Share Data)

CONSOLIDATED FOR THE YEAR	2010	2009	2008
REVENUES	3,501.9	1,736.2	2,271.0
Services	866.1	1,056.0	1,360.3
Gain (loss) on sale of available for sale (AFS) investments	2,091.9	186.3	(73.4)
Gain (loss) on increase (decrease) in market values of fair value through profit or loss (FVPL) investments	99.9	136.8	(465.6)
Interest income	111.2	120.2	107.0
Dividend income	145.7	102.1	122.5
Equity in net earnings of associates	115.2	78.3	99.2
Management fees	37.8	28.3	15.8
Other income	34.1	27.9	39.8
Gain on sale - others	-	0.3	12.7
Non recurring gain on sale of: eTelecare Global Solutions, Inc. (eTelecare) shares (AFS investments)	-	-	740.4
Phelps Dodge International Philippines, Inc. (PDIPI) shares (long-term investments)	-	-	312.3
Net income from a deconsolidated subsidiary	-	-	194.0
Valuation allowances - net of recoveries	(185.8)	(89.3)	(216.4)
Foreign exchange gain (loss) - net	(138.4)	(34.4)	309.6
NET INCOME*	1,975.4	289.6	776.0
EARNINGS PER SHARE**	1.46	0.20	0.52

CONSOLIDATED AT YEAR-END	12-31-10	12-31-09	12-31-08
Total Assets	11,430.3	8,354.7	6,942.0
Equity Attributable to Equity Holdings of the Parent (inclusive of unrealized valuation gain on AFS investments of P2,650.9 billion and P656.7 million in 2010 and 2009, respectively, and valuation loss of P612.7 million in 2008)	10,776.1	7,453.9	6,018.6
Investment Portfolio	8,742.5	7,173.7	5,023.2
Current Ratio	7.04	2.23	3.14
Debt to Equity Ratio***	0.06	0.12	0.15
Book Value Per Share****	8.28	5.17	4.17

* Attributable to equity holdings of the parent.

** Based on weighted average number of shares of 1,351.6 million in 2010, 1,442.6 million in 2009 and 1,502.3 million in 2008.

*** Excluding minority interests.

**** Based on outstanding shares of 1,301.6 million, 1,441.8 million and 1,443.0 million as of December 31, 2010, 2009 and 2008, respectively.

Group's Key Financial Data

(In Million Pesos)

	2010	2009
<i>Cirrus Medical Staffing, Inc. and Subsidiaries</i>		
Revenues	712	917
Net Loss	24	62
Total Assets	774	756
Stockholders' Equity	577	604
<i>Seven Seas Resorts and Leisure, Inc.</i>		
Revenues	488	459
Net Income	55	42
Total Assets	981	1,006
Stockholders' Equity	635	579
<i>Phelps Dodge Philippines Energy Products Corporation (Note 1)</i>		
Revenues	5,039	3,490
Net Income	228	145
Total Assets	2,461	1,723
Stockholders' Equity	1,628	1,480
<i>Revenues – Other Affiliates</i>		
KSA Realty Corporation	670	720
Enderun Colleges, Inc.	232	153
Island Aviation, Inc.	141	119
Prople, Inc.	83	80
Cirrus Global, Inc. (Consolidated)	5	9

Available figures as of March 4, 2011.

Note 1: Inclusive of PD Energy International Corporation's financial information.

Five-Year Review

Consolidated Financial Information

(In Million Pesos Except Per Share Data)

YEAR	NET INCOME	EQUITY ATTRIBUTABLE TO HOLDINGS OF THE PARENT	WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	EARNINGS PER *SHARE	BOOK VALUE PER **SHARE
2010	1,975.4	10,776.1	1,351.6	1.46	8.28
2009	289.6	7,453.9	1,442.6	0.20	5.17
2008 (Note 2)	776.0	6,018.6	1,502.3	0.52	4.17
2007	619.8	7,499.7	1,558.1	0.40	4.85
2006 (Note 1)	3,043.4	6,677.9	1,624.3	1.87	4.23

YEAR	GROSS REVENUES	TOTAL ASSETS	INVESTMENT PORTFOLIO
2010	3,501.9	11,430.3	8,742.5
2009	1,736.2	8,354.7	7,173.7
2008 (Note 2)	2,271.0	6,942.0	5,023.2
2007 (Note 3)	1,225.6	9,687.6	5,419.1
2006 (Notes 1 and 4)	4,069.2	8,656.4	5,355.0

Note 1 Included the one-time gain on sale of ICTSI and SPI shares of ₱2,930.3 million and ₱359.3 million, respectively.

Note 2 Included the one-time gain on sale of PDIPI and eTelecare shares amounting to ₱312.3 million and ₱740.4 million, respectively.

Note 3 Gross revenues for 2007 were restated to deconsolidate PDIPI.

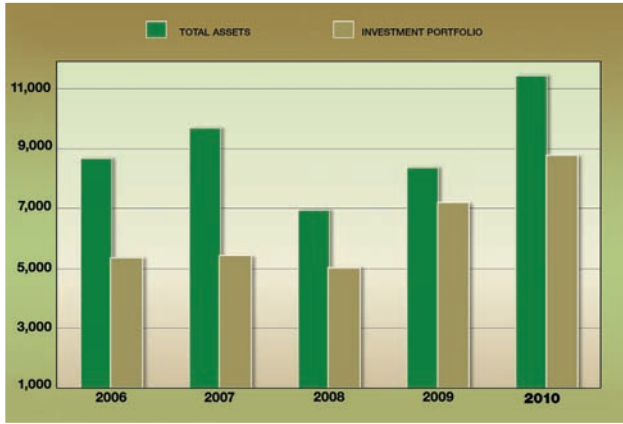
Note 4 PDIPI was still part of the consolidated gross revenues and total assets.

* Ratio of net income to weighted average number of shares outstanding during the year.

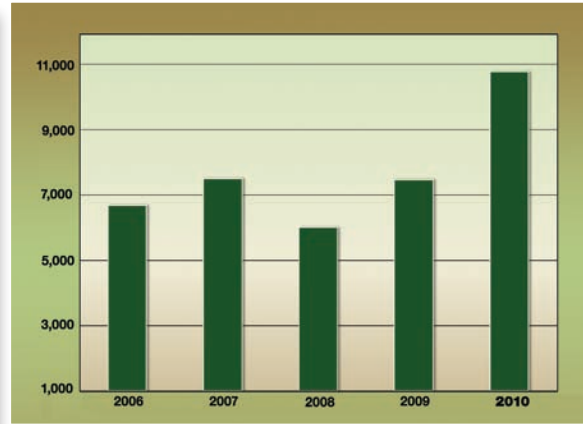
** Ratio of equity attributable to equity holdings of the parent to outstanding number of shares as of end-December.

In Million Pesos

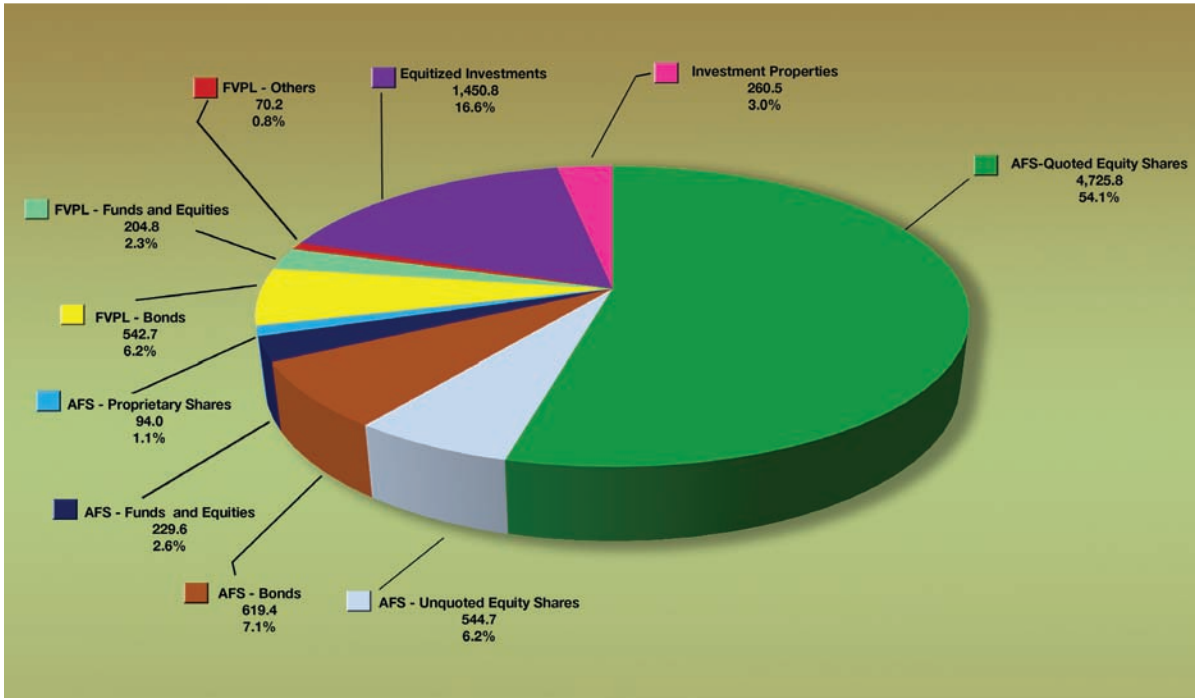
Consolidated Total Assets and Investment Portfolio



Equity Attributable to Holdings of the Parent



Consolidated Investment Portfolio Details (December 31, 2010)



Statement of Management's Responsibility



The management of A. Soriano Corporation is responsible for all information and representations contained in the consolidated financial statements as of and for the years ended December 31, 2010 and 2009. The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the Stockholders of the Company.

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

Signed under oath by the following:

ANDRES SORIANO III
Chairman &
Chief Executive Officer

ERNEST K. CUYEGKENG
Executive Vice President &
Chief Financial Officer

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this 18th day of February, 2011 at Makati City, affiants exhibited to me the following:

NAME	PASSPORT NO.	DATE & PLACE OF ISSUE
Andres Soriano III	711786600	08-11-2005 U.S.A
Ernest K. Cuyegkeng	XX3032586	02-17-2009 Manila

Doc. No. 389;
Page No. 79;
Book No. I;
Series of 2011.

LORA MAE T. INGUIITO
Appointment No. M-39
Notary Public for Makati City
Until December 31, 2012
18th, 19th & 17th Floor, Liberty Center
104 H.V. dela Costa Street
Salcedo Village, Makati City
Roll of Attorneys No. 58729
PTR 2641682/Makati City 01-03-2011
IBP 839604/PPLM 12-08-2010

Audited Consolidated Financial Statements

Independent Auditors' Report



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The Stockholders and the Board of Directors

A. Soriano Corporation

7th Floor, Pacific Star Building
Makati Avenue corner Gil Puyat Avenue Extension
Makati City

We have audited the accompanying consolidated financial statements of A. Soriano Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.



Josephine H. Estomo

Partner

CPA Certificate No. 46349

SEC Accreditation No. 0078-AR-2

Tax Identification No. 102-086-208

PTR No. 2641524, January 3, 2011, Makati City

February 18, 2011

Consolidated Balance Sheets

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 8)	P 2,188,123,589	P 594,527,199
Fair value through profit or loss (FVPL) investments (Note 9)	817,656,671	733,785,606
Receivables (Note 10)	230,447,395	220,020,505
Inventories (Note 11)	15,909,310	14,426,324
Prepayments and other current assets	66,280,014	40,136,633
Total Current Assets	3,318,416,979	1,602,896,267
Noncurrent Assets		
Available-for-sale (AFS) investments (Note 13)	6,213,532,572	4,682,991,556
Investments and advances (Note 12)	942,752,891	1,040,733,565
Investment properties (Notes 15 and 30)	260,483,302	264,082,489
Property and equipment (Notes 14 and 19)	143,177,924	200,492,521
Goodwill (Note 6)	510,905,060	503,110,989
Other noncurrent assets (Notes 16, 24 and 30)	41,033,781	60,401,057
Total Noncurrent Assets	8,111,885,530	6,751,812,177
TOTAL ASSETS	P 11,430,302,509	P 8,354,708,444
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Note 17)	P 64,393,852	P 344,553,736
Accounts payable and accrued expenses (Notes 6, 18 and 30)	257,440,701	236,433,335
Dividends payable (Note 20)	134,856,337	121,684,225
Income tax payable	3,617,707	658,887
Current portion of long-term debt (Note 19)	10,960,000	14,437,500
Total Current Liabilities	471,268,597	717,767,683
Noncurrent Liabilities		
Advances from customer (Note 30)	22,141,811	21,786,523
Long-term debt - net of current portion (Note 19)	10,960,000	20,212,500
Deferred revenues (Note 30)	80,142,589	84,456,834
Deferred income tax liabilities - net (Note 25)	8,227,521	8,297,184
Retirement benefits payable (Note 24)	23,343,489	12,388,717
Total Noncurrent Liabilities	144,815,410	147,141,758
Total Liabilities	616,084,007	864,909,441
Equity Attributable to Equity Holdings of the Parent (Note 20)		
Capital stock - P1 par value	2,500,000,000	2,500,000,000
Additional paid-in capital	1,574,103,911	1,574,103,911
Equity reserve on acquisition of noncontrolling interest (Note 3)	(26,356,543)	(26,356,543)
Cumulative translation adjustment	(68,240,077)	(30,974,237)
Unrealized valuation gains on AFS investments (Note 13)	2,650,946,926	656,731,126
Retained earnings	5,972,637,668	4,297,532,291
	12,603,091,885	8,971,036,548
Less cost of shares held by a subsidiary (1,198,379,093 shares in 2010 and 1,058,180,078 shares in 2009) (Note 20)	1,827,024,465	1,517,163,308
	10,776,067,420	7,453,873,240
Noncontrolling Interests (Note 3)	38,151,082	35,925,763
Total Equity	10,814,218,502	7,489,799,003
TOTAL LIABILITIES AND EQUITY	P 11,430,302,509	P 8,354,708,444

