ANNUAL REPORT

# 2009

A. SORIANO CORPORATION

# CONTENTS



## 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, 2009.

# FINANCIAL HIGHLIGHTS

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

| CONSOLIDATED FOR THE YEAR | 2009 | 2008 | 2007 |
|---|---|---|---|
| **REVENUES** | **1,736.2** | 2,271.0 | 1,225.6 |
| Services | **1,056.0** | 1,360.3 | 149.1 |
| Gain (loss) on sale of available for sale (AFS) investments | **186.3** | (73.4) | 548.3 |
| Gain (loss) on increase (decrease) in market values of fair value through profit or loss (FVPL) investments | **136.8** | (465.6) | 171.2 |
| Interest income - net | **120.2** | 107.0 | 151.6 |
| Dividend income | **102.1** | 122.5 | 68.5 |
| Equity in net earnings of associates | **78.2** | 99.2 | 34.8 |
| Management fees | **28.3** | 15.8 | – |
| Other income | **28.0** | 39.8 | – |
| Gain on sale - others | **0.3** | 12.7 | 102.1 |
| 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 | 299.4 |
| Valuation allowances - net of recoveries | **(89.3)** | (216.4) | (14.8) |
| Foreign exchange gain (loss) - net | **(34.4)** | 309.6 | (357.0) |
| NET INCOME* | **289.6** | 776.0 | 619.8 |
| EARNINGS PER SHARE** | **0.20** | 0.52 | 0.40 |

| CONSOLIDATED AT YEAR-END | 12-31-09 | 12-31-08 | 12-31-07 |
|---|---|---|---|
| Total Assets | **8,354.7** | 6,942.0 | 9,687.6 |
| Equity Attributable to Equity Holdings of the Parent (inclusive of unrealized valuation gain on AFS investments of ₱656.7 million and ₱1,088.2 million in 2009 and 2007, respectively, and unrealized valuation loss of ₱612.7 million in 2008) | **7,453.9** | 6,018.6 | 7,499.7 |
| Investment Portfolio | **7,173.7** | 5,023.2 | 5,419.1 |
| Current Ratio | **2.20** | 3.14 | 3.81 |
| Debt to Equity Ratio*** | **0.12** | 0.15 | 0.20 |
| Book Value Per Share**** | **5.17** | 4.17 | 4.85 |

* *Attributable to equity holdings of the parent.*

** *Based on weighted average number of shares of 1,442.6 million in 2009, 1,502.3 million in 2008 and 1,558.1 million in 2007.*

*** *Excluding minority interests.*

**** *Based on outstanding shares of 1,441.8 million, 1,443.0 million and 1,547.2 million as of December 31, 2009, 2008 and 2007, respectively.*

## THE ECONOMY IN 2009

Although two-thirds of the world's economies posted negative growth in 2009, unprecedented economic policy coordination among governments averted massive financial system collapse. Signs of continuing fragility abound – high public sector deficits and unemployment, mortgage defaults and empty houses, excess industrial and commercial capacity – but with carmakers emerging from bankruptcy under new owners, and investment banks paying back federal bailout money, there is hope for eventual, if slow and uneven, recovery.

The Philippines' Gross Domestic Product (GDP) grew by 0.9%, its slowest pace in 11 years. The contraction in our principal export markets slashed demand for the country's electronics and semiconductor products, and the back-to-back destruction of tropical storms Ondoy and Pepeng flattened growth in agriculture.

Continuing strength of the business process outsourcing sector, a moderate rise in OFW remittances, and the start of election spending spurred the country's modest GDP growth. Foreign direct investment flows were also positive, channeled into real estate, construction, services, financial intermediation, and other sectors, as investors concerned over uncertainty in developed nations sought better returns in emerging countries.

## 2009 FINANCIAL PERFORMANCE

Anscor's consolidated net income in 2009 totaled ₱290 million, or ₱486 million less than the previous year's ₱776 million, which included non-recurring income from the sale of shares in eTelecare and Phelps Dodge International Philippines, Inc. As stated in last year's Annual Report, these divestments were followed by the payment of a special cash dividend.

The highlight of the year's results is that your Company's financial assets recovered from the previous year's reverses, making a net gain of ₱399 million as against last year's ₱228 million loss, for a total improvement of ₱627 million. Investments classified as Fair Value through Profit and Loss (FVPL), whose changes in market value affect the profit and loss statement whether they are sold or not, and Available for Sale (AFS) investments that were actually sold, yielded gratifying returns. Regular interest income from the Company's consolidated investments mainly in bonds climbed from ₱107 million in 2008 to ₱120 million in 2009.

The improvement in value of Anscor's US dollar-denominated assets was tempered by a foreign exchange loss of ₱34 million, as the peso appreciated against the dollar during the year. Your management had earlier identified a few financial assets for possible decline in values and set up provisions of ₱89 million for conservatism and in accordance with new accounting standards. Nevertheless, the year's provision amounts were significantly lower than the ₱216 million allowance set aside last year. Overall, Anscor's financial portfolio achieved an 11% rate of return based on regular income, excluding recovery in values of AFS investments, which if the latter was considered would translate to an average rate of return of 46%.

The Group's financial asset gains were offset by adverse results in the operating businesses, which were more directly affected by the recession-driven slump in demand, particularly in the healthcare staffing ventures.

## GROUP OPERATIONS

***Phelps Dodge Philippines Energy Products Corporation (PDP Energy)***

As the global downturn dragged down demand for copper wires in all customer segments, and copper prices remained volatile after bottoming out in the year's first quarter, PDP Energy's 2009 revenues declined 33% to ₱3.4 billion and net income dipped by 20% to ₱165 million. These numbers represent a 19% volume reduction.

Despite the downturn, the company has strengthened its market leadership. Its Underwriters' Laboratories-certified aluminum building wires have been chosen for use in two major high-rise buildings and a foreign-owned factory, and a campaign that highlights the superiority of its PD THHN/THWN2 building wire is under way.

To drive production efficiency, cut delivery lead time and lower inventory costs, the company has enhanced its lean manufacturing process, the Phelps Dodge Order Fulfillment System (PDOFS), and been designated by the firm's majority owner, General Cable Corporation, as test site for a Total Productive Maintenance Program.

The company also instituted Value Stream Mapping of administrative processes to reduce sales order processing time and accounts receivable balances. As a consequence, PDP Energy has maintained its cash position with no outstanding bank borrowings at year-end.

During the year, the wholly-owned subsidiary, PEZA-registered PD Energy International Corporation (PDEI), began exporting to Australia and India. Demand from Australia intensified in the second half, and PDEI is investing US $1.4 million to expand and supply General Cable Australia's power cable requirements.

***Seven Seas Resorts and Leisure, Inc.***

Amanpulo's occupancy fell to 47% from 64% in 2008, as the recession and severe storms kept tourists away.

The Resort maintained an average room rate almost US$100 higher than that of 2008. Total revenues came to ₱458 million in 2009, a decline of ₱33 million or 7%. The effect of the much lower occupancy was more pronounced in the rooms and food and beverage departments, where revenues fell by ₱34 million and ₱20 million, respectively. On the other hand, revenues from other departments rose by 34% or ₱21 million, contributed mainly by income from villa management operations. Despite the decrease in total revenues, gross operating profit amounted to ₱149 million, showing a slight increase, while net income totaled ₱42 million, compared to ₱204 million in 2008, when villa sales generated a net profit of ₱170 million. Efforts to sell more villas are being renewed in 2010.