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

	Years Ended December 31		
	2010	2009	2008
REVENUES			
Services (Note 30)	₱ 866,112,933	₱ 1,056,013,587	₱ 1,360,274,272
Dividend income (Notes 12 and 13)	145,749,114	102,136,741	122,460,611
Equity in net earnings of associates (Note 12)	115,224,619	78,246,910	99,259,423
Interest income (Notes 13 and 23)	111,236,357	120,209,111	106,971,109
Management fee (Note 30)	37,754,660	28,251,300	15,793,394
Others	34,077,196	27,930,617	39,799,398
	1,310,154,879	1,412,788,266	1,744,558,207
INVESTMENT GAINS (LOSSES)			
Gain (loss) on sale of:			
AFS investments (Note 13)	2,091,925,238	186,271,990	(73,393,275)
Property and equipment and investment properties (Notes 14 and 15)	-	340,199	3,213,550
eTelecare Global Solutions, Inc. (eTelecare) shares (Note 13)	-	-	740,402,487
Phelps Dodge International Philippines, Inc. (PDIPI) shares (Note 7)	-	-	312,275,468
Long-term investments (Note 12)	-	-	9,460,394
Gain (loss) on increase (decrease) in market values of FVPL investments (Note 9)	99,867,962	136,822,715	(465,582,028)
	2,191,793,200	323,434,904	526,376,596
TOTAL	3,501,948,079	1,736,223,170	2,270,934,803
Costs of services rendered (Note 21)	(714,101,500)	(892,697,022)	(1,097,324,638)
Operating expenses (Note 21)	(445,459,266)	(436,129,949)	(468,076,101)
Valuation allowances - net of recoveries (Note 23)	(185,766,042)	(89,256,480)	(216,452,107)
Foreign exchange gain (loss) - net	(138,365,146)	(34,433,061)	309,593,796
Interest expense (Note 23)	(13,934,412)	(10,793,402)	(24,079,511)
Other expenses - net (Note 30)	(15,666,088)	(5,497,629)	(28,207,788)
	(1,513,292,454)	(1,468,807,543)	(1,524,546,349)
INCOME BEFORE INCOME TAX PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)	1,988,655,625	267,415,627	746,388,454
NET INCOME FROM CONTINUING OPERATIONS	1,976,723,088	282,577,581	658,682,158
NET INCOME FROM A DECONSOLIDATED SUBSIDIARY (Note 7)	-	-	193,993,690
NET INCOME	₱ 1,976,723,088	₱ 282,577,581	₱ 852,675,848
Attributable to			
Equity holdings of the Parent	₱ 1,975,357,978	₱ 289,644,550	₱ 776,036,762
Noncontrolling interests	1,365,110	(7,066,969)	76,639,086
	₱ 1,976,723,088	₱ 282,577,581	₱ 852,675,848
Earnings per share			
Basic/diluted, for net income attributable to equity holdings of the Parent (Note 26)	₱ 1.46	₱ 0.20	₱ 0.52
Basic/diluted, for net income attributable to equity holdings of the Parent from continuing operations (Note 26)	₱ 1.46	₱ 0.20	₱ 0.44

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2010	2009	2008
NET INCOME	₱ 1,976,723,088	₱ 282,577,581	₱ 852,675,848
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized valuation gains (losses) on AFS investments (Note 13)	4,101,232,336	1,462,159,420	(1,346,462,026)
Income tax effect	(45,748,745)	(56,277,319)	77,304,686
	4,055,483,591	1,405,882,101	(1,269,157,340)
Realized gains on sale of AFS investments, net of impairment losses, recognized in the statements of income (Note 13)	(2,107,472,762)	(102,957,571)	(434,158,393)
Income tax effect	46,204,971	(33,531,566)	2,498,798
	(2,061,267,791)	(136,489,137)	(431,659,595)
Subtotal	1,994,215,800	1,269,392,964	(1,700,816,935)
Cumulative translation adjustment	(37,265,840)	(34,403,096)	110,485,519
OTHER COMPREHENSIVE INCOME (LOSS)*	1,956,949,960	1,234,989,868	(1,590,331,416)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱ 3,933,673,048	₱ 1,517,567,449	(₱ 737,655,568)
Attributable to			
Equity holdings of the Parent	₱ 3,932,307,938	₱ 1,524,634,418	(₱ 814,294,654)
Noncontrolling interests	1,365,110	(7,066,969)	76,639,086
	₱ 3,933,673,048	₱ 1,517,567,449	(₱ 737,655,568)

See accompanying Notes to Consolidated Financial Statements.

* In computing the earnings available for dividend declaration and earnings per share, other comprehensive income is not considered.

Consolidated Statements of Changes in Equity

Equity Attributable to Equity Holdings of the Parent (Note 20)

	Capital Stock	Additional Paid-in Capital	Equity Reserve on Acquisition of Noncontrolling Interest (Note 3)	Cumulative Translation Adjustment	Unrealized Valuation Gains (Losses) on AFS Investments (Note 13)	Retained Earnings
BALANCES AT						
DECEMBER 31, 2007	P 2,500,000,000	P 1,574,103,911	P -	(P 107,056,660)	P 1,088,155,097	P 3,647,565,824
Total comprehensive income (loss) for the year	-	-	-	110,485,519	(1,700,816,935)	776,036,762
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P220.9 million (Note 20)	-	-	-	-	-	(329,127,050)
Shares repurchased during the year (Note 20)	-	-	-	-	-	-
Acquisition of noncontrolling interest (Note 3)	-	-	(26,356,543)	-	-	-
Movement in noncontrolling interests (Notes 3 and 7)	-	-	-	-	-	-
BALANCES AT						
DECEMBER 31, 2008	P 2,500,000,000	P 1,574,103,911	(P 26,356,543)	P 3,428,859	(P 612,661,838)	P 4,094,475,536

Equity Attributable to Equity Holdings of the Parent (Note 20)

	Subtotal*	Cost of Shares Held by a Subsidiary	Total	Noncontrolling Interests	Total
BALANCES AT					
DECEMBER 31, 2007	P 8,702,768,172	(P 1,203,059,877)	P 7,499,708,295	P 681,726,300	P 8,181,434,595
Total comprehensive income (loss) for the year	(814,294,654)	-	(814,294,654)	76,639,086	(737,655,568)
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P220.9 million (Note 20)	(329,127,050)	-	(329,127,050)	-	(329,127,050)
Shares repurchased during the year (Note 20)	-	(311,319,871)	(311,319,871)	-	(311,319,871)
Acquisition of noncontrolling interest (Note 3)	(26,356,543)	-	(26,356,543)	26,855,223	498,680
Movement in noncontrolling interests (Notes 3 and 7)	-	-	-	(740,233,447)	(740,233,447)
BALANCES AT					
DECEMBER 31, 2008	P 7,532,989,925	(P 1,514,379,748)	P 6,018,610,177	P 44,987,162	P 6,063,597,339

See accompanying Notes to Consolidated Financial Statements.

*Sum of Equity details in the first table.

Consolidated Statements of Changes in Equity

Equity Attributable to Equity Holdings of the Parent (Note 20)

	Capital Stock	Additional Paid-in Capital	Equity Reserve on Acquisition of Noncontrolling Interest (Note 3)	Cumulative Translation Adjustment	Unrealized Valuation gains (Losses) on AFS Investments (Note 13)	Retained Earnings
BALANCES AT DECEMBER 31, 2008	P 2,500,000,000	P 1,574,103,911	(P 26,356,543)	P 3,428,859	(P 612,661,838)	P 4,094,475,536
Total comprehensive income (loss) for the year	-	-	-	(34,403,096)	1,269,392,964	289,644,550
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P63.4 million (Note 20)	-	-	-	-	-	(86,587,795)
Shares repurchased during the year (Note 20)	-	-	-	-	-	-
Movement in noncontrolling interests	-	-	-	-	-	-
BALANCES AT DECEMBER 31, 2009	P 2,500,000,000	P 1,574,103,911	(P 26,356,543)	(P 30,974,237)	P 656,731,126	P 4,297,532,291

Equity Attributable to Equity Holdings of the Parent (Note 20)

	Subtotal*	Cost of Shares Held by a Subsidiary	Total	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2008	P 7,532,989,925	(P 1,514,379,748)	P 6,018,610,177	P 44,987,162	P 6,063,597,339
Total comprehensive income (loss) for the year	1,524,634,418	-	1,524,634,418	(7,066,969)	1,517,567,449
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P63.4 million (Note 20)	(86,587,795)	-	(86,587,795)	-	(86,587,795)
Shares repurchased during the year (Note 20)	-	(2,783,560)	(2,783,560)	-	(2,783,560)
Movement in noncontrolling interests	-	-	-	(1,994,430)	(1,994,430)
BALANCES AT DECEMBER 31, 2009	P 8,971,036,548	(P 1,517,163,308)	P 7,453,873,240	P 35,925,763	P 7,489,799,003

See accompanying Notes to Consolidated Financial Statements.

*Sum of Equity details in the first table.

Equity Attributable to Equity Holdings of the Parent (Note 20)

	Capital Stock	Additional Paid-in Capital	Equity Reserve on Acquisition of Noncontrolling Interest (Note 3)	Cumulative Translation Adjustment	Unrealized Valuation gains (Losses) on AFS Investments (Note 13)	Retained Earnings
BALANCES AT						
DECEMBER 31, 2009	P 2,500,000,000	P 1,574,103,911	(P 26,356,543)	(P 30,974,237)	P 656,731,126	P 4,297,532,291
Total comprehensive income (loss) for the year	-	-	-	(37,265,840)	1,994,215,800	1,975,357,978
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P249.7 million (Note 20)	-	-	-	-	-	(300,252,601)
Shares repurchased during the year (Note 20)	-	-	-	-	-	-
Movement in noncontrolling interests	-	-	-	-	-	-
BALANCES AT						
DECEMBER 31, 2010	P 2,500,000,000	P 1,574,103,911	(P 26,356,543)	(P 68,240,077)	P 2,650,946,926	P 5,972,637,668

Equity Attributable to Equity Holdings of the Parent (Note 20)

	Subtotal*	Cost of Shares Held by a Subsidiary	Total	Noncontrolling Interests	Total
BALANCES AT					
DECEMBER 31, 2009	P 8,971,036,548	(P 1,517,163,308)	P 7,453,873,240	P 35,925,763	P 7,489,799,003
Total comprehensive income (loss) for the year	3,932,307,938	-	3,932,307,938	1,365,110	3,933,673,048
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P249.7 million (Note 20)	(300,252,601)	-	(300,252,601)	-	(300,252,601)
Shares repurchased during the year (Note 20)	-	(309,861,157)	(309,861,157)	-	(309,861,157)
Movement in noncontrolling interests	-	-	-	860,209	860,209
BALANCES AT					
DECEMBER 31, 2010	P 12,603,091,885	(P 1,827,024,465)	P 10,776,067,420	P 38,151,082	P 10,814,218,502

See accompanying Notes to Consolidated Financial Statements.

*Sum of Equity details in the first table.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	P 1,988,655,625	P 267,415,627	P 746,388,454
Income before income tax from a deconsolidated subsidiary (Note 7)	-	-	298,451,831
Income before income tax	1,988,655,625	267,415,627	1,044,840,285
Adjustments for:			
Depreciation and amortization (Notes 14 and 15)	51,579,256	53,677,408	52,602,862
Loss (gain) on decrease (increase) in market values of FVPL investments (Note 9)	(99,867,962)	(136,822,715)	465,582,028
Valuation allowances - net of recoveries (Note 23)	185,766,042	89,256,480	216,452,107
Loss (gain) on sale of:			
AFS investments (Note 13)	(2,091,925,238)	(186,271,990)	73,393,275
Property and equipment (Note 14)	-	(340,199)	(3,213,550)
eTelecare shares (Note 13)	-	-	(740,402,487)
PDIPI shares (Notes 7 and 12)	-	-	(312,275,468)
Long-term investments (Note 12)	-	-	(9,460,394)
Loss on write-off of property and equipment (Note 14)	-	-	11,849,257
Dividend income	(145,749,114)	(102,136,741)	(122,460,611)
Equity in net earnings of associates (Note 12)	(115,224,619)	(78,246,910)	(99,259,423)
Interest income (Note 23)	(111,236,357)	(120,209,111)	(106,971,109)
Interest expense (Note 23)	13,934,412	10,793,402	24,079,511
Retirement benefit expense (Note 24)	35,654,077	4,287,622	3,147,158
Unrealized foreign exchange losses (gains) - net	69,570,090	34,433,061	(309,593,796)
Operating income (loss) before working capital changes	(218,843,788)	(164,164,066)	188,309,645
Decrease (increase) in:			
FVPL investments	(11,227,963)	57,597,973	337,634,222
Receivables	15,651,635	76,041,442	973,650,199
Inventories	(1,980,913)	(936,954)	645,647,233
Prepayments and other current assets	(31,213,767)	15,853,928	(8,708,324)
Increase (decrease) in accounts payable and accrued expenses	6,121,091	46,397,305	(235,895,937)
Net cash provided by (used in) operations	(241,493,705)	30,789,628	1,900,637,038
Dividends received	177,749,114	141,693,151	122,460,611
Retirement benefit contribution	(5,308,347)	(5,318,343)	(5,318,343)
Interest received	116,310,012	120,990,290	95,664,324
Interest paid	(12,226,912)	(10,793,402)	(24,079,511)
Income taxes paid	(9,043,380)	(8,140,099)	(190,057,328)
Net cash flows from operating activities	25,986,782	269,221,225	1,899,306,791
(Forward)			

Years Ended December 31

	2010	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
AFS investments (Note 13)	(P3,193,300,087)	(P 3,124,862,974)	(P2,286,594,051)
Investments and advances (Note 12)	–	–	(418,684,344)
Investment properties (Note 15)	(2,203,739)	(4,440,805)	(114,603,613)
Property and equipment (Note 14)	(15,719,537)	(101,105,473)	(13,843,799)
Advances to affiliates	–	–	(21,597,568)
Proceeds from sale of:			
AFS investments (Note 13)	5,719,026,524	2,383,711,035	2,103,665,645
Investments and advances (Note 12)	–	–	642,437,050
Investment properties (Note 15)	–	–	2,816,058
Property and equipment (Note 14)	–	340,199	1,422,391
Collection from associates (Note 12)	9,132,897	15,445,522	–
Collection of other noncurrent assets - net	2,560,697	137,218	530,081
Proceeds from redemption of preferred shares of an associate (Note 12)	–	–	35,809,730
Acquisition of subsidiaries, net of cash acquired (Note 6)	(23,850,449)	–	(682,425,948)
Net cash flows from (used in) investing activities	2,495,646,306	(830,775,278)	(751,068,368)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable (Note 17)	159,155,452	345,450,856	723,503,021
Payments of:			
Notes payable (Note 17)	(439,315,336)	(154,400,141)	(1,255,407,246)
Long-term debt (Note 19)	(14,437,500)	(12,468,438)	(3,891,693)
Dividends (Note 20)	(287,080,489)	(234,236,678)	(172,122,665)
Other noncurrent liabilities	–	(401,562)	–
Increase (decrease) in:			
Advances from customer	355,288	(11,345,153)	(48,147,034)
Deferred revenues	(4,314,245)	(5,342,185)	14,418,148
Noncontrolling interests	860,209	(9,061,398)	(712,879,543)
Acquisition of noncontrolling interest (Note 3)	–	–	(498,680)
Company shares purchased by a subsidiary (Note 20)	(309,861,157)	(2,783,560)	(311,319,871)
Net cash flows used in financing activities	(894,637,778)	(84,588,259)	(1,766,345,563)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,626,995,310	(646,142,312)	(618,107,140)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(33,398,920)	22,038,408	96,297,605
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	594,527,199	1,218,631,103	1,740,440,638
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	P 2,188,123,589	P 594,527,199	P 1,218,631,103

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

A. Soriano Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on February 13, 1930 to, among others, act as agent or representative of corporations, partnerships or individuals whether residing here or abroad; to buy, retain, possess shares of stock, franchises, patents of any person or entity and to issue shares of stock, bonds or other obligations for the payment of articles or properties acquired by the Company; and to buy or acquire all or part of the property, assets, business and clientele of any person, corporation or partnership, managing the properties or businesses so purchased or acquired and exercising all the powers necessary and convenient for the management and development of the said properties or businesses. The Company is a corporation incorporated and domiciled in the Philippines whose shares are publicly traded. The registered office address of the Company is at 7th Floor, Pacific Star Building, Makati Avenue corner Gil Puyat Avenue Extension, Makati City, Philippines.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) as at December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were authorized for issue by the Board of Directors (BOD) on February 18, 2011.

2. Basis of Preparation and Changes in Accounting Policies and Disclosures

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for securities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value. The consolidated financial statements are presented in Philippine pesos (Peso), which is the Company’s functional and presentation currency. Amounts are presented to the nearest Peso unless otherwise stated.

Statement of Compliance

The financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations issued by former Standing Interpretations Committee, the Philippine Interpretations Committee and the International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Philippine Financial Reporting Standards Council and adopted by the Philippine SEC.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards and Philippine Interpretations effective January 1, 2010.

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*, introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. PAS 27 (amended) requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and noncontrolling interests (previously referred to as “minority interests”), even if the losses exceed the noncontrolling equity investment in the subsidiary; and (c) upon loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while PAS 27 (amended) must be applied retrospectively, with certain exceptions.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Adoption of these changes in PFRS did not have an impact on the Group's consolidated financial statements:

- Amendment to PFRS 2, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*, clarifies the scope and the accounting for group cash-settled share-based payment transactions.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to PFRSs

Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have significant impact on the consolidated financial position or performance of the Group.

Improvements to PFRSs 2008

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively.

Improvements to PFRSs 2009

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker (CODM). As the Group's CODM does review segment assets and liabilities, the Group has continued to disclose this information in Note 5.

PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment will impact among others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

PAS 36, *Impairment of Assets*, the amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*

- PAS 34, *Interim Financial Reporting*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2010

The Group will adopt the following standards and interpretations enumerated below when these become effective subsequent to January 1, 2010. 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 its consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective in 2011

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- PAS 24 (Amended), *Related Party Disclosures*, clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, 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.
- Philippine Interpretation IFRIC 14, *Prepayments of Minimum Funding Requirement*, provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied retrospectively but is deemed to have no impact on the financial statements of the Group.

Improvements to PFRSs 2010

The omnibus amendments to PFRSs issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning on or after January 1, 2011, except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such 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.
- PAS 12, *Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets*, will be effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*, will be effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*, will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and introduces new requirements for classifying and measuring financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and the following wholly-owned and majority-owned subsidiaries as at December 31:

	Nature of Business	Percentage of Ownership	
		2010	2009
A. Soriano Air Corporation	Services/Rental	100	100
Pamalican Island Holdings, Inc. (PIHI)	Holding	62	62
Island Aviation, Inc. (IAI, Notes 19 and 30)	Air Transport	62	62
Anscor Consolidated Corporation (Anscorcon)	Holding	100	100
Anscor International, Inc. (AI, Note 12)	Holding	100	100
IQ Healthcare Investments Limited (IQHIL, Note 12)	Manpower	100	100
Cirrus Medical Staffing, Inc. (Cirrus, Notes 6 and 12)	Manpower Services	94	94

(Forward)

	Nature of Business	Percentage of Ownership	
		2010	2009
Cirrus Holdings USA, LLC (Cirrus LLC, Note 6)	Manpower Services	94	94
Cirrus Allied, LLC (formerly MDI Medicals, LLC; MDI, Note 6)	Manpower Services	94	94
NurseTogether, LLC (NT) (Note 6)	Online Community Management	94	-
Anscor Property Holdings, Inc. (APHI, Notes 12 and 15)	Real Estate Holding	100	100
Makatwiran Holdings, Inc. (Makatwiran, Note 12)	Real Estate Holding	100	100
Makisig Holdings, Inc. (Makisig, Note 12)	Real Estate Holding	100	100
Malikhain Holdings, Inc. (Malikhain, Note 12)	Real Estate Holding	100	100
Akapulko Holdings, Inc. (Akapulko, Note 12)	Real Estate Holding	100	100
Sutton Place Holdings, Inc. (Sutton)	Holding	100	100
Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc. or IQMAN, Notes 17 and 30)	Manpower Services	93	93
IQ Healthcare Professional Connection, LLC (IQHPC, Notes 16 and 30)	Manpower Services	93	93

On January 4, 2010, the SEC approved the amendment in IQMAN's articles of incorporation and by-laws to change IQMAN's name from International Quality Manpower Services, Inc. to Cirrus Global, Inc.


Except for AI, IQHIL, Cirrus and its subsidiaries and IQHPC, the above companies are all based in the Philippines. The principal business location of AI and IQHIL is in the British Virgin Islands (BVI), while of Cirrus and IQHPC is based in the United States of America (USA).

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities and generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date of acquisition, being the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, liabilities and equities, are eliminated in full.

Losses within a subsidiary are attributed to the noncontrolling 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. 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 noncontrolling interest
- Derecognizes the related other comprehensive income like 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:

- Losses incurred by the Group were attributed to the noncontrolling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the noncontrolling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between noncontrolling 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.

In 2007, noncontrolling interests represent the portion of profit or loss and net assets of IQMAN, Phelps Dodge International Philippines, Inc. (PDIPI) and PIHI that are not held by the Group and are presented separately in the consolidated statements of income and within equity in the consolidated balance sheets, separately from the parent's equity. In 2008, noncontrolling interest on PDIPI is no longer included in the consolidated financial statements due to the deconsolidation of PDIPI (see further discussion in Note 7).

In 2008, Sutton acquired an additional 32% interest in IQMAN, increasing its ownership to 93%. The excess of the consideration over the book value of the interest acquired was taken to "Equity Reserve on Acquisition of Noncontrolling Interest" in the consolidated balance sheets.

Investments in Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting in the consolidated financial statements. The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statements of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates of the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The following are the Group's associates:

	Nature of Business	Percentage of Ownership	
		2010	2009
Vesper Industrial and Development Corporation (Vesper)	Real Estate Holding	60	60
Seven Seas Resorts and Leisure, Inc. (SSRLI, Notes 12 and 30)	Resort	46	46
New Co, Inc. (NewCo, Note 12)	Real Estate	45	45
AFC Agribusiness Corporation	Real Estate	45	45
Anscor-Casto Travel Corporation	Travel Agency	44	44
PDIP (Notes 7, 12 and 30)	Holding	40	40
Minuet Realty Corporation (Minuet)	Landholding	60	60
Phelps Dodge Philippines Energy Products Corporation (PDP Energy, Notes 12 and 30)	Wire Manufacturing	40	40
PD Energy International Corporation (PDEIC)	Wire Manufacturing	40	40
Vicinetum Holdings, Inc. (VHI, Note 12)	Holding	27	27
Columbus Technologies, Inc.	Holding	27	27
Multi-media Telephony, Inc. (MTI, Note 12)	Broadband Services	27	27

Vesper and Minuet have been excluded in the consolidated financial statements as special voting requirements adopted by their respective shareholders manifested that the Company's 60% holdings in Vesper and Minuet are not sufficient to carry major business decisions.

Business Combinations and Goodwill


Effective January 1, 2010, business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 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 acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.



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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statements of income.

Business combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations are accounted for using the purchase accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Foreign Currency Translation

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 Peso based on the exchange rate recorded at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing exchange rate at the end of reporting period. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the closing exchange rates at the date when the fair value was determined. Foreign exchange gains and losses relating to AFS equity instruments are presented under other comprehensive income.

Financial statements of consolidated foreign subsidiaries which are considered foreign entities are translated into the presentation currency of the Group (Peso) at the closing exchange rate at end of reporting period and their statements of income are translated using the monthly weighted average exchange rates for the year. The exchange differences arising from the translation are taken directly to a separate component of equity (under cumulative translation adjustment). On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statements of income.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets 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 trade date. Derivatives are recognized on trade date basis.

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value

The fair value of instruments that are actively traded in organized financial markets is determined by reference to market prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

The inputs and assumptions used in the valuation techniques are based on market observable data and condition and reflect appropriate adjustments for credit and liquidity risks existing at each of the periods indicated.

Derivatives recorded at FVPL

The Group enters into derivative contracts, such as currency forwards. Such derivative financial instruments are initially recorded at fair value and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the consolidated statements of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group has certain derivatives that are embedded in host financial contracts, such as structured notes and debt investments. These embedded derivatives include calls and puts in debt investments and interest rate options.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL.


Embedded derivatives are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group has opted not to designate its derivative transactions as accounting hedges. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statements of income.

Classification of financial instruments

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

As of December 31, 2010 and 2009, the Group has the following categories of financial assets and financial liabilities:

- (a) Financial assets and financial liabilities at FVPL



This category includes 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 in the near term.