The Resort is constructing a US$3.2 million spa complex, which will offer by end-2010 services that underscore Amanpulo's position as the region's premier deluxe beach resort. During the year, Amanpulo was named the 4th Best Resort in South East Asia by Gallivanter's Guide, and listed among the Top 20 Beach Resorts by Andrew Harper's Hideaway Report, USA Readers' Choice 2009.

***Cirrus Medical Staffing Inc. and International Quality Manpower Services, Inc. (IQMAN)***

With U.S. GDP contracting and unemployment hovering at 10%, the temporary healthcare staffing industry went through very difficult times in 2009. Layoffs, shrinkage in the number of two-income households, and persistent economic malaise induced professional nurses to prefer the security of full-time work over the better-paying short-term placements that Cirrus offers. Fewer elective surgeries, a surge in the number of uninsured people, and uncertainty created by the potential reform of the U.S. healthcare system, all contributed to hospitals' decisions to delay investment, expansion and staffing decisions.

The travel nurse industry consequently suffered sales declines of over 60% in 2009. Therapy staffing, however, has remained stable, as demand for home health therapy remains strong. Cirrus's nurse and therapists staffing businesses generated total revenues of ₱917 million in 2009, a decrease of 25% from 2008. Consolidated losses amounted to ₱62 million.

Cirrus has forged a preferred vendor relationship with the U.S.'s largest home health company. It also won the U.S. Commerce Association's 2009 Best Local Business Awards (staffing category) in both Charlotte, North Carolina and Atlanta, Georgia. Initiatives have been introduced to tap other new segments, improve lead generation and recruitment procedures and strengthen the therapy staffing business.

Unemployment in the U.S. has contributed to an unexpected availability of H1B Visas, which allows employers to temporarily hire foreign workers in specialty occupations. In response, Cirrus has contracted with IQMAN to recruit Filipino physical therapists for placement in U.S. healthcare facilities. The majority of revenues for therapist placements will be booked at the Cirrus level.

IQMAN posted consolidated revenues of ₱9 million, down 40% from ₱15 million in 2008. It continues to be hampered by the U.S. State Department's ban since November 2006 on the issuance of immigrant visas. The company has outstanding nurse placement orders from nine clients and maintains a reduced infrastructure to meet these orders once the ban is lifted.

Results for Cirrus Healthcare and IQMAN, previously treated as separate businesses, will henceforth be reported in tandem as IQMAN evolves from a full-service provider of healthcare personnel into a recruitment and support center for Cirrus. IQMAN will be known as Cirrus Global, Inc. effective the 2nd quarter of 2010.

***KSA Realty Corporation***

The recession-induced increase in vacant office space in the Makati Central Business District and the rise of new construction in secondary locations constituted challenges to The Enterprise Center (TEC) in 2009.

TEC's year-end occupancy slid to 85% from 96% in 2008. Total rental revenues climbed 3% to ₱720 million, due mainly to higher average lease rates. KSA realized a net income of ₱533 million, 38% over the previous year's ₱387 million due mainly to a ₱130 million fair value adjustment in investment property.

In July, following Securities and Exchange Commission approval of a decrease in its authorized capital stock, KSA retired 2.4 million preferred shares to treasury. A total of ₱200 million in cash dividends were declared and paid, of which ₱23 million accrued to Anscor.

During the year, TEC won awards for Fire Safety Compliance, Fire Brigade, and Corporate Fire Safety (Five Star Building category) at the 11th Fire Safety Compliance Awards Program in Makati City.

***Enderun Colleges, Inc.***

In last year's Annual Report, we mentioned that your Company acquired an equity stake of 20% in Enderun Colleges, Inc., which offers degrees in international hospitality management, entrepreneurship and business.

With foreign citizens comprising close to 25% of its student body, Enderun constitutes a viable alternative to studying overseas, offering opportunities to earn prestigious international credentials, such as certificates from Les Roches Hotel School in Switzerland and Alain Ducasse Formation in France. Alain Ducasse restaurants in Paris, London and Monte Carlo boast three Michelin stars, the highest rating awarded by the authoritative "Red Guide".

In 2009, Enderun opened a state-of-the-art culinary building at its McKinley Hills, Taguig campus. It features a fine-dining application restaurant, banquet hall, four training kitchens and a multi-media demonstration kitchen.

Since 2006, enrollment has grown eightfold to 650 full-time students in the current school year. Enderun also operates an extension school offering short courses and certificate programs in culinary arts and customized hospitality.

Building a world-class college requires significant up-front investments and a long-term commitment to bring the techniques of global gastronomy to the classroom, and thence to the world's fine dining tables. For fiscal year 2008-2009 (which parallels the June to May school year), Enderun incurred a net operating loss of ₱122 million, while revenues rose to ₱153 million, a 97% increase. With continuing growth of the student body and expansion of extension school programs, Enderun expects to close fiscal year 2009-2010 with positive earnings before interests, taxes, depreciation and amortization (EBITDA). Ongoing applications suggest that enrollment may rise to 900 students in the coming school year.

***Prople, Inc.***

Over the two years since Anscor became an equity investor in Prople, Inc., this outsourcing solutions provider has sharpened its focus on higher knowledge-based finance and accounting and payroll-processing services for clients.

Revenues dipped from ₱85 million in 2008 to ₱80 million in 2009 as the company closed several non-core businesses but added clients seeking process efficiency assessments, technology infrastructure reviews, and compliance capability analyses, which are higher-order extensions of Prople's BPO knowhow. Payroll services, Prople's fastest growing unit, also acquired new clients and expanded its technology platform with new software.

Aggressive efforts to boost productivity, stabilize critical accounts and intensify billing and collection enabled Prople to reduce losses. EBITDA showed a 57% improvement in 2009 with EBITDA turning positive in the 4th quarter.

***Multi-media Telephony, Inc.***

As already reported, Multi-media Telephony, Inc. has interconnection agreements with leading telecommunications players namely PLDT, Smart, Innove, Globe, Bayantel and Eastern, which will enable the firm to realize the consistent revenue potential of voice and SMS services. Market trends indicate the coming dominance of data service, hence the company's choice of CDMA technology and its efforts to offer 3G services.

Notwithstanding these agreements and MTI's current operations in the broadband and voice markets, the National Telecommunications Commission (NTC) has disapproved MTI's long-pending application for a 3G license, and MTI is seeking a reversal of NTC's decision at the Court of Appeals. It is worth noting that the NTC has had four separate administrations over the last four years. This has made the task of discerning and anticipating regulatory policy directions, and of shaping the appropriate corporate strategy, more difficult for smaller telcos like MTI.

To address untapped opportunities in the broadband and voice markets, MTI will expand its network service facilities through the first half of 2010. Over 200 base stations will be constructed to improve service quality in existing service areas, and to stimulate subscriber uptake, particularly for the company's prepaid wireless landline offering.

## NEW INVESTMENTS

In March 2009, Anscor invested US$900,000 (₱43.7 million) in Alphion, 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.

Established in 2000, Alphion is the first 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. As broadband previously delivered only internet information, GPON is a game changer, as today's telcos compete on how swiftly they can deliver triple play simultaneously. Alphion's major customers are India's two largest telecommunications companies. It is diversifying its customer base beyond India, to France, Great Britain, the Middle East, Russia and Ukraine.

## CORPORATE SOCIAL RESPONSIBILITY

In its 41st year, the Andres Soriano Foundation (ASF) augmented its ongoing Cancer Abatement and Rehabilitation Efforts (CARE) and Small Islands Sustainable Development Programs (SISDEP) with emergency relief in the aftermath of Ondoy and Pepeng. The Foundation gave assistance, with donations and volunteers from Anscor Group member firms, to 3,500 families in Pasay, Taguig, Muntinlupa, Cainta, Malabon, San Juan, Manila, Valenzuela and Pampanga.