Financial assets or financial liabilities classified in this category may be designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheets at fair value. Changes in fair value are recorded in “Gain (loss) on increase (decrease) in market values of FVPL investments”. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded as such according to the terms of the contract, or when the right of payment has been established.

As of December 31, 2010 and 2009, the Group has designated as FVPL all investments in bonds that have callable and other features, managed/hedged funds, and derivatives amounting to ₱817.7 million and ₱733.8 million, respectively. No financial liability at FVPL is outstanding as of December 31, 2010 and 2009 (see Notes 9 and 29).

(b) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in the consolidated statements of income. The losses arising from impairment of such loans and receivables are recognized as “Valuation allowances - net of recoveries” in the consolidated statements of income.

Included under loans and receivables are cash in banks, short-term investments, trade receivables, interest receivable, advances to officers and employees and other receivables. As of December 31, 2010 and 2009, the Group has loans and receivables amounting to ₱2,418.6 million and ₱814.5 million, respectively (see Note 29).

(c) AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as FVPL, HTM or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers, investments in managed funds and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statements of income. The unrealized gains and losses arising from the fair valuation of AFS investments and the impact of restatement on foreign currency-denominated AFS equity securities are reported as part of other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is transferred to profit or loss as “Gain (loss) on sale of AFS investments”. Where the Group holds more than one investment in the same security, cost of the disposed investment is determined on a weighted average cost basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized as such in the consolidated statements of income when the right of payment has been established. The losses arising from impairment of such investments are recognized as “Valuation allowances - net of recoveries” in the consolidated statements of income.

As of December 31, 2010 and 2009, the Group’s AFS investments amounted to ₱6,213.5 million and ₱4,683.0 million, respectively (see Notes 13 and 29).

(d) Other financial liabilities

All loans and borrowings are initially recognized at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2010 and 2009, total other financial liabilities amounted to ₱351.0 million and ₱563.1 million, respectively (see Note 29).

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the consolidated balance sheets where:

- the rights to receive cash flows from the asset have expired; or
- 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 rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

Financial liabilities

A financial liability is removed from the consolidated balance sheets 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 will result into the removal of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

The Group assesses at each end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

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.



For individually significant financial assets, 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 the estimated future cash flows (excluding future credit losses that have not been incurred). If the Group determines that no objective evidence of impairment exists for 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, 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. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). 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.


The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statements of income. Interest income, if any, continues to be recognized based on the original effective interest rate of the asset. Loans, 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 year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to "Valuation allowances - net of recoveries" in the consolidated statements of income.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments

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



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

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” profit or loss) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is recognized in the consolidated statements of income only 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” profit or loss amount.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated balance sheets.

Revenue 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. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, and value-added and other sales taxes or duties.

The following specific recognition criteria must also be met before revenue and cost is recognized:

Sale of Goods

Sale is 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 on Villa Development Project

Revenue on Villa Development Project of an associate is recognized under the completed contract method. Under this method, revenue is recognized only when the villa clusters have been constructed, turned over to, and accepted by the buyer.

Cost of Real Estate Sold

The cost of real estate sold includes the acquisition cost of the land and total development costs upon completion.

Rendering of Services

Management fees, air transport services, and other aviation-related activities are recognized when the services have been performed.

Revenue on nurse placements are recognized upon the nurses’ arrival and employment in the U.S. hospitals.

All deposits on contracts with U.S. hospitals are recorded under “Deferred revenues” until the contracted nurses’ arrival and employment in the U.S. hospitals.

Costs of Services Rendered

All direct nurse costs incurred in deployment of nurses are deferred and included in “Other noncurrent assets - net” in the consolidated balance sheets, until the nurses’ arrival and employment in the U.S. hospitals. Upon the nurses’ arrival and employment in the U.S. hospitals, deferred costs are reversed to “Costs of services rendered”.

All selling and general and administrative expenses are expensed as incurred.

Interest

Interest income from bank deposits and investments in bonds are recognized as interest accrues based on the effective interest rate method.

Dividends

Dividend income is recognized when the shareholders’ right to receive the payment is established.

Rental

Rental income is accounted for on a straight-line basis over the lease term.

Other Comprehensive Income

Other comprehensive income comprises items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income of the Group pertains to gains and losses on remeasuring AFS investments and exchange differences on translating foreign operations. In computing for the earnings available for dividend declaration and earnings per share, other comprehensive income is not considered.

Cash and Cash Equivalents

Cash includes cash on hand and with 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 and that are subject to an insignificant risk of change in value.

Inventories

Cost of aircraft spare parts and supplies is determined using the moving average method. Net realizable value is the estimated current replacement cost of these inventories.

Residential units held for sale are carried at the lower of cost and net realizable value and include those costs incurred for the development and improvement of the properties.

Property and Equipment

Depreciable properties, including buildings and improvements, leasehold improvements, machinery and other equipment, flight and ground equipment, furniture, fixtures and office equipment, and transportation equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed on a straight-line method over the following estimated useful lives of the properties, except for aircraft engine which is computed based on flying hours.

Category	Number of Years
Buildings and improvements	5 - 30
Leasehold improvements	5*
Machinery and equipment	10 - 25
Flight and ground equipment	5 - 10
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5

* or lease term, whichever is shorter

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

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, the Group's investment properties are stated at cost, less accumulated depreciation and any accumulated impairment losses.

Investment properties are written-off when either these are disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of the investment property are recognized in the consolidated statements of income in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.


Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed:

Category	Number of Years
Land improvements	30
Buildings	25 - 30
Condominium units	20

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties 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. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Impairment of Non-financial Assets

At each reporting date, the Group assesses whether there is any indication that its non-financial assets (namely, property and equipment, investment properties and investments in associates) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs.



Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations in the year in which it arises. 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 statements of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statements of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill as of December 31 of each year.

Noncurrent Assets Held for Sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Depreciable assets are no longer depreciated once they are classified as noncurrent assets held for sale and discontinued operations.

In the consolidated statements of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Group retains a noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately from the consolidated statements of income.

Capital Stock

Capital stock represents the portion of the paid in capital representing the total par value of the shares issued.

Additional Paid-in Capital

Additional paid-in capital pertains to the amount paid in excess of the par value of the shares issued.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration.

Leases

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

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

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

Group as Lessee

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

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. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs


Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Pension Benefits

The Group has a contributory defined benefit retirement plan.

The retirement cost of the Group is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the consolidated balance sheets in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs (see Note 24). The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.



Past service costs, if any, are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized 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.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement. 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 an interest expense.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Income Taxes

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the 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 sufficient future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in foreign subsidiaries and associates, deferred income 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 income tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are re-assessed at each end of reporting period and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred income tax assets to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are applicable 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 at the end of reporting period.

Current income tax and deferred income tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statements of income.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and deferred income taxes related to the same taxable entity and the same taxation authority.

Treasury Shares and Contracts on Own Shares

The Company's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issue or cancellation of the Company's shares.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Company does not have potentially dilutive common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Company and subsidiaries. Dividends for the year that are approved after the end of reporting period are dealt with as an event after the end of reporting period.

Events after the Reporting Period

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

Segment Reporting

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 business segments is presented in Note 5.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, other comprehensive income (loss) and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 amounts recognized in the consolidated financial statements.

Determination of functional currency

The Group's functional currency was determined to be the Peso. It is the currency of the primary economic environment in which the Company operates.

Classification of financial instruments

The Group classifies a financial instrument, or its component parts, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet (see Note 29).

Operating Lease Commitments - Group as Lessee

The Group has entered into leases of office and commercial spaces. The Group has determined that all significant risks and rewards of ownership of these spaces remain with the lessors after the lease.

Operating Lease Commitments - Group as Lessor

The Group has entered into a commercial property lease on its investment property. The Group has determined that it retains all the significant risks and rewards of ownership of this property and so accounts for it as an operating lease.

Financial assets not in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is or not in an active market. Included in the evaluation on whether a financial asset is in an active market is the determination on whether prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the balance sheet 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.

Impairment losses on loans and receivables

The Group reviews its loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the consolidated statements of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For the advances to related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and their current credit status, are considered to ascertain the amount of reserves that will be recognized. These reserves are re-evaluated and adjusted as additional information is received. Allowance for doubtful accounts as of December 31, 2010 and 2009 amounted to P604.2 million and P567.9 million, respectively. Receivables and advances, net of valuation allowance, amounted to P233.3 million and P271.0 million as of December 31, 2010 and 2009, respectively (see Notes 10 and 12).

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's-length market transactions;
- current fair value of another instrument that is substantially the same;

- the expected cash flows discounted at current rates applicable for terms with similar terms and risk characteristics; or,
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group performs periodic reassessment by reference to prices from observable current market transactions in the same instrument or from other available observable market data.

Unquoted equity investments amounted to ₱544.7 million and ₱501.0 million as of December 31, 2010 and 2009, respectively (see Note 13).

Impairment of AFS equity investments

The Group recognizes impairment losses on AFS equity investments when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. In determining whether the decline in value is significant, the Group considers historical volatility of share price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the share price has been depressed (a sudden decline is less significant than a sustained fall of the same magnitude over a long period).

AFS equity investments amounted to ₱5,375.6 million and ₱3,718.7 million as of December 31, 2010 and 2009, respectively (see Note 13).

Impairment of investments carried at equity method


Investments carried at equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group’s impairment test on investments carried at equity is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years as well as the terminal value at the end of five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. As of December 31, 2010 and 2009, allowance for decline in value of investments amounted to ₱176.1 million and ₱43.0 million, respectively. The carrying amounts of the investments, net of valuation allowance, amounted to ₱939.9 million and ₱989.7 million as of December 31, 2010 and 2009, respectively (see Note 12).

Estimation of allowance for inventory and impairment losses

The Group estimates the allowance for inventory obsolescence and impairment losses related to inventories based on specifically identified inventory items. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for inventory and impairment losses would increase recorded expenses and decrease current assets. As of December 31, 2010 and 2009, allowance for inventory losses amounted to ₱1.0 million and ₱0.5 million, respectively, while allowance for impairment losses amounted to ₱0.3 million as of the same dates. The carrying amount of the inventories, net of valuation allowance, amounted to ₱15.9 million and ₱14.4 million as of December 31, 2010 and 2009, respectively (see Note 11).

Estimation of useful lives of the Group’s property and equipment and investment properties

The Group estimates the useful lives of property and equipment and investment properties based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of these assets is based on collective assessment of internal technical evaluation and experience with similar assets. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.



As of December 31, 2010 and 2009, the aggregate net book value of property and equipment and investment properties amounted to ₱403.7 million and ₱464.6 million, respectively (see Notes 14 and 15).

Impairment of non-financial assets

(a) Property and equipment and investment properties

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

As of December 31, 2010 and 2009, the aggregate impairment loss on property and equipment amounted to ₱3.3 million (see Note 14).

(b) Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the “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 from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Considering the U.S. crisis and the unemployment rate, the Group recognized an impairment provision of ₱100.0 million as of December 31, 2010 and 2009 on its investment in Cirrus. As of December 31, 2010 and 2009, goodwill amounted to ₱510.9 million and ₱503.1 million, respectively (see Note 6).

Estimation of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

On December 10, 2010, as part of the purchase price allocation for its acquisition of NT, the Group identified an element of contingent consideration with a fair value of ₱14.6 million which is classified under “Accounts payable and accrued expenses” in the 2010 consolidated balance sheet (see Note 6).

Recognition of deferred income tax assets

The Group reviews the carrying amounts of the deferred income tax assets at each end of reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. As of December 31, 2010 and 2009, the Group recognized deferred income tax assets amounting to ₱47.6 million and ₱36.8 million, respectively (see Note 25).

Determination of pension and other retirement benefits

The determination of the Group’s obligation and cost for pension and other retirement benefits is dependent on the Group’s selection of certain assumptions used by the actuaries in calculating such amounts. Actual results that differ from the Group’s assumptions are accumulated and amortized over future periods and therefore, generally affect the Group’s recognized expense and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group’s pension and other retirement obligations.

The expected rates of return on plan assets ranging from 7% to 8% was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of end of reporting periods. Refer to Note 24 for the details of assumptions used in the calculation.

	In Million Pesos			
	2010	2009	2008	
Net benefit expense (income)	₱ 35.6	₱ 4.3	(₱ 3.8)	
Pension liability	23.3	12.4	8.5	
Pension asset	-	16.8	14.5	

Provisions and contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in the preceding notes and in Note 31.

5. Segment Information

The Company and its subsidiaries' operating businesses are organized and managed separately according to the nature of the products or services offered. Prior to 2008, the Group has no geographical segments (except for IQHPC's operations) as majority of the companies within the Group were incorporated and are operating within the Philippines. The Group has no inter-segment sales and transfers. The amounts disclosed were determined consistent with the measurement basis under PFRS.

Holding company segment pertains to the operations of the Company.

Nurse/Physical Therapist (PT) staffing companies segment pertains to the subsidiaries providing manpower services operating in the United States.

Amounts for the investments in associates comprise the Group's equity in net earnings of the associates.

Other operations include air transportation, hangarage, real estate holding and management, and recruitment services.