CARE highlights for the year included:

- Subsidies for chemotherapy sessions of 30 indigent patients;
- Funding support for cancer registry operations in Negros Occidental, and facilitation of a four-module training program in cancer registry for 10 government hospitals in Davao;
- Funding for the oncology library at the Andres Soriano, Jr. Cancer Center/Cancer Institute at the UP PGH, and repair and renovation of the Institute's Conference Hall.

SISDEP's principal activities in Northeastern Palawan featured:

- A three-day medical mission in partnership with Seven Seas/Amanpulo and support from Unilab, with free medicines for 1,976 residents in three island communities;
- Repair of three health centers and provision of weighing instruments for the Quiniluban nutrition program;
- A supplementary feeding program for 275 children suffering from malnutrition;

- Construction in partnership with the Agutaya local government of a fully stocked TB satellite laboratory, supported with a trained microscopist;
- An education and communication campaign on solid waste management in Quiniluban; and
- Planting of 7,800 new mangrove saplings to widen coastal cover and regenerate eroded areas in four coastal barangays;
- Assistance to prep schools expanded to 11 centers in all.

## OUTLOOK AND INVESTMENT STRATEGY

The world may be better off now than it was a year ago, but while emerging markets led by China and India still show strength, sustained growth in the West is unlikely as long as job losses and their effect on spending and morale remain worrisome. The appetite for investment may be further dampened as governments struggle with the pace and timing of a downshift in stimulus spending, and forge new rules to prevent recurrence of excessive risk-taking, asset bubbles, and emergency bailouts.

The Philippines remains vulnerable, not just because of decreased prospects for agriculture or lower demand from trading partners, but also because the economy has entered 2010 handicapped by record large deficits incurred in 2009 and 2008.

The local business community is generally hopeful, anticipating that investment flows, merchandise exports, remittance-driven consumption, and demand for BPO services will pick up along with the hoped-for upturn.

Nevertheless, fiscal consolidation and revenue-raising measures are urgently needed to trim the deficit. Just as critical is concerted action to improve business competitiveness on multiple fronts, from the upgrade of aviation safety ratings, to the buildup of infrastructure, to education and training that bring out the best in our human capital.

While these tasks appear daunting given our limited resources, the coming elections offer the hope and chance of a new beginning. The campaign may be passionate and partisan, but all sectors and contestants can join hands to ensure that, with an automated election system, the outcome is credible, speedy, and clear: a new set of leaders, armed with the nation's mandate, and determined to address the challenges that lie ahead.

The turbulence of the past two years demonstrates that we live in an interconnected global village. No economy is insulated; each must learn to operate and compete more capably than ever.

As markets grow more challenging and environments less predictable, your Company must adopt a strategic mindset that values flexibility, synergy, innovation and uncompromising excellence at all times.

Along these lines, our partnership with General Cable in PDP Energy offers access to new markets and the expertise to offer products of increasing efficiency and sophistication. Our incremental investments in Amanpulo's facilities, and our stake in Enderun, will enhance this country's attractiveness to those who seek unparalleled hospitality and world-class cuisine, and those who see career potential in world-class hospitality and culinary art. The business model that unites IQMAN with Cirrus creates synergies in a market characterized by a skills shortage projected to endure for years. KSA/TEC's recent awards attest to the commitment to quality leadership in areas as basic and mundane as building safety and energy efficiency. Prople, MTI and Alphion represent our intent to offer technology, process and other solutions that possess the power to rewrite the rules and imperatives of doing business. All these endeavors, and others we may elect in the future, reflect our continuing quest for adaptive and competitive advantage.

## ACKNOWLEDGEMENT

As always, on behalf of your Board of Directors, we express our heartfelt thanks for the enduring confidence of our shareholders, the loyalty of our customers, and the diligence and dedication of our employees.

**ANDRES SORIANO III**
Chairman of the Board and President

# GROUP'S KEY FINANCIAL DATA

**(In Million Pesos)**

| | 2009 | 2008 | |
|---|---|---|---|
| **Cirrus Medical Staffing, Inc. and Subsidiaries (Note 1)** | | | |
| Revenues | 917 | 1,220 | |
| Net Income (loss) | (62) | 26 | |
| Total Assets | 790 | 901 | |
| Stockholders' Equity | 630 | 746 | |
| ***Seven Seas Resorts and Leisure, Inc. (Note 1)*** | | | |
| Revenues | 458 | 662 | (Note 2) |
| Net Income | 42 | 204 | (Note 2) |
| Total Assets | 1,006 | 853 | |
| Stockholders' Equity | 579 | 536 | |
| ***Phelps Dodge Philippines Energy Products Corporation (Note 1)*** | | | |
| Revenues | 3,417 | 5,133 | |
| Net Income | 165 | 207 | |
| Total Assets | 1,738 | 2,382 | |
| Stockholders' Equity | 1,500 | 1,439 | |
| ***Revenues – Other Affiliates (Note1)*** | | | |
| KSA Realty Corporation | 720 | 698 | |
| Enderun Colleges, Inc. | 153 | 78 | |
| Island Aviation, Inc. | 119 | 128 | |
| Prople, Inc. | 80 | 85 | |
| International Quality Manpower Services, Inc. (Consolidated) | 9 | 15 | |

*Note 1: Available figures as of March 9, 2010.*
*Note 2: Inclusive of gain on sale of villas amounting to ₱170 million.*

## 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 |
|---|---|---|---|---|---|
| **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 |
| 2005 | 637.3 | 6,049.9 | 1,730.6 | 0.37 | 3.58 |

| YEAR | GROSS REVENUES | TOTAL ASSETS | INVESTMENT PORTFOLIO |
|---|---|---|---|
| **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 |
| 2005 (Note 4) | 3,801.8 | 7,602.2 | 5,180.6 |

**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.*

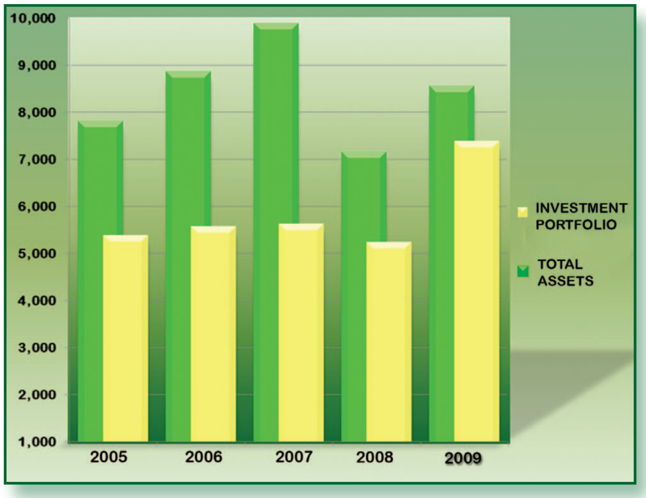
**Note 4** *PDIPI was still part of the consolidated gross revenues and total assets.*

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

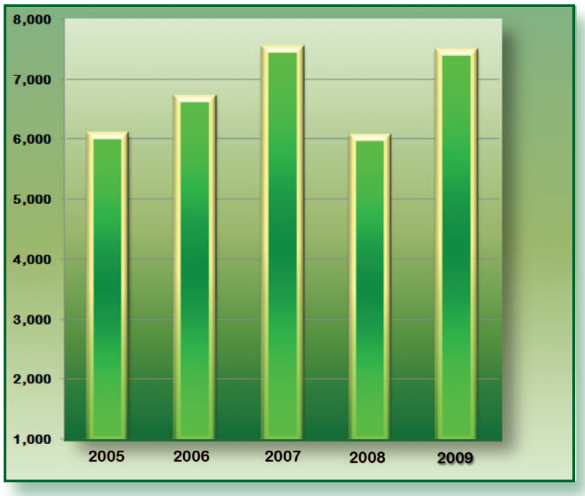
** *Ratio of equity attributable to equity holdings of the parent to outstanding number of shares as of end-December.*

In Million Pesos

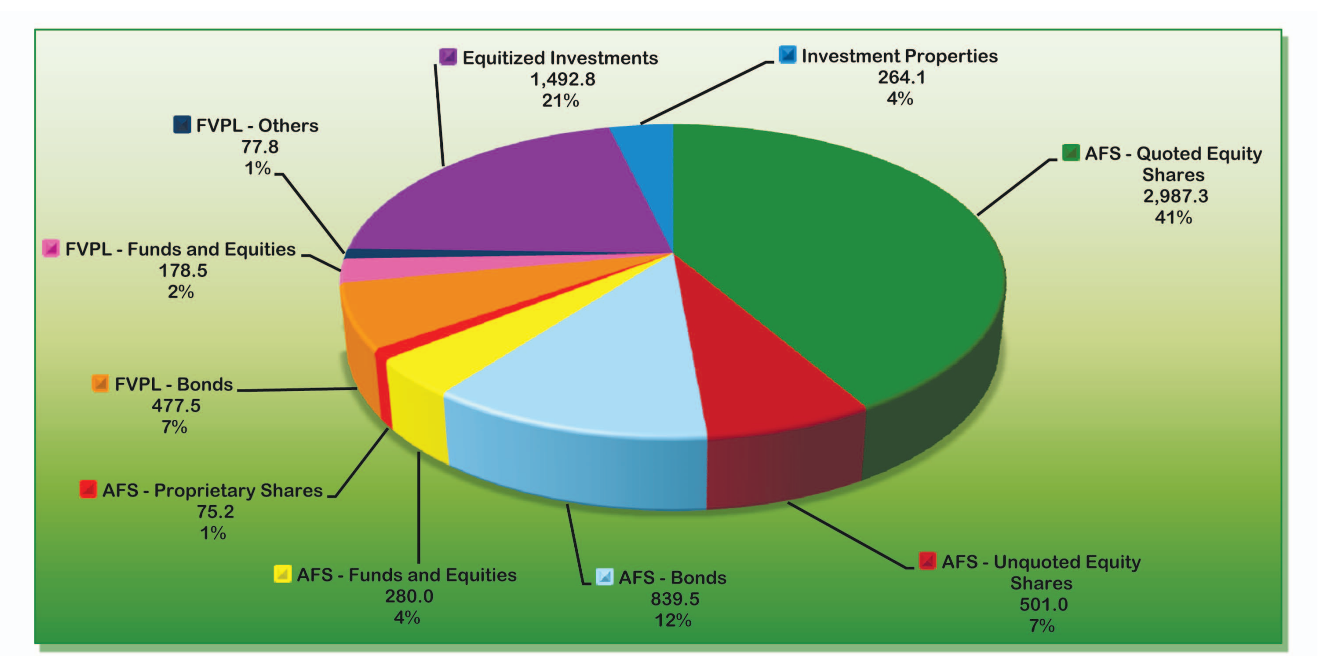
## Consolidated Total Assets and Investment Portfolio




## Equity Attributable to Holdings of the Parent




## Consolidated Investment Portfolio Details (December 31, 2009)



# STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of A. Soriano Corporation is responsible for all information and representations contained in the consolidated balance sheets as of December 31, 2009 and 2008 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, 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, if any, in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses, if any, 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, have audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and have expressed their opinion on the fairness of presentation upon completion of such examination in their report to the Stockholders and the Board of Directors.

**ERNEST K. CUYEGKENG**
Executive Vice President &
Chief Financial Officer

**ANDRES SORIANO III**
Chairman &
Chief Executive Officer

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

SUBSCRIBED AND SWORN to before me this 4th day of March, 2010 at Makati City, affiants exhibited to me their Passport No. XX3032586 issued on February 17, 2009 at Manila and Passport No. 711786600 issued on August 11, 2005 at U.S.A., respectively.

Doc. No. 384;
Page No. 78;
Book No. VII;
Series of 2010

**REGINALDO L. HERNANDEZ**
NOTARY PUBLIC
UNTIL DEC. 31, 2010
PTR NO. 2092114/1-06-10; MAKATI CITY
IBP NO. 812416/1-13-10; PASIG CITY
TIN NO. 100-364-501
APPT #M-318/2009; ROLL NO. 20642

# INDEPENDENT AUDITORS' REPORT

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

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

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

**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, 2009 and 2008, 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, 2009, and a summary of significant accounting policies and other explanatory notes. We did not audit the 2007 financial statements of Island Aviation, Inc., A. Soriano Air Corporation, Anscor Property Holdings, Inc., Anscor Insurance Brokers, Inc., Toledo Mining and Industrial Corporation, ASC Mining and Industrial Corporation, International Quality Manpower Services, Inc. and International Quality Healthcare Professional Connection, LLC. These entities are consolidated subsidiaries with total assets and liabilities accounting for 3.62% and 4.03% of the consolidated assets and consolidated liabilities, respectively, as of December 31, 2007, while total revenues of these subsidiaries accounted for 3.67% of the consolidated revenues in 2007. We also did not audit the 2007 financial statements of Seven Seas Resorts and Leisure, Inc. and Vesper Industrial and Development Corporation, the investments in which are carried in the consolidated financial statements using the equity method of accounting. The equity in net income of these associates amounted to ₱34.8 million in 2007, while the aggregate carrying amount of the related investments amounted to ₱162.0 million as of December 31, 2007. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for these subsidiaries and associates, are based solely on the reports of the other auditors.

## 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits and the reports of the other auditors. 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 and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements present fairly, in all material respects, the financial position of A. Soriano Corporation and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo

**Josephine H. Estomo**
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-2
Tax Identification No. 102-086-208
PTR No. 2087534, January 4, 2010, Makati City