The following tables present the financial information of the business segments as of and for the years ended December 31, 2010, 2009 and 2008 (in thousands).

	Before Eliminations				Total	Eliminations	Consolidated
	US	Philippines					
	Nurse/PT Staffing Co.	Holding Co. (Parent)	Other Operations	Investments in Associates			
As of and for the year ended December 31, 2010							
Revenues, excluding interest income	₱ 711,561	₱ 211,572	₱ 459,183	₱ -	₱ 1,382,316	(₱ 183,397)	₱ 1,198,919
Interest income	6	107,147	4,083	-	111,236	-	111,236
Investment gains	-	2,191,154	639	-	2,191,793	-	2,191,793
Interest expense	187	11,024	2,723	-	13,934	-	13,934
Income tax expense	-	3,602	8,331	-	11,933	-	11,933
Net income (loss)	(61,123)	1,967,237	152,286	115,225	2,173,625	(196,902)	1,976,723
Total assets	851,285	11,406,079	184,710	-	12,442,074	(1,011,771)	11,430,303
Investments and advances	-	2,246,514	66,453	-	2,312,967	(1,370,214)	942,753
Property and equipment	6,403	47,641	89,134	-	143,178	-	143,178
Total liabilities	702,404	307,212	291,875	-	1,301,491	(685,407)	616,084
Depreciation and amortization	7,716	14,629	29,234	-	51,579	-	51,579
Other non-cash expenses	-	187,660	1,942	-	189,602	-	189,602
Cash flows from (used in):							
Operating activities	(64,996)	200,099	(40,776)	-	94,327	(68,340)	(25,987)
Investing activities	(26,550)	2,480,638	338,131	-	2,792,219	(296,573)	2,495,646
Financing activities	47,660	(876,329)	(305,504)	-	(1,134,173)	239,535	(894,638)

	Before Eliminations							Total	Eliminations	Consolidated
	US		Philippines			Investments in Associates				
	Nurse/PT Staffing Co.	Holding Co. (Parent)	Other Operations	Wire Manufacturing (Note 7)						
As of and for the year ended December 31, 2009										
Revenues, excluding interest income	P 914,118	P 169,183	P 221,653	P	–	P 1,304,954	(P 12,375)	P 1,292,579		
Interest income	2,757	110,585	6,867	–	–	120,209	–	120,209		
Investment gains	–	321,528	1,907	–	–	323,435	–	323,435		
Interest expense	5,161	3,309	2,323	–	–	10,793	–	10,793		
Income tax expense	–	(19,589)	4,427	–	–	(15,162)	–	(15,162)		
Net income (loss)	(61,829)	384,836	24,735	78,247	–	425,989	(143,411)	282,578		
Total assets	818,987	8,338,168	825,558	–	–	9,982,713	(1,628,005)	8,354,708		
Investments and advances	–	2,352,772	712,014	–	–	3,064,786	(2,024,052)	1,040,734		
Property and equipment	7,501	56,258	136,734	–	–	200,493	–	200,493		
Total liabilities	159,356	646,846	990,448	–	–	1,796,650	(931,741)	864,909		
Depreciation and amortization	6,597	16,765	30,315	–	–	53,677	–	53,677		
Other non-cash expenses	–	77,882	11,374	–	–	89,256	–	89,256		
Cash flows from (used in):										
Operating activities	9,852	288,148	26,668	–	–	324,668	(55,447)	269,221		
Investing activities	(5,159)	(745,411)	(127,995)	–	–	(878,565)	47,790	(830,775)		
Financing activities	(546)	(101,611)	66,550	–	–	(35,607)	(48,981)	(84,588)		

	Before Eliminations							Total	Eliminations	Consolidated
	US		Philippines			Wire Manufacturing (Note 7)	Investments in Associates			
	Nurse/PT Staffing Co.	Holding Co. (Parent)	Other Operations	Wire Manufacturing (Note 7)						
As of and for the year ended December 31, 2008										
Revenues, excluding interest income	P 1,227,557	P 220,945	P 464,998	P 2,790,956	P	–	P 4,704,456	(P 3,063,655)	P 1,640,801	
Interest income	1,120	99,223	5,321	1,307	–	–	106,971	–	106,971	
Investment gains	–	770,450	16,944	–	–	–	787,394	(261,017)	526,377	
Interest expense	2,389	17,772	987	2,932	–	–	24,080	–	24,080	
Income tax expense	1,458	64,850	20,184	1,214	–	–	87,706	–	87,706	
Net income	28,843	857,472	190,188	193,994	99,259	–	1,369,756	(517,080)	852,676	
Total assets	828,981	6,782,064	897,713	2,808,082	–	–	11,316,840	(4,389,313)	6,927,527	
Investments and advances	–	2,398,298	96,276	–	–	–	2,494,574	(1,501,042)	993,532	
Property and equipment	7,883	66,288	76,537	227,027	–	–	377,735	(234,976)	142,759	
Total liabilities	162,196	662,276	802,146	1,215,170	–	–	2,841,788	(1,977,858)	863,930	
Depreciation and amortization	3,521	17,064	28,678	52,044	–	–	101,307	(52,044)	49,263	
Other non-cash expenses	–	211,748	4,704	–	–	–	216,452	–	216,452	
Cash flows from (used in):										
Operating activities	51,275	546,235	240,460	(201,851)	–	–	636,119	1,263,187	1,899,306	
Investing activities	(751,411)	(113,268)	(386,848)	(71,613)	–	–	(1,323,140)	572,072	(751,068)	
Financing activities	749,550	(450,406)	126,184	134,574	–	–	559,902	(2,326,248)	(1,766,346)	

6. Business Combinations

- a. On January 19, 2008, the Company through its subsidiary, Cirrus acquired 100% of the outstanding equity interests in Cirrus Holdings USA, LLC (Cirrus LLC) and its affiliate, Cirrus Medical Staffing, LLC. Both companies are engaged in the contract and temporary staffing and permanent placement of nurses and allied healthcare professionals in the U.S.A. Subsequently, new shares were issued to another shareholder representing 6% of total outstanding shares of Cirrus.

The fair values of the identifiable assets and liabilities of Cirrus LLC as at the date of acquisition were:

		Fair Value Recognized on Acquisition (in millions)
Cash	P	3.4
Receivables - net		105.2
Property and equipment		2.6
Other assets		4.7
Total assets		115.9
Accounts payable and accrued expenses		17.5
Net assets		98.4
Goodwill arising from the acquisition		488.3
Total consideration	P	586.7

The cost of the combination was P586.7 million broken down as follows (in millions):

Cash consideration	P	564.0
Costs associated with the acquisition		22.7
Total consideration	P	586.7

- b. On July 18, 2008, Cirrus purchased 100% of MDI Medical, LLC (now, Cirrus Allied, LLC) to complement Cirrus LLC's nurse traveler operations. It provides physical, occupational and speech language therapists to medical facilities across the U.S.A.

The fair values of the identifiable assets and liabilities of MDI Medical as at the date of acquisition were:

		Fair Value Recognized on Acquisition (in millions)
Cash	P	0.4
Receivables - net		50.9
Other assets		2.0
Total assets		53.3
Accounts payable and accrued expenses		6.7
Net assets		46.6
Goodwill arising from the acquisition		52.9
Total consideration	P	99.5

The total cost of the combination was P99.5 million broken down as follows (in millions):

Cash consideration	P	92.0
Costs associated with the acquisition		7.5
Total consideration	P	99.5

- c. On December 10, 2010, Cirrus completed the acquisition of all of the outstanding membership units of NT to complement the operations of Cirrus LLC and MDI Medical. As part of the purchase price allocation for its acquisition of NT the Group identified an element of contingent consideration subject to revenue and earnings targets.

The fair value of the contingent consideration at the acquisition date using the discount rate of 5% amounted to \$332,868 or ₱14.6 million (included under “Other payables”, see Note 18).

The purchase price was allocated to assets acquired and liabilities assumed based on a provisional assessment of fair values since valuation of the intangible assets acquired has not yet been determined as of the date of acquisition. Adjustments to the provisional amounts will be determined within one year from the date of acquisition.

The fair values of the assets and liabilities of NT at the date of acquisition were:

	Fair Value Recognized on Acquisition (in millions)
Cash	₱ 0.2
Receivables - net	0.3
Total assets	0.5
Accounts payables and accrued expenses	0.4
Net assets	0.1
Goodwill arising from the acquisition	38.4
Total consideration	₱ 38.5

From the date of acquisition, Cirrus LLC, MDI Medical and NT have contributed losses amounting to ₱43.4 million, ₱58.3 million and ₱24.4 million to the Group’s consolidated income from continuing operations for 2010, 2009 and 2008, respectively (excluding expenses of Cirrus).

The goodwill of ₱539.5 million, before exchange differences amounting to ₱63.6 million as of December 31, 2009, comprises the value of the acquired companies’ customer and staff base and existing market share in the healthcare staffing industry. There are no specific values assigned to the customer and staff base. These are not separate and quantifiable and therefore, do not meet the criteria for recognition as an intangible asset under PAS 38, Intangible Assets. The goodwill from Cirrus was reduced by ₱30.6 million due to foreign exchange differences in 2010 and by ₱1.7 million collections from the previous creditors of Cirrus in 2009.

Impairment testing of goodwill

a. The recoverable amount of the investments in Cirrus LLC and MDI Medical has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a ten year period. The pre-tax discount rate applied to cash flow projections is 11% in 2010 and 2009. In 2010, the cash flows beyond the ten-year period are extrapolated using a growth rate that is consistent with the expected average growth rate for the industry.

Key assumptions used in value-in-use calculations

The consolidated value-in-use of both companies is most sensitive to the following assumptions:

Cash flow projection

Cash flow projections are based on Cirrus and MDI’s contracts, which are long term in nature that renew in perpetuity.

Discount rate

Discount rate is consistent with the risk-free industry interest rate.

Growth rate

Growth rate assumptions for the ten year cash flow projections are supported by the different initiatives of Cirrus and MDI which started in 2009.

Sensitivity to changes in assumptions

Management accepts that changes in key assumptions would cause the carrying value of the unit to exceed its recoverable amount. The estimated recoverable amount of investments in subsidiaries exceeds their carrying amount by about ₱129.3 million. The implications of the key assumptions to the recoverable amount are discussed below:

- **Growth rate assumptions**
Management has used the average industry growth rate for the forecast. Although the current economic downturn is impacting the temporary healthcare staffing industry, the long-term growth of the healthcare staffing industry is underpinned by the increasing shortage of qualified healthcare professionals, notably registered nurses, and the growing demand fueled by an aging population.
- **Terminal value**
Management has used the most recent healthcare staffing transaction price earnings multiple in determining the terminal value.

The significant economic downturn in the U.S. could adversely affect the average terminal value for similar sale of assets in the same industry in future years. Accordingly, management had set up an impairment loss of ₱100.0 million as of December 31, 2010 and 2009.

b. Goodwill from the Company's investment in IQMAN, through Sutton, amounting to ₱37.0 million, was fully impaired as of December 31, 2010 and 2009. The Company, through Sutton, assessed that there will be delays in the recovery of the investment cost in IQMAN because IQMAN's operations has been restricted due to the delayed processing of EB-3 immigrant visas for nurses destined for employment in the U.S.

7. Deconsolidated Subsidiary

On June 30, 2008, the Company entered into a Deed of Assignment for the sale to General Cable Company of Canada of its 1,081,900 shares of stock (representing 18.34% share of total outstanding shares) in PDIPI for a total selling price of ₱641.5 million. Gain on sale of shares in PDIPI amounted to ₱312.3 million. As a result, the Company's ownership of PDIPI has been reduced to 40% and it therefore deconsolidated PDIPI starting July 1, 2008. The Company's investment in PDIPI is accounted for under the equity method effective July 1, 2008.

PDP Energy, PDIPI's subsidiary, produces bare wires and insulated wires and is a separate reportable operating segment in 2008 (see Note 5).

The results of PDIPI and subsidiaries for the six-month period ended June 30, 2008 are presented below (in millions):

	June 30, 2008 (Six Months)
Net sales	₱ 2,788.1
Cost of goods sold	2,413.9
Gross profit	374.2
Expenses	75.7
Income before income tax	298.5
Provision for income tax	104.5
<u>Net income from a deconsolidated subsidiary</u>	<u>₱ 194.0</u>
Earnings per share - basic/diluted, for net income attributable to equity holdings of the parent from a deconsolidated subsidiary (see Note 26)	₱ 0.08

The net cash flows from (used in) the activities of PDIFI and subsidiaries for the six-month period ended June 30, 2008 are as follows (in millions):

	June 30, 2008 (Six Months)	
Operating	P	197.5
Investing		(47.1)
Financing		(133.0)
Net cash inflow	P	17.4

8. Cash and Cash Equivalents

	2010		2009	
Cash on hand and with banks	P	242,394,492	P	240,814,508
Short-term investments		1,945,729,097		353,712,691
	P	2,188,123,589	P	594,527,199

Cash with banks earn interest at the respective bank deposit rates ranging from 0.25% to 0.725% in 2010 and 2009 (see Note 23). Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company.