March 4, 2010

# CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2009** | 2008 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 8) | ₱ **594,527,199** | ₱ 1,218,631,103 |
| Fair value through profit or loss (FVPL) investments (Note 9) | **733,785,606** | 666,664,247 |
| Receivables (Note 10) | **220,020,505** | 292,399,446 |
| Inventories (Note 11) | **14,426,324** | 13,489,370 |
| Prepayments and other current assets | **40,136,633** | 54,959,840 |
| **Total Current Assets** | **1,602,896,267** | 2,246,144,006 |
| **Noncurrent Assets** | | |
| Available-for-sale (AFS) investments (Note 13) | **4,682,991,556** | 2,543,607,610 |
| Investments and advances (Note 12) | **1,040,733,565** | 993,531,746 |
| Investment properties (Note 15) | **264,082,489** | 265,444,610 |
| Property and equipment (Notes 14 and 19) | **200,492,521** | 142,758,987 |
| Goodwill - net (Note 6) | **503,110,989** | 622,097,965 |
| Deferred income tax (Note 25) | **–** | 67,881,316 |
| Other noncurrent assets - net (Notes 16, 24 and 30) | **60,401,057** | 60,538,419 |
| **Total Noncurrent Assets** | **6,751,812,177** | 4,695,860,653 |
| **TOTAL ASSETS** | ₱ **8,354,708,444** | ₱ 6,942,004,659 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Notes payable (Note 17) | ₱ **344,553,736** | ₱ 153,503,021 |
| Accounts payable and accrued expenses (Notes 18 and 30) | **248,822,052** | 275,224,320 |
| Income tax payable | **658,887** | 1,800,138 |
| Dividends payable (Note 20) | **121,684,225** | 269,327,107 |
| Current portion of long-term debt (Note 19) | **14,437,500** | 14,839,062 |
| **Total Current Liabilities** | **730,156,400** | 714,693,648 |
| **Noncurrent Liabilities** | | |
| Advances from customer (Note 30) | **21,786,523** | 33,131,676 |
| Long-term debt - net of current portion (Note 19) | **20,212,500** | 32,680,938 |
| Deferred revenues (Note 30) | **84,456,834** | 89,799,019 |
| Deferred income tax (Note 25) | **8,297,184** | 8,102,039 |
| **Total Noncurrent Liabilities** | **134,753,041** | 163,713,672 |
| **Total Liabilities** | **864,909,441** | 878,407,320 |
| **Equity Attributable to Equity Holdings of the Parent** (Note 20) | | |
| Capital stock - ₱1 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 minority interest (Note 3) | **(26,356,543)** | (26,356,543) |
| Cumulative translation adjustment | **(30,974,237)** | 3,428,859 |
| Unrealized valuation gains (losses) on AFS investments (Note 13) | **656,731,126** | (612,661,838) |
| Retained earnings | **4,297,532,291** | 4,094,475,536 |
| | **8,971,036,548** | 7,532,989,925 |
| Less cost of shares held by a subsidiary (1,058,180,078 shares in 2009 and 1,056,950,078 shares in 2008) (Note 20) | **1,517,163,308** | 1,514,379,748 |
| | **7,453,873,240** | 6,018,610,177 |
| **Minority Interests** (Note 3) | **35,925,763** | 44,987,162 |
| **Total Equity** | **7,489,799,003** | 6,063,597,339 |
| **TOTAL LIABILITIES AND EQUITY** | ₱ **8,354,708,444** | ₱ 6,942,004,659 |

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| **REVENUES** | | | |
| Services (Note 30) | ₱ **1,056,013,587** | ₱ 1,360,274,272 | ₱ 149,131,728 |
| Interest income (Notes 13 and 23) | **120,209,111** | 106,971,109 | 151,630,537 |
| Dividend income (Notes 12 and 13) | **102,136,741** | 122,460,611 | 68,473,701 |
| Equity in net earnings of associates (Note 12) | **78,246,910** | 99,259,423 | 34,755,797 |
| Management fee (Note 30) | **28,251,300** | 15,793,394 | – |
| Others | **27,930,617** | 39,799,398 | – |
| | **1,412,788,266** | 1,744,558,207 | 403,991,763 |
| **INVESTMENT GAINS (LOSSES)** | | | |
| Gain (Loss) on sale of: | | | |
| AFS investments (Note 13) | **186,271,990** | (73,393,275) | 548,326,989 |
| Property and equipment and investment properties (Notes 14 and 15) | **340,199** | 3,213,550 | 102,057,935 |
| 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) | **136,822,715** | (465,582,028) | 171,212,057 |
| | **323,434,904** | 526,376,596 | 821,596,981 |
| **TOTAL REVENUES** | **1,736,223,170** | 2,270,934,803 | 1,225,588,744 |
| Cost of services rendered (Note 21) | **(892,697,022)** | (1,097,324,638) | (124,219,178) |
| Operating expenses (Note 21) | **(436,129,949)** | (468,076,101) | (310,292,792) |
| Valuation allowances - net of recoveries (Note 23) | **(89,256,480)** | (216,452,107) | (14,814,709) |
| Foreign exchange gain (loss) - net | **(34,433,061)** | 309,593,796 | (356,981,941) |
| Interest expense (Note 23) | **(10,793,402)** | (24,079,511) | (15,332,195) |
| Other expenses - net (Note 30) | **(5,497,629)** | (28,207,788) | (25,765,106) |
| | **(1,468,807,543)** | (1,524,546,349) | (847,405,921) |
| **INCOME BEFORE INCOME TAX** | **267,415,627** | 746,388,454 | 378,182,823 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 25) | **(15,161,954)** | 87,706,296 | (18,047,891) |
| **NET INCOME FROM CONTINUING OPERATIONS** | **282,577,581** | 658,682,158 | 396,230,714 |
| **NET INCOME FROM A DECONSOLIDATED SUBSIDIARY** (Note 7) | **–** | 193,993,690 | 299,439,197 |
| **NET INCOME** | ₱ **282,577,581** | ₱ 852,675,848 | ₱ 695,669,911 |
| | | | |
| Attributable to: | | | |
| **Equity holdings of the parent** | ₱ **289,644,550** | ₱ 776,036,762 | ₱ 619,781,984 |
| Minority interests | **(7,066,969)** | 76,639,086 | 75,887,927 |
| | ₱ **282,577,581** | ₱ 852,675,848 | ₱ 695,669,911 |
| | | | |
| **Earnings per share** | | | |
| **Basic / diluted, for net income attributable to equity holdings of the parent** (Note 26) | ₱ **0.20** | ₱ 0.52 | ₱ 0.40 |
| | | | |
| Basic / diluted, for net income attributable to equity holdings of the parent from continuing operations (Note 26) | ₱ **0.20** | ₱ 0.44 | ₱ 0.29 |

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| **NET INCOME FOR THE YEAR** | **₱ 282,577,581** | ₱ 852,675,848 | ₱ 695,669,911 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Unrealized valuation gains (losses) on AFS investments | **1,462,159,420** | (1,346,462,026) | 1,071,333,011 |
| Income tax effect | **56,277,319** | (77,304,686) | 663,329 |
| | **1,405,882,101** | (1,269,157,340) | 1,070,669,682 |
| Realized gains on sale of AFS investments, net of impairment losses, recognized in the statements of income | **(102,957,571)** | (434,158,393) | (608,502,442) |
| Income tax effect | **(33,531,566)** | 2,498,798 | 54,838,328 |
| | **(136,489,137)** | (431,659,595) | (553,664,114) |
| Subtotal | **1,269,392,964** | (1,700,816,935) | 517,005,568 |
| Cumulative translation adjustment | **(34,403,096)** | 110,485,519 | (54,136,677) |
| **OTHER COMPREHENSIVE INCOME (LOSS)*** | **1,234,989,868** | (1,590,331,416) | 462,868,891 |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR** | **₱ 1,517,567,449** | (₱ 737,655,568) | ₱ 1,158,538,802 |
| | | | |
| Attributable to: | | | |
| **Equity holdings of the parent** | **₱ 1,524,634,418** | (₱ 814,294,654) | ₱ 1,082,650,875 |
| Minority interests | **(7,066,969)** | 76,639,086 | 75,887,927 |
| | **₱ 1,517,567,449** | (₱ 737,655,568) | ₱ 1,158,538,802 |