9. Fair Value Through Profit or Loss (FVPL) Investments

	2010		2009	
Bonds	P	542,716,767	P	477,505,188
Funds and equities		204,790,484		178,471,233
Others		70,149,420		77,809,185
	P	817,656,671	P	733,785,606

This account consists of investments that are designated as at FVPL and held-for-trading investments. Designated FVPL investments consist of foreign currency-denominated fixed income securities with embedded derivatives (e.g., call and put options) that significantly modify the security's cash flow. These investments are classified under others and bonds. Held-for-trading investments include foreign currency-denominated mutual/hedge funds, and equity investments that are managed together on a fair value basis. These investments are classified under funds and equities.

Net gain (loss) on increase (decrease) in market value of FVPL investments as of December 31 (in millions) are as follows:

	Unrealized valuation gains (losses) in market values as of December 31		Gain on increase in market value of FVPL investments in 2010	
	2010	2009		
Bonds	(P) 13.7	(P) 21.9	P	8.2
Funds and equities	(8.6)	(36.0)		27.4
Others	3.5	(25.1)		28.6
Total	(P) 18.8	(P) 83.0	P	64.2
Add realized gain on sale of FVPL investments				35.7
Net gain on increase in market value of FVPL investments			P	99.9

	Unrealized valuation gains (losses) in market values as of December 31		Gain on increase in market value of FVPL investments in 2009
	2009	2008	
Bonds	(P 21.9)	(P 171.6)	P 149.7
Funds and equities	(36.0)	(101.3)	65.3
Others	(25.1)	(35.5)	10.4
Total	(P 83.0)	(P 308.4)	225.4
Less realized loss on sale of FVPL investments			(88.6)
Net gain on increase in market value of FVPL investments			P 136.8

	Unrealized valuation gains (losses) in market values as of December 31		Loss on increase in market value of FVPL investments in 2008
	2008	2007	
Bonds	(P 171.6)	P 25.7	(P 197.3)
Funds and equities	(101.3)	(14.9)	(86.4)
Others	(35.5)	93.8	(129.3)
Total	(P 308.4)	P 104.6	(413.0)
Add realized loss on sale of FVPL investments			(52.6)
Net loss on decrease in market value of FVPL investments			(P 465.6)

In 2010, the Company entered into non-deliverable currency forward contracts to manage foreign currency risk. These contracts were all settled during the year and resulted to a realized gain of P64.1 million. There was no outstanding forward transaction as of December 31, 2009.

10. Receivables

	2010	2009
Trade (Note 30)	P 175,813,610	P 141,392,543
Interest receivable	24,115,479	28,468,859
Tax credits/refunds	24,146,722	16,671,582
Advances to officers and employees	3,983,920	2,420,719
Others	34,504,614	65,941,551
	262,564,345	254,895,254
Less allowance for doubtful accounts	32,116,950	34,874,749
	P 230,447,395	P 220,020,505

Interest receivable pertains to accrued interest income from cash and cash equivalents, FVPL and AFS investments in debt instruments.

Other receivables in 2009 include receivables related to the proceeds from sale of AFS investments amounting to P33.3 million from ATR-KIM Eng Securities, Inc. which were subsequently collected in 2010.

Movement in the allowance for doubtful trade and other receivable accounts are as follows:

	2010		2009
At January 1	P 34,874,749	P	30,260,814
Provision for the year (Note 23)	1,077,971		4,925,709
Written off during the year	-		(311,774)
Recoveries	(3,835,770)		-
At December 31	P 32,116,950	P	34,874,749

11. Inventories

	2010		2009
At cost:			
Materials and supplies in transit	P 1,006,684	P	89,083
Aircraft spare parts and supplies - net of allowance for inventory losses of P1.0 million in 2010 and P0.5 million in 2009	14,618,537		14,053,152
	15,625,221		14,142,235
At net realizable value:			
Residential units held for sale - net of allowance for impairment losses of P0.3 million in 2010 and 2009	284,089		284,089
	P 15,909,310	P	14,426,324

Aircraft parts in transit are purchased from suppliers abroad under Freight on Board Shipping Point. These items are in the custody of either the Bureau of Customs or freight forwarder as of December 31, 2010 and 2009.

In 2008, a subsidiary sold one residential unit and reversed the corresponding allowance for impairment of P0.8 million. Gain on sale of residential units amounted to P1.0 million in 2008. No similar sale took place in 2010 and 2009.

12. Investments and Advances

	2010		2009
Investments at equity - net	P 939,936,843	P	989,726,116
Advances - net of allowance for doubtful accounts of P572.1 million in 2010 and P533.0 million in 2009	2,816,048		51,007,449
	P 942,752,891	P	1,040,733,565

Investments at equity consist of:

	2010	2009
Acquisition cost:		
Common shares	₱ 412,600,120	₱ 412,600,120
Preferred shares	90,390,853	90,390,853
	502,990,973	502,990,973
Accumulated equity in net earnings (losses):		
Balances at beginning of year	529,779,626	493,132,716
Equity in net earnings for the year	115,224,619	78,246,910
Dividend received	(32,000,000)	(41,600,000)
Balances at end of year	613,004,245	529,779,626
Valuation allowance	(176,058,375)	(43,044,483)
	₱ 939,936,843	₱ 989,726,116

Significant details of the balance sheets and statements of income of SSRLI and PDP Energy are enumerated below (in millions):

PDP Energy

	2010	2009
Balance Sheets:		
Current assets	₱ 2,116.4	₱ 1,418.0
Noncurrent assets	344.5	305.0
Current liabilities	832.8	242.4
Noncurrent liabilities	0.6	1.0
Statements of Income:		
Net sales	5,039.4	3,490.3
Net income	228.0	144.9

SSRLI

	2010	2009
Balance Sheets:		
Current assets	₱ 354.8	₱ 479.9
Noncurrent assets	626.2	526.5
Current liabilities	243.9	299.6
Noncurrent liabilities	102.1	127.6
Statements of Income:		
Gross revenues	487.5	458.5
Net income	54.8	42.3

In addition to those discussed in Notes 6 and 7, the significant transactions involving the Group's investments in subsidiaries and associates for 2010, 2009 and 2008 follow:

PDIPI and subsidiaries

- a. In May 2007, PDP Energy established PDEIC, a PEZA-registered company engaged in manufacturing wires, mainly for export. PDEIC started commercial operations in January 2009.

- b. In March 2010, October 2009 and February 2008, PDIPI (parent company of PDP Energy) declared cash dividends to its stockholders. Cash dividends received by the Company amounted to ₱32.0 million at ₱13.56 per share in 2010, ₱41.6 million at ₱17.63 per share in 2009 and ₱58.3 million at ₱16.95 per share in 2008.

SSRLI

- a. On January 9, 2007, SSRLI and the Philippine Economic Zone Authority (PEZA) signed a Registration Agreement declaring SSRLI as an Ecozone Developer/Operator, entitling SSRLI to establish, develop, construct, administer and manage the villas and to operate the Ecozone. SSRLI is entitled to four-year income tax holiday and tax-free importation on PEZA-covered items under the Registration Agreement.

On December 18, 2009, SSRLI's resort operations have been registered with PEZA to engage in the renovation and expansion of Amanpulo Resort at the Pamalican Island Tourism Ecozone. SSRLI's resort operations is entitled to 5% gross income tax on revenues generated from foreign clients and ordinary income tax on non-foreign clients under the Registration Agreement.

- b. In December 2008, SSRLI entered into deeds for sale of seven of the Phase 2 [Villa Development Project] villas. The Company's share in the gain on sale of the villas amounted to ₱77.5 million.
- c. In March 2008, the Company received ₱35.8 million from SSRLI representing proceeds from SSRLI's redemption of the preferred shares held by the Company.
- d. On February 18, 2011, the BOD of the Company approved the Company's acquisition of additional shares from the minority shareholders of SSRLI. The acquisition will increase the present ownership of the Company from 46.79% to 62.30% of the total outstanding common and preferred shares of SSRLI. Total acquisition price for the additional shares is \$5.89 million (₱255.8 million). The purchase price allocation and determination of goodwill, if any, are still being finalized.

Others

On June 4, 2008, the Company sold all its shares in Toledo Mining and Industrial Corporation (TMIC) and ASC Mining and Industrial Corporation (ASCMIC) for a total selling price of ₱9.5 million. TMIC and ASCMIC were fully provided with allowance at the time of sale. Accordingly, TMIC and ASCMIC had been excluded in the consolidated financial statements. Gain on sale of shares in TMIC and ASCMIC amounted to ₱9.5 million.

Advances

Net advances consist of receivables from the following associates:

	2010	2009
MTI (net of allowance for doubtful accounts of ₱555.7 in 2010 million and ₱530.7 million in 2009)	₱ -	₱ 25,000,000
Newco (net of allowance of ₱14.1 million, Note 30)	-	14,798,148
AFC	1,500,000	-
SSRLI	481,651	8,281,703
Others (net of allowance for doubtful accounts of ₱2.3 million in 2010 and 2009)	834,397	2,927,598
	₱ 2,816,048	₱ 51,007,449

In June and September 2005, the Company entered into a loan agreement with MTI for the latter to issue convertible debts to the Company. The debts, totaling US\$3.0 million are payable in 270 days and bear interest at 20% per annum. Prior to the payment date, the Company has the option to convert the said debt into VHI's (MTI's parent company) shares of stock.

In 2006, the Company provided additional advances to MTI amounting to US\$6.5 million. The advances are payable in two years and bear interest at 20% per annum. The Company has the option to convert these advances to shares of stock of MTI.

In 2007, additional P25.0 million advances were extended to MTI to be converted to 278,822 shares of VHI.

As of December 31, 2009, these advances were converted into deposits for future stock subscription of VHI shares.

13. Available for Sale (AFS) Investments

	2010	2009
Quoted equity shares	P 4,725,844,025	P 2,987,342,446
Unquoted equity shares	544,747,290	500,971,672
Bonds	619,398,470	839,512,777
Funds and equities	229,604,987	279,946,411
Proprietary shares	93,937,800	75,218,250
	P 6,213,532,572	P 4,682,991,556

Quoted equity shares consist of marketable equity securities that are listed and traded on the Philippine Stock Exchange (PSE). The fair market values of these listed shares are based on their closing market prices as of December 31, 2010 and 2009.

In 2008, the Company sold its shares in eTelecare resulting in a gain of P740.4 million.

AFS investments in bonds represent foreign currency-denominated bond securities with fixed coupon interest rate per annum ranging from 3.58% to 11.13% in 2010, 4.56% to 10.75% in 2009 and 6.25% to 11.75% in 2008. Maturity dates range from April 1, 2011 to April 18, 2028 in 2010 and July 9, 2010 to October 25, 2017 in 2009. Effective interest rates range from 5.74% to 12.01%, 4.91% to 10.15% and 5.67% to 10.96% for foreign currency-denominated AFS investments in 2010, 2009 and 2008, respectively.

Investments in bonds, funds and equities' market prices or rates are calculated and/or confirmed by the respective fund managers. Unquoted equity shares are carried at cost, subject to impairment.

In 2010, 2009 and 2008, gain (loss) on sale of AFS investments amounted to P2,091.9 million, P186.3 million and (P73.4 million), respectively.

Unquoted equity shares include the following:

- a. Prople, Inc.

In December 2007, the Company entered into a subscription agreement with Prople, Inc. (Prople; formerly Gralce Holdings, Inc.) for the acquisition of 6,665 shares of stock of the latter (equivalent to 20% of the outstanding shares).

Prople is a domestic corporation that owns Prople-bpo, Inc. (formerly, Sommersault, Inc.), Prople-kpo, Inc. and Prople-contents, Inc. (the Prople Group). The Prople Group is into business process outsourcing, specializing in finance and accounting, human resource administration and industry-focused transaction processing services. The total cost of the investment in Prople amounted to P33.4 million. In 2010 and 2009, the Company made additional investment in Prople amounting to P1.5 million and P3.0 million, respectively. These additional investments enabled the Company to maintain its 20% equity share in Prople. As of December 31, 2010 and 2009, the total cost of the investment in Prople amounted to P37.8 million and P36.4 million, respectively. Investment in Prople is accounted for as AFS because management believes that the Company does not have the ability to exercise significant influence on Prople.

Furthermore, the Company does not have any involvement in the operations of Prople. The investment is measured at cost less impairment rather than at fair value as the shares of stock of Prople are not publicly-traded, such that there is no reliable basis of fair value.

b. Enderun College, Inc. (Enderun)

In 2008, the Group entered into a subscription agreement for the acquisition of 16,216,217 new shares of stock equivalent to 20% equity stake in Enderun, a college that offers a full range of bachelor's degree and non-degree courses in the fields of hotel administration, culinary arts and business administration. The total cost of the investment in Enderun amounted to P286.2 million. Investment in Enderun is classified as AFS at cost because the Company does not exercise significant influence and its holding in Enderun is not sufficient to carry major business decisions.

c. Alphion Corporation (Alphion)

In March 2009, the Company invested US\$900,000 (P43.7 million) for 387,297 Series E Preference shares of Alphion. Alphion is a fiber optic network company based in New Jersey, with sales, marketing, procurement and R&D offices in India. Alphion develops, manufactures and markets high-speed fiber optic access and switching systems that enable "triple play" services, or voice, video, and data transmission in a single line.

d. KSA Realty Corporation

In 2010, 2009 and 2008, the Company received cash dividends amounting to P5.7 million, P22.8 million and P31.4 million, respectively.

e. ATR Holdings, Inc. (ATR Holdings)

On July 26, 2010, the BOD authorized the parent company to purchase 38,830,244 common shares of stock of ATR Kim Eng Financial Corporation (ATRKE) for a total purchase price of P115.7 million to be paid as follows:

- Exchange of the Company's 5,000,000 common shares of stock of ATR Holdings which constitute 8.85% of the total outstanding capital of ATR Holdings and with aggregate book value of P96.8 million; and,
- Cash consideration for P18.7 million.

On November 2, 2010, the parent company exchanged its 5,000,000 common shares in ATR Holdings with 41,936,663 shares in ATRKE. The resulting gain from the transaction amounting to P27.0 million is included under gain on sale of AFS investments.

Below is the rollforward of the unrealized valuation gains (losses) on AFS investments recognized in equity:

	2010	2009
Beginning balance	P 656,731,126	(P 612,661,838)
Gain recognized directly in equity - net of tax	4,055,483,591	1,405,882,101
Amount removed from equity and recognized in profit and loss - net of tax	(2,061,267,791)	(136,489,137)
Ending balance	P 2,650,946,926	P 656,731,126

The Group recognized impairment loss, included in the valuation allowances, amounting to P20.0 million for its unquoted equity investments in 2010. In 2009, impairment loss amounted to P19.7 million on its AFS equities and funds and quoted equity shares and P64.0 million on its bond securities (see Note 23). The amount recognized in the consolidated statements of income represents the cumulative loss that was initially recognized in equity. In 2008, the Group recognized impairment loss on equity securities amounting to P8.3 million and P227.7 million for equities and funds and quoted equity shares, respectively.

14. Property and Equipment

	2010				
	Buildings and Improvements	Flight and Ground Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
Cost					
January 1	₱ 148,779,904	₱ 270,926,209	₱ 55,120,252	₱ 29,283,165	₱ 504,109,530
Additions	4,121,053	7,364,017	3,275,999	958,468	15,719,537
Reclassifications	-	(58,570,660)	-	-	(58,570,660)
Disposals	-	-	-	(730,000)	(730,000)
Foreign exchange adjustment	(40,953)	-	(1,134,489)	-	(1,175,442)
December 31	152,860,004	219,719,566	57,261,762	29,511,633	459,352,965
Accumulated Depreciation and Amortization:					
January 1	94,470,666	139,007,939	42,723,076	24,122,375	300,324,056
Depreciation and amortization	9,157,433	25,255,215	4,233,858	2,059,438	40,705,944
Reclassifications	-	(27,517,712)	-	-	(27,517,712)
Disposals	-	-	-	(389,335)	(389,335)
Foreign exchange adjustment	(19,922)	-	(220,943)	-	(240,865)
December 31	103,608,177	136,745,442	46,735,991	25,792,478	312,882,088
Impairment Loss	-	3,292,953	-	-	3,292,953
Net Book Value	₱ 49,251,827	₱ 79,681,171	₱ 10,525,771	₱ 3,719,155	₱ 143,177,924

	2009				
	Buildings and Improvements	Flight and Ground Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
Cost					
January 1	₱ 148,086,461	₱ 173,410,449	₱ 57,483,443	₱ 27,178,435	₱ 406,158,788
Additions	636,986	97,612,782	405,900	2,449,805	101,105,473
Disposals	-	(97,022)	(2,769,091)	(47,750)	(2,913,863)
Foreign exchange adjustment	56,457	-	-	(297,325)	(240,868)
December 31	148,779,904	270,926,209	55,120,252	29,283,165	504,109,530
Accumulated Depreciation and Amortization:					
January 1	85,907,853	112,682,605	42,410,763	19,105,627	260,106,848
Depreciation and amortization	8,547,661	26,325,334	3,081,402	4,872,298	42,826,695
Disposals	16,887	-	(2,769,089)	(19,929)	(2,772,131)
Foreign exchange adjustment	(1,735)	-	-	164,379	162,644
December 31	94,470,666	139,007,939	42,723,076	24,122,375	300,324,056
Impairment Loss	-	3,292,953	-	-	3,292,953
Net Book Value	₱ 54,309,238	₱ 128,625,317	₱ 12,397,176	₱ 5,160,790	₱ 200,492,521

In October 2009, one of IAI's aircraft had to undergo major repairs and maintenance, which prompted IAI to purchase a new aircraft amounting to ₱62.2 million. The cost of these major repairs and maintenance is capitalized.

Depreciation charged to operations amounted to ₱40.71 million, ₱42.8 million and ₱43.5 million in 2010, 2009 and 2008, respectively.

15. Investment Properties

	2010		
	Land	Buildings	Total
Cost			
January 1	P 185,742,977	P 145,073,170	P 330,816,147
Additions	2,203,739	-	2,203,739
December 31	187,946,716	145,073,170	333,019,886
Accumulated Depreciation:			
January 1	-	66,733,658	66,733,658
Depreciation for the year	-	5,802,926	5,802,926
December 31	-	72,536,584	72,536,584
Net Book Value	P 187,946,716	P 72,536,586	P 260,483,302

	2009		
	Land	Buildings	Total
Cost			
January 1	P 181,302,172	P 145,073,170	P 326,375,342
Additions	4,440,805	-	4,440,805
December 31	185,742,977	145,073,170	330,816,147
Accumulated Depreciation:			
January 1	-	60,930,732	60,930,732
Depreciation for the year	-	5,802,926	5,802,926
December 31	-	66,733,658	66,733,658
Net Book Value	P 185,742,977	P 78,339,512	P 264,082,489

Investment properties include 874.6 hectares of land in Palawan and Cebu as of December 31, 2010 and 2009.

In 2010 and 2009, Malikhain and APHI purchased additional land in Poblacion, San Vicente, Palawan amounting to P2.2 million and P4.4 million, respectively.

As of December 31, 2010, the Company intends to sell the Corporation's unit at the 34th Floor of the Enterprise Center with an area of 1,238.4 square meters.

Fair values of the investment properties amounted to P547.9 million as of December 31, 2010 and 2009, respectively. The fair values were determined based on valuations performed by independent appraisers using the Sales Comparison approach.

16. Other Noncurrent Assets

Other noncurrent assets also include deferred nurse costs of IQHPC amounting to P29.3 million and P32.0 million as of December 31, 2010 and 2009 (see Note 30).

17. Notes Payable

Notes payable represent unsecured, short-term, interest-bearing Peso-denominated liabilities of the following companies in the Group to various local banks:

Bank loans availed by:	2010	2009
IAI	₱ 55,238,400	₱ 66,102,880
Cirrus	9,155,452	–
A. Soriano Corporation	–	278,450,856
	₱ 64,393,852	₱ 344,553,736

The loans bear annual interest rates ranging from 2.5% to 2.8% in 2010 and 6.2% to 10% in 2009. In 2010, the Company availed additional loans amounting ₱150.0 million and fully settled the total outstanding balance of the notes payable by the end of 2010. As of December 31, 2010 and 2009, the Group's unavailed loan credit line from banks amounted to ₱600.0 million and ₱400.0 million, respectively.

Cirrus has a \$1.5 million and \$3.0 million line-of-credit as of December 31, 2010 and 2009, respectively with Fifth Third Bank with interest payable monthly at the bank's prime rate and is secured by accounts receivables. Loans payable availed by Cirrus as of December 31, 2010 amounted to \$208,838.

18. Accounts Payable and Accrued Expenses

	2010	2009
Trade payables	₱ 61,184,578	₱ 51,191,690
Accrued expenses	98,171,955	121,546,493
Due to affiliates (Note 30)	53,678,220	53,496,443
Other payables (Note 6)	44,405,948	10,198,709
	₱ 257,440,701	₱ 236,433,335

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

Accrued expenses include unpaid operating costs of the foreign subsidiaries which were subsequently paid in January 2011.

19. Long-term Debt

Long-term debt pertains to the following:

	2010	2009
Long-term debt availed by IAI	₱ 21,920,000	₱ 34,650,000
Less current portion	10,960,000	14,437,500
	₱ 10,960,000	₱ 20,212,500

Loan payable of IAI represents a US\$1.0 million loan obtained in October 2006 from a local bank to finance the purchase of its second aircraft. The debt has a two-year grace period and is payable in sixteen quarterly installments starting January 2009 up to October 2012. The loan bears interest at 8.87% per annum. The loan is collateralized by chattel mortgages on IAI's two aircraft with a carrying value of ₱21.5 million and ₱66.4 million as of December 31, 2010 and 2009, respectively.

Annual interest rates charged in 2010, 2009 and 2008 ranged from 6.5% to 9.1%, 6.2% to 10% and 7.7% to 9.8%, respectively (see Note 23).

20. Equity

Equity holdings of the parent

Capital stock consists of the following common shares:

	Number of Shares	Amount
Authorized	3,464,310,958	₱ 3,464,310,958
Issued	2,500,000,000	₱ 2,500,000,000

Outstanding shares, net of shares held by a subsidiary, as of December 31, 2010 and 2009 totaled 1,301,620,907 and 1,441,819,922, respectively. The Company's number of equity holders as of December 31, 2010 and 2009 is 11,768 and 11,883, respectively.

In 2010, 2009 and 2008, the Company declared the following cash dividends:

	2010	2010	2009	2008
Cash dividends per share	₱ 0.12	₱ 0.10	₱ 0.06	₱ 0.12
Month of declaration	October	March	April	February
Stockholders of record	November 4	March 25	May 8	March 11
Total cash dividends	₱300 million	₱250 million	₱150 million	₱300 million
Share of a subsidiary	₱143.8 million	₱106.0 million	₱63.4 million	₱115.2 million

In addition to the above, the BOD approved special declaration of cash dividends of ₱0.10 per share in September 2008 for stockholders of record as of January 15, 2009 totaling ₱250.0 million. Share of a subsidiary on these cash dividends amounted to ₱105.7 million.

The special cash dividends in 2008 arose from the gain on the sale of eTelecare shares (see Note 13). No special cash dividends were declared in 2009.

As of December 31, 2010 and 2009, the Company had dividends payable amounting to ₱134.9 million and ₱121.7 million, respectively. Dividends payable represent mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2010 and 2009 due to problematic addresses of some of the Company's stockholders.

Shares held by a subsidiary

As of December 31, 2010 and 2009, a subsidiary held 1,198,379,093 shares and 1,058,180,078 shares, respectively, of the Company. Cost of shares of the Company purchased by the subsidiary in 2010, 2009 and 2008 amounted to ₱309.8 million, ₱2.8 million and ₱311.3 million, respectively.

Proceeds from the sale of shares held by a subsidiary in 2007 amounted to ₱37.0 million with the excess over cost of purchase amounting to ₱23.4 million credited to "Additional paid-in capital".

On February 11, 2011, a subsidiary purchased additional 65,000 shares of the Company at the average price of ₱3.1 per share.

21. Costs of Services Rendered and Operating Expenses

Costs of services rendered consist of:

	2010	2009	2008
Salaries, wages and employee benefits (Note 22)	₱ 463,371,068	₱ 604,818,050	₱ 789,631,541
Recruitment services	52,083,265	67,633,583	64,424,330
Insurance	36,898,414	47,446,679	26,743,245
Dues and subscriptions	32,781,618	18,594,170	18,720,182
Housing cost	31,857,749	50,894,508	65,551,379
Fuel cost	27,321,574	18,887,205	33,374,873
Depreciation and amortization (Notes 14 and 15)	24,794,121	26,159,563	26,109,813
Repairs and maintenance	21,854,014	24,632,524	19,781,714
Transportation and travel	6,554,801	7,339,403	19,482,884
Variable nurse costs (Note 30)	2,458,871	3,067,894	1,660,195
Outside services	2,360,656	2,664,191	6,326,947
Technical assistance fees (Note 30)	66,550	70,458	77,445
Nurse deployment expenses (Note 30)	-	10,866,860	16,458,773
Cost of residential units sold	-	-	2,777,186
Others	11,698,799	9,621,934	6,204,131
	₱ 714,101,500	₱ 892,697,022	₱ 1,097,324,638

Operating expenses consist of:

	2010	2009	2008
Salaries, wages and employee benefits (Note 22)	₱ 225,029,028	₱ 190,667,958	₱ 192,773,588
Professional fees	52,427,831	66,980,578	87,118,208
Depreciation and amortization (Notes 14 and 15)	26,785,135	27,517,845	26,493,049
Rental (Note 30)	22,350,065	21,951,673	17,740,501
Transportation and travel	14,398,146	12,349,455	15,123,998
Advertising	11,824,481	13,037,999	10,489,430
Commissions	11,311,051	12,807,095	35,001,584
Taxes and licenses	8,648,448	8,260,406	7,455,730
Communications	7,778,406	12,329,852	9,439,681
Utilities	7,469,905	5,957,347	6,659,426
Insurance	6,491,328	14,048,135	9,874,961
Entertainment, amusement and recreation	6,219,240	7,727,978	4,725,426
Security services	6,124,222	5,946,411	5,304,745
Association dues	5,760,540	3,719,227	4,124,495
Office supplies	3,194,676	4,672,396	3,548,806
Meetings and conferences	3,150,116	2,187,250	2,270,764
Repairs and maintenance	1,874,005	2,529,541	1,934,057
Shipping and delivery expenses	772,768	1,691,390	1,836,171
Others	23,849,875	21,747,413	26,161,481
	₱ 445,459,266	₱ 436,129,949	₱ 468,076,101

Project-related expenses pertain to expenses incurred by the Company and a subsidiary in pursuit of several acquisition targets.