*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 | | | | |
|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 13) | Retained Earnings |
| BALANCES AT DECEMBER 31, 2006 | ₱ 2,500,000,000 | ₱ 1,550,733,242 | (₱ 52,919,983) | ₱ 571,149,529 | ₱ 3,184,437,521 |
| Total comprehensive income (loss) for the year | – | – | (54,136,677) | 517,005,568 | 619,781,984 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱93.3 million (Note 20) | – | – | – | – | (156,653,681) |
| Shares repurchased during the year (Note 20) | – | – | – | – | – |
| Shares sold during the year (Note 20) | – | 23,370,669 | – | – | – |
| Movement in minority interest (Note 3) | – | – | – | – | – |
| BALANCES AT DECEMBER 31, 2007 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 107,056,660) | ₱ 1,088,155,097 | ₱ 3,647,565,824 |

| | Equity Attributable to Equity Holdings of the Parent | | | | |
|---|---|---|---|---|---|
| | Subtotal* | Cost of Shares Held by a Subsidiary | Total | Minority Interests | Total |
| BALANCES AT DECEMBER 31, 2006 | ₱ 7,753,400,309 | (₱ 1,075,498,679) | ₱ 6,677,901,630 | ₱ 629,448,813 | ₱ 7,307,350,443 |
| Total comprehensive income for the year | 1,082,650,875 | – | 1,082,650,875 | 75,887,927 | 1,158,538,802 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱93.3 million (Note 20) | (156,653,681) | – | (156,653,681) | – | (156,653,681) |
| Shares repurchased during the year (Note 20) | – | (141,156,174) | (141,156,174) | – | (141,156,174) |
| Shares held by a subsidiary sold during the year (Note 20) | 23,370,669 | 13,594,976 | 36,965,645 | – | 36,965,645 |
| Movement in minority interest (Note 3) | – | – | – | (23,610,440) | (23,610,440) |
| BALANCES AT DECEMBER 31, 2007 | ₱ 8,702,768,172 | (₱ 1,203,059,877) | ₱ 7,499,708,295 | ₱ 681,726,300 | ₱ 8,181,434,595 |

**Sum of the Equity details in the first table.*

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Equity Attributable to Equity Holdings of the Parent | | | | | |
|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Minority Interest (Note 3) | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 13) | Retained Earnings |
| BALANCES AT DECEMBER 31, 2007 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | ₱ – | (₱ 107,056,660) | ₱ 1,088,155,097 | ₱ 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 ₱220.9 million (Note 20) | – | – | – | – | – | (329,127,050) |
| Shares repurchased during the year (Note 20) | – | – | – | – | – | – |
| Acquisition of minority interest (Note 3) | – | – | (26,356,543) | – | – | – |
| Movement in minority interest (Notes 3 and 7) | – | – | – | – | – | – |
| BALANCES AT DECEMBER 31, 2008 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 26,356,543) | ₱ 3,428,859 | (₱ 612,661,838) | ₱ 4,094,475,536 |

| | Equity Attributable to Equity Holdings of the Parent | | | | |
|---|---|---|---|---|---|
| | Subtotal* | Cost of Shares Held by a Subsidiary | Total | Minority Interests | Total |
| BALANCES AT DECEMBER 31, 2007 | ₱ 8,702,768,172 | (₱ 1,203,059,877) | ₱ 7,499,708,295 | ₱ 681,726,300 | ₱ 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 ₱220.9 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 minority interest (Note 3) | (26,356,543) | – | (26,356,543) | 26,855,223 | 498,680 |
| Movement in minority interest (Note 3) | – | – | – | (740,233,447) | (740,233,447) |
| BALANCES AT DECEMBER 31, 2008 | ₱ 7,532,989,925 | (₱ 1,514,379,748) | ₱ 6,018,610,177 | ₱ 44,987,162 | ₱ 6,063,597,339 |

**Sum of the Equity details in the first table.*

*See accompanying Notes to Consolidated Financial Statements.*

| | | | Equity Attributable to Equity Holdings of the Parent | | | |
|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Minority Interest (Note 3) | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 13) | Retained Earnings |
| BALANCES AT DECEMBER 31, 2008 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 26,356,543) | ₱ 3,428,859 | (₱ 612,661,838) | ₱ 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 ₱63.4 million (Note 20) | – | – | – | – | – | (86,587,795) |
| Shares repurchased during the year (Note 20) | – | – | – | – | – | – |
| Movement in minority interest | – | – | – | – | – | – |
| **BALANCES AT DECEMBER 31, 2009** | **₱ 2,500,000,000** | **₱ 1,574,103,911** | **(₱ 26,356,543)** | **(₱ 30,974,237)** | **₱ 656,731,126** | **₱ 4,297,532,291** |

| | Equity Attributable to Equity Holdings of the Parent | | | | |
|---|---|---|---|---|---|
| | Subtotal* | Cost of Shares Held by a Subsidiary | Total | Minority Interests | Total |
| BALANCES AT DECEMBER 31, 2008 | ₱ 7,532,989,925 | (₱ 1,514,379,748) | ₱ 6,018,610,177 | ₱ 44,987,162 | ₱ 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 ₱63.4 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 minority interest | – | – | – | (1,994,430) | (1,994,430) |
| **BALANCES AT DECEMBER 31, 2009** | **₱ 8,971,036,548** | **(₱ 1,517,163,308)** | **₱ 7,453,873,240** | **₱ 35,925,763** | **₱ 7,489,799,003** |