22. Personnel Expenses

	2010	2009	2008
Salaries and wages	P 642,765,270	P 783,708,695	P 966,406,555
Pension costs (Note 24)	35,654,077	4,287,622	3,147,158
Social security premiums, meals and other employees' benefits	9,980,749	7,489,691	12,851,416
	P 688,400,096	P 795,486,008	P 982,405,129

In view of the substantial income generated by the Company in 2008 for the sale of its investments (see Note 13), the Company declared a special and nonrecurring bonus to its executive officers in the amount of P25.0 million, as approved by the BOD and the Compensation Committee in December 2008. There was no special and nonrecurring bonus declared in 2009. In March and December 2010, the Company declared and paid bonuses to its executive officers amounting to P9.1 million and P29.5 million, respectively.

23. Interest Income, Interest Expense and Valuation Allowances

Interest income consists of:

	2010	2009	2008
Debt instruments	P 93,835,609	P 106,980,373	P 88,151,036
Cash equivalents (Note 1)	14,550,246	8,541,376	12,203,199
Funds and equities	1,821,353	4,190,172	3,932,126
Others	1,029,149	497,190	2,684,748
	P 111,236,357	P 120,209,111	P 106,971,109

Interest income on debt instruments is net of bond premium amortization amounting to P3.3 million in 2010, P3.7 million in 2009, P0.3 million in 2008.

Interest expense consists of:

	2010	2009	2008
Notes payable (Note 17)	P 12,212,278	P 8,470,272	P 20,810,517
Long-term debt (Note 19)	1,010,895	2,221,638	3,189,144
Others	711,239	101,492	79,850
	P 13,934,412	P 10,793,402	P 24,079,511

Valuation allowances consist of:

	2010	2009	2008
Valuation allowances on:			
Investments and advances (Note 12)	P 172,072,396	P -	P 2,263,724
AFS investments (Note 13)	20,000,000	83,673,558	236,046,300
Receivables (Note 10)	1,077,971	4,925,709	2,399,104
Other current and noncurrent assets	863,689	657,213	821,171
Recovery of allowances for:			
Advances to an associate (Note 12)	-	-	(25,000,000)
Impairment losses (Notes 10, 11 and 14)	(8,248,014)	-	(78,192)
	P 185,766,042	P 89,256,480	P 216,452,107

24. Pension and Other Post-employment Benefit Plans

The Group has funded defined benefit pension plans covering substantially all of its officers and employees. On November 30, 2010, the BOD approved the improvement to the Company's retirement plan which resulted to the recognition of past service cost. Accordingly, in 2010, the Company recognized as expense the vested benefits and the amortization of the nonvested past service cost totalling P26.1 million.

The following tables summarize the components of net benefit expense (income) recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets.

	2010	2009	2008
Pension income:			
Current service cost	P -	P -	P 3,864,948
Interest cost on benefit obligation	-	-	6,242,134
Expected return on plan assets	-	-	(15,331,538)
Net actuarial gains recognized	-	-	(1,737,125)
	-	-	(6,961,581)
Retirement benefit expense:			
Current service cost	9,898,219	5,150,909	2,324,501
Interest cost on benefit obligation	10,199,093	8,221,741	812,890
Amortization of transition liability	-	135,702	-
Expected return on plan assets	(9,662,453)	(8,634,780)	(84,883)
Net actuarial losses (gain) recognized	(898,250)	(585,950)	94,650
Past service cost - nonvested benefits	224,089	-	-
Past service cost - vested benefits	25,893,379	-	-
	35,654,077	4,287,622	3,147,158
Net benefit expense (income)	P 35,654,077	P 4,287,622	(P 3,814,423)
Actual return (loss) on plan assets	P 29,436,317	P 18,065,740	(P 17,482,326)

Parent Company

Computation of pension asset:

	2010	2009
Defined benefit obligation	P 190,665,382	P 97,960,362
Fair value of plan assets	168,564,969	134,090,660
	22,100,413	(36,130,298)
Unrecognized net actuarial gains (losses)	(9,195,700)	19,298,615
Unrecognized past service cost	(1,120,444)	-
Pension liability (asset)	P 11,784,269	(P 16,831,683)

Pension asset is included under "Other noncurrent assets" in the consolidated balance sheets.

Subsidiaries

Computation of pension liability:

	2010		2009
Defined benefit obligation	P 12,607,228	P	7,841,532
Fair value of plan assets	1,378,677		1,194,728
	11,228,551		6,646,804
Unrecognized net actuarial gain	3,196,085		5,741,913
Less reversal of retirement benefit cost of an officer	(2,865,416)		-
Pension liability	P 11,559,220	P	12,388,717

Pension liability is included under “Noncurrent liabilities” in the consolidated balance sheets.

As of December 31, 2010, the retirement obligation of an officer was already included in the retirement plan of the Company, and as a result, the retirement obligation in the retirement plan of the subsidiary attributed to the officer was reversed.

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

	2010		2009
Opening defined benefit obligation	P 105,801,894	P	84,598,603
Interest cost	10,199,093		8,221,741
Current service cost	9,898,219		5,150,909
Past service cost - vested benefits	25,893,379		-
Past service cost - non vested benefits	1,344,533		-
Benefits paid	(165,375)		(1,565,635)
Actuarial loss	50,300,867		9,396,276
Closing defined benefit obligation	P 203,272,610	P	105,801,894

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

	2010		2009
Opening fair value of plan assets	P 135,285,388	P	113,464,303
Expected return	9,662,453		8,634,780
Contributions	5,308,347		5,318,343
Benefits paid	(165,375)		(1,565,635)
Actuarial gain	19,852,833		9,433,597
Closing fair value of plan assets	P 169,943,646	P	135,285,388

The Group expects to make the same contributions to its defined benefit pension plans in 2010.

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

	2010		2009
Bonds	60%		53%
Stocks	36%		26%
Others	4%		21%

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	2010	2009
Discount rate	8%-11%	10%-11%
Expected rate of return on plan assets	7%-8%	7%-8%
Future salary increases	5%-10%	5%-10%

Amounts for 2010, 2009, 2008, 2007 and 2006 are as follows:

	2010	2009	2008	2007	2006
Defined benefit obligation	P 203,272,610	P 105,801,894	P 84,598,603	P 123,230,889	P 109,739,506
Plan assets	169,943,646	135,285,388	113,464,303	147,469,620	122,250,842
Surplus (deficiency)	(33,328,964)	29,483,494	28,865,700	24,238,731	12,511,336
Experience adjustments on plan liabilities	26,110,757	2,786,272	11,811,516	6,239,288	13,069,399
Experience adjustments on plan assets	19,894,449	9,433,597	32,898,747	509,298	24,664,655

25. Income Taxes

The provision for (benefit from) income tax consists of:

	2010	2009	2008
Current	P 11,152,859	P 6,998,848	P 8,613,306
Deferred	779,678	(22,160,802)	79,092,990
	P 11,932,537	(P 15,161,954)	P 87,706,296

The components of the net deferred income tax assets and liabilities are as follows:

Parent Company

	2010	2009
Net deferred income tax assets:		
Recognized directly in the consolidated statements of income:		
Deferred income tax assets:		
Unrealized foreign exchange losses	P 15,650,973	P 8,988,639
Pension liability	3,535,281	-
Allowances for impairment loss	1,898,652	15,851,787
Unamortized past service cost	-	1,243,982
	21,084,906	26,084,408
Deferred income tax liabilities:		
Uncollected management fees	(3,686,971)	(2,816,572)
Pension asset	-	(5,049,505)
	(3,686,971)	(7,866,077)
	17,397,935	18,218,331
Recognized directly in equity - unrealized valuation gains on AFS investments	(17,397,935)	(18,218,331)
	P -	P -

Subsidiaries

	2010	2009
Net deferred income tax liabilities:		
Recognized directly in the consolidated statements of income:		
Deferred income tax assets:		
NOLCO	P 5,796,408	P 4,386,907
Others	7,751,398	6,293,147
	13,547,806	10,680,054
Deferred income tax liabilities:		
Goodwill amortization	(15,106,520)	(14,891,369)
Others	(6,779,188)	(4,085,869)
	(21,885,708)	(18,977,238)
	(8,337,902)	(8,297,184)
Recognized directly in equity - unrealized valuation gains on AFS investments	110,381	-
	(P 8,227,521)	(P 8,297,184)

There are deductible temporary differences for which no deferred income tax assets were recognized as future realizability of these deferred income tax assets is not certain. These deductible temporary differences are as follows:

	2010	2009
Allowances for:		
Doubtful accounts	P 793,729,173	P 785,941,362
Impairment losses	326,062,348	14,683,652
Inventory losses	950,147	761,255
Market adjustments on FVPL investments	22,564,993	57,864,384
Market adjustments on AFS investments	28,879,825	33,371,736
NOLCO	258,800,940	216,328,441
MCIT	10,230,445	15,069,242
Accrued pension benefits and others	11,223,991	14,419,945

The Company and other subsidiaries domiciled in the Philippines are subjected to the Philippine statutory tax rate of 30% in 2010, 2009 and 35% in 2008 while a foreign subsidiary is subject to U.S. federal tax rate of 34% in 2009 and 2008.

The reconciliation of provision for income tax computed at the statutory tax rates to provision for (benefit from) income tax is as follows:

	2010	2009	2008
Provision for income tax at statutory tax rates	P 602,279,908	P 84,847,062	P 248,124,545
Additions to (reductions from) income taxes resulting from:			
Movement in unrecognized deferred income tax assets	87,154,764	13,454,957	328,616,472
Nondeductible expenses	5,459,178	4,696,804	855,422
Nondeductible interest expense	1,371,524	303,761	617,736
Nontaxable income	(8,584,786)	-	-
Interest income already subjected to final tax	(1,138,220)	(540,955)	(1,436,066)
(Forward)			

	2010	2009	2008
Equity in net earnings of associates not subject to income tax	(P 34,567,386)	(P 23,474,073)	(P 34,740,798)
Dividend income not subject to income tax	(42,237,201)	(29,455,051)	(42,861,214)
Gain on sale of AFS investments, marketable equity securities and other investments subjected to final tax	(589,586,269)	(65,125,964)	(443,128,705)
Effects of change in tax rates	-	-	14,070,110
Others	(8,218,975)	131,505	17,588,794
	P 11,932,537	(P 15,161,954)	P 87,706,296

The Group has available NOLCO and MCIT which can be claimed as credit against income tax due and payable as follows:

NOLCO

The following table summarizes the NOLCO as of December 31, 2010 of the Company and its subsidiaries domiciled in the Philippines.

Period of Recognition	Availment period	Amount	Applied	Expired	Balance
2007	2008-2010	P 21,269,252	P -	(P 21,269,252)	P -
2008	2009-2011	151,475,416	(1,305,046)	-	150,170,370
2009	2010-2012	62,121,143	-	-	62,121,143
2010	2011-2013	13,559,542	(2,214,583)	-	11,344,959
		P 248,425,353	(P 3,519,629)	(P 21,269,252)	P 223,636,472

As of December 31, 2010, a foreign subsidiary has NOLCO for federal and income tax purposes of approximately US\$4.6 million (P201.7 million), portion of which will begin to expire in the year 2027.

MCIT

Period of Recognition	Availment period	Amount	Applied	Expired	Balance
2007	2008-2010	P 7,751,929	P -	(P 7,751,929)	P -
2008	2009-2011	3,715,519	(228,504)	-	3,487,015
2009	2010-2012	3,601,794	-	-	3,601,794
2010	2011-2013	3,141,636	-	-	3,141,636
		P 18,210,878	(P 228,504)	(P 7,751,929)	P 10,230,445

In 2009, the deductible temporary differences above include the parent company's NOLCO and MCIT amounting to P7.0 million and P6.7 million, respectively, that will expire in 2010.

Republic Act (RA) No. 9337

Under RA No. 9337, the Expanded Value-Added Tax (E-VAT) or the E-VAT Act (The Act) of 2005, the applicable regular corporate income tax rate is 35% in 2008 and 30% starting January 1, 2009 and thereafter. The act also changed the nondeductible interest expense rate from 42% in 2008 to 33% beginning January 1, 2009 and thereafter.