**Sum of the Equity details in the first table.*

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Years Ended December 31 | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax from continuing operations | ₱ **267,415,627** | ₱ 746,388,454 | ₱ 378,182,823 |
| Income before income tax from a deconsolidated subsidiary (Note 7) | **–** | 298,451,831 | 439,806,712 |
| Income before income tax | **267,415,627** | 1,044,840,285 | 817,989,535 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 14 and 15) | **53,677,408** | 49,262,965 | 97,482,882 |
| Loss (Gain) on decrease (increase) in market values of FVPL investments (Note 9) | **(136,822,715)** | 465,582,028 | (171,212,057) |
| Valuation allowances - net of recoveries (Note 23) | **89,256,480** | 216,452,107 | 14,814,709 |
| Loss (Gain) on sale of: | | | |
| AFS investments (Note 13) | **(186,271,990)** | 73,393,275 | (548,326,989) |
| Property and equipment (Note 14) | **(340,199)** | (3,213,550) | (102,258,274) |
| 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 | 637,137 |
| Equity in net earnings of associates (Note 12) | **(78,246,910)** | (99,259,423) | (34,755,797) |
| Dividend income | **(102,136,741)** | (122,460,611) | (68,473,701) |
| Interest income (Note 23) | **(120,209,111)** | (106,971,109) | (151,975,839) |
| Interest expense (Note 23) | **10,793,402** | 24,079,511 | 15,332,195 |
| Unrealized foreign exchange losses (gains) - net | **34,433,061** | (309,593,796) | 371,348,537 |
| Operating income (loss) before working capital changes | **(168,451,688)** | 181,822,590 | 240,602,338 |
| Decrease (increase) in: | | | |
| FVPL investments | **57,597,973** | 337,634,222 | 648,847,785 |
| Receivables | **76,041,442** | 973,650,199 | (102,315,306) |
| Inventories | **(936,954)** | 645,647,233 | 98,542,965 |
| Prepayments and other current assets | **14,823,207** | (7,539,612) | (16,290,008) |
| Increase (decrease) in accounts payable and accrued expenses | **46,397,305** | (235,895,937) | 37,465,632 |
| Net cash from operations | **25,471,285** | 1,895,318,695 | 906,853,406 |
| Dividends received | **141,693,151** | 122,460,611 | 68,473,701 |
| Interest received | **120,990,290** | 95,664,324 | 155,937,768 |
| Interest paid | **(10,793,402)** | (24,079,511) | (15,332,195) |
| Income taxes paid | **(8,140,099)** | (190,057,328) | (151,568,383) |
| Net cash flows from operating activities | **269,221,225** | 1,899,306,791 | 964,364,297 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| AFS investments (Note 13) | **(₱3,124,862,974)** | (₱2,286,594,051) | (₱ 2,533,020,154) |
| Investments and advances (Note 12) | **–** | (418,684,344) | (350,000) |
| Investment properties (Note 15) | **(4,440,805)** | (114,603,613) | (38,588,080) |
| Property and equipment (Note 14) | **(101,105,473)** | (13,843,799) | (63,724,184) |
| Proceeds from sale of: | | | |
| AFS investments (Note 13) | **2,383,711,035** | 2,103,665,645 | 2,611,756,834 |
| Investments and advances (Note 12) | **–** | 642,437,050 | – |
| Investment properties (Note 15) | **–** | 2,816,058 | 127,731,153 |
| Property and equipment (Note 14) | **340,199** | 1,422,391 | 399,421 |
| Decrease (increase) in: | | | |
| Advances to affiliates | **15,445,522** | (21,597,568) | (25,851,077) |
| Other noncurrent assets - net | **137,218** | 530,081 | (31,644,205) |
| Proceeds from redemption of preferred shares of an associate (Note 12) | – | 35,809,730 | 19,098,522 |
| Acquisition of subsidiaries, net of cash acquired (Note 6) | **–** | (682,425,948) | – |
| Net cash flows from (used in) investing activities | **(830,775,278)** | (751,068,368) | 65,808,230 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from: | | | |
| Notes payable (Note 17) | **345,450,856** | 723,503,021 | 172,761,717 |
| Sale of Company shares purchased by a subsidiary (Note 20) | **–** | – | 36,965,645 |
| Payments of: | | | |
| Notes payable (Note 17) | **(154,400,141)** | (1,255,407,246) | (33,000,000) |
| Long-term debt (Note 19 | **(12,468,438)** | (3,891,693) | (17,786,766) |
| Dividends (Note 20) | **(234,236,678)** | (172,122,665) | (138,779,236) |
| Increase (decrease) in: | | | |
| Advances from customer | **(11,345,153)** | (48,147,034) | 42,366 |
| Deferred revenues | **(5,342,185)** | 14,418,148 | (931,873) |
| Minority interests | **(9,061,398)** | (712,879,543) | (23,610,440) |
| Acquisition of minority interest (Note 3) | **–** | (498,680) | – |
| Decrease in other noncurrent liabilities | **(401,562)** | – | (2,517,939) |
| Company shares purchased by a subsidiary (Note 20) | **(2,783,560)** | (311,319,871) | (141,156,174) |
| Net cash flows used in financing activities | **(84,588,259)** | (1,766,345,563) | (148,012,700) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(646,142,312)** | (618,107,140) | 882,159,827 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **22,038,408** | 96,297,605 | 8,345,570 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,218,631,103** | 1,740,440,638 | 849,935,241 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 8) | **₱ 594,527,199** | ₱ 1,218,631,103 | ₱ 1,740,440,638 |

*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 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") were authorized for issue by the Board of Directors (BOD) on March 4, 2010.

**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).

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 revised standards, amendments to existing standards and new and amendments to Philippine Interpretations effective January 1, 2009.

- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*, upon its effective date and adopts a full management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. The adoption of this standard did not have a significant impact on the consolidated financial statements.

- Amendment to PAS 1, *Presentation of Financial Statements*, separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income, which presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present all items of income and expense in two linked statements.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. These additional disclosures are presented in Note 29.

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

- Revised PAS 23, *Borrowing Costs*
- Amendments to PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendment to PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
- Amendments to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*

*Improvements to PFRSs 2008*
The omnibus amendments to PFRSs issued in 2008 were issued primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The adoption of these amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Group.

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2009
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 2010*

- Revised PFRS 3, *Business Combinations*, and PAS 27, *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. The revised PAS 27 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 non-controlling interests (previously referred to as "minority interests"), even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on 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 the revised PAS 27 must be applied retrospectively, with certain exceptions. These changes will affect future acquisitions and transactions with non-controlling interests.

- Amendments 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.

- 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.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners,* covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so. This interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution.

*Improvements to PFRSs 2009*

The omnibus amendments to PFRSs issued in 2009 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, 2010, 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 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations (Revised).* The amendment is effective for financial years on or after July 1, 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, 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.

- PAS 1, clarifies that the terms of a liability that could result at anytime in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets,* 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.

- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies the following: (a) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

*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 Philippine 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.

*Effective in 2013*

- PFRS 9, *Financial Instruments*, will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and introduces new requirements for classifying and measuring financial assets. Under PFRS 9, all financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. All financial assets that are currently in the scope of PAS 39 are divided into two classifications, namely (a) those measured at amortized cost and (b) those measured at fair value. Classification is made at the time the financial asset is initially recognized, which is when the entity becomes a party to the contractual provisions of the instrument.

## 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:

| | Nature of Business | Percentage of Ownership 2009 | 2008 |
|---|---|---|---|
| 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 Services | **100** | 100 |
| Cirrus Medical Staffing, Inc. (Cirrus, Notes 6 and 12) | Manpower Services | **94** | 94 |
| 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 |

*(Forward)*

| | Nature of Business | Percentage of Ownership 2009 | 2008 |
|---|---|---|---|
| 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.) (IQMAN, Notes 17 and 30) | Manpower Services | **93** | 93 |
| International Quality Healthcare Professional Connection, LLC (IQHPC, Notes 16 and 30) | Manpower Services | **93** | 93 |

On January 4, 2010, 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 Cirrus and IQHPC are 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.

In 2007, minority 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 parent's equity. In 2008, minority 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 Minority 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 2009 | 2008 |
|---|---|---|---|
| Vesper Industrial and Development Corporation (Vesper) | Real Estate Holding | **60** | 60 |
| Seven Seas Resorts and Leisure, Inc. (SSRLI, 12 and 30) | Resort | **46** | 46 |
| NewCo., Inc. (Newco, Note 12) | Real Estate | **45** | 45 |
| AFC Agribusiness Corporation | Real Estate | **45** | 45 |
| Anscor-Casto Travel Corporation | Travel Agency | **44** | 44 |
| PDIPI (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, see 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 is not sufficient to carry major business decisions.

Business Combinations and Goodwill

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.

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.

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 at 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, 2009 and 2008, 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, 2009 and 2008, the Group has designated as FVPL all investments in bonds that have callable and other features, managed/hedged funds, and derivatives amounting to ₱733.8 million and ₱666.7 million, respectively. No financial liability at FVPL is outstanding as of December 31, 2009 and 2008 (see Note 9).

(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 and are not classified as other financial assets held for trading, designated as AFS or financial assets designated at FVPL. 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, 2009 and 2008, the Group has loans and receivables amounting to ₱797.9 million and ₱1,495.9 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 designated 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 are reported in the consolidated statement of comprehensive income. The impact of restatement on foreign currency-denominated AFS equity securities is also recognized under other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is transferred to 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, 2009 and 2008, the Group’s AFS investments amounted to ₱4,683.0 million and ₱2,543.6 million, respectively (see Note 13).

(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, 2009 and 2008, total other financial liabilities amounted to ₱563.1 million and ₱555.6 million, respectively (see Note 29).

Derecognition of Financial Assets and Financial Liabilities

*Financial asset*s

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. 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.

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.

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.

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). 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 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 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.

<u>Other Comprehensive Income</u>

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) 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.

<u>Cash and Cash Equivalents</u>

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.

<u>Inventories</u>

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.

<u>Property and Equipment</u>

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, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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 non-controlling 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. Prior to 2008, the Group's assets that generate revenues are substantially located in the Philippines (i.e., one geographical location). Therefore, no geographical segment was presented prior to 2008.

## 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, 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.

Judgements, 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 determined that the Company's functional currency 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 definitions 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.

*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.

*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 the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded in "Receivables". These reserves are re-evaluated and adjusted as additional information is received. Allowance for doubtful accounts in 2009 and 2008 amounted to ₱577.0 million and ₱572.4 million, respectively. Receivables and advances, net of valuation allowance, amounted to ₱271.0 million and ₱360.4 million as of December 31, 2009 and 2008, 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 ₱501.0 million and ₱466.1 million as of December 31, 2009 and 2008, respectively (see Note 13).

*Impairment of AFS equity investments*
The Group recognizes impairment losses on AFS equity investments as impaired 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 (i.e., a sudden decline is less significant than a sustained fall of the same magnitude over a longer period).

AFS equity investments amounted to ₱3,718.7 million and ₱2,008.5 million as of December 31, 2009 and 2008, 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, 2009 and 2008, allowance for decline in value of investments amounted to ₱43.0 million and ₱70.2 million, respectively. The carrying amounts of the investments, net of valuation allowance, amounted to ₱989.7 million and ₱925.5 million as of December 31, 2009 and 2008, respectively (see Note 12).

*Estimating 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, 2009 and 2008, allowance for inventory losses amounted to ₱0.5 million. Allowance for impairment losses amounted to ₱0.3 million as of December 31, 2009 and 2008. The carrying amount of the inventories, net of valuation allowance, amounted to ₱14.4 million and ₱13.5 million as of December 31, 2009 and 2008, respectively (see Note 11).

*Estimating 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. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2009 and 2008, the aggregate net book values of property and equipment and investment properties amounted to ₱464.6 million and ₱408.2 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.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. As of December 31, 2009 and 2008, 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 US crisis and the unemployment rate, the Management accordingly approved to set up an impairment provision of ₱100.0 million as of December 31, 2009. As of December 31, 2009 and 2008, goodwill amounted to ₱503.1 million and ₱622.1 million, respectively (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. The Group has no net deferred income tax assets as of December 31, 2009 and has net deferred income tax assets of ₱67.9 million as of December 31, 2008 (see Note 25).

*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 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 | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| Benefit income (pension expense) | **(₱ 4.3)** | ₱ 3.8 | ₱ 0.6 |
| Pension liability | **12.4** | 8.5 | 10.8 |
| Pension asset | **16.8** | 14.5 | 2.3 |

## 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 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.

Holding company segment pertains to the operations of the parent company.

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

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

The following tables present revenue and income information and certain assets and liabilities information regarding business segments as of and for the years ended December 31, 2009, 2008 and 2007 (in thousands).

| | Before Eliminations | | | | | | |
|---|---|---|---|---|---|---|---|
| | US | Philippines | | | | | |
| | Nurse/PT Staffing Cos. | Holding Co. (Parent) | Other Operations | Investments in Associates | Total | Eliminations | Consolidated |
| **As of and for the year ended December 31, 2009** | | | | | | | |
| **Revenue** | **₱ 916,875** | **₱ 279,768** | **₱ 228,520** | **₱ –** | **₱ 1,425,163** | **(₱ 12,375)** | **₱ 1,412,788** |
| **Investment gains** | **–** | **321,528** | **1,907** | **–** | **323,435** | **–** | **323,435** |
| **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** |

| | Before Eliminations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | US | Philippines | | | | | | |
| | Nurse/PT Staffing Cos. | Holding Co. (Parent) | Other Operations | Wire Manufacturing | Investments in Associates | Total | Eliminations | Consolidated |
| As of and for the year ended December 31, 2008 | | | | | | | | |
| Revenue | ₱ 1,228,677 | ₱ 320,168 | ₱ 470,319 | ₱ 2,792,263 | ₱ – | ₱ 4,811,427 | (₱ 3,063,655) | ₱ 1,747,772 |
| Investment gains | – | 770,450 | 16,944 | – | – | 787,394 | (264,231) | 523,163 |
| 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 |

| | Before Eliminations | | | | | | |
|---|---|---|---|---|---|---|---|
| | Philippines | | | | | | |
| | Holding Co. (Parent) | Other Operations | Wire Manufacturing | Investments in Associates | Total | Eliminations | Consolidated |
| As of and for the year ended December 31, 2007 | | | | | | | |
| Revenue | ₱ 354,226 | ₱ 351,744 | ₱ 4,794,451 | ₱ – | ₱ 5,500,421 | (₱ 5,096,429) | ₱ 403,992 |
| Investment gains | 685,844 | 135,753 | – | – | 821,597 | – | 821,597 |
| Net income | 505,697 | 230,705 | 258,524 | 34,756 | 1,029,682 | (334,012) | 695,670 |
| Total assets | 8,034,317 | 1,926,298 | 2,497,842 | – | 12,458,457 | (2,773,129) | 9,685,328 |
| Investments and advances | 2,049,435 | – | – | – | 2,049,435 | (1,863,803) | 185,632 |
| Property and equipment | 75,704 | 110,761 | 366,216 | – | 552,681 | – | 552,681 |
| Total liabilities | 478,936 | 206,641 | 840,400 | – | 1,525,977 | (22,084) | 1,503,893 |
| Depreciation and amortization | 17,614 | 29,409 | 50,460 | – | 97,483 | – | 97,483 |
| Other non-cash expenses | 25,000 | (10,185) | (15,000) | – | (185) | 15,000 | 14,815 |

## 6. Business Combinations

a. On January 19, 2008, the Company through its subsidiary, Medtivia, Inc. (now Cirrus Medical Staffing, Inc., 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 | ₱ 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 | ₱ 586.7 |

The cost of the combination was ₱586.7 million broken down as follows (in millions):

| | |
|---|---|
| Cash consideration | ₱ 564.0 |
| Costs associated with the acquisition | 22.7 |
| Total consideration | ₱ 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 | ₱ | 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 | ₱ | 99.5 |

The total cost of the combination was ₱99.5 million broken down as follows (in millions):

| | | |
|---|---|---|
| Cash consideration | ₱ | 92.0 |
| Costs associated with the acquisition | | 7.5 |
| Total consideration | ₱ | 99.5 |

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

The goodwill of ₱541.2 million, before exchange differences amounting to ₱80.9 million as of December 31, 2008, 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.* In 2009, the goodwill from Cirrus LLC was reduced by ₱17.3 million due to foreign exchange differences and by ₱1.7 million collections from the previous creditors of Cirrus.

Impairment testing of goodwill

a. The recoverable amounts 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 2009 and 2008. In 2009, 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 the 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 ₱81 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 multiples 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 approved to set up an impairment provision of ₱100.0 million as of December 31, 2009.

b. Goodwill from the Company's investment in IQMAN, through Sutton, amounting to ₱37.0 million, was fully impaired in 2006. The Company, through Sutton, assessed that there will be delays in the recovery of the investment cost in IQMAN because IQMAN's operation 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 and 2007 (see Note 5).

The results of PDIPI and subsidiaries for the six-month period ended June 30, 2008 and for the year ended December 31, 2007 are presented below (in millions):

| | | June 30, 2008 (Six Months) | | December 31, 2007 (One Year) |
|---|---|---|---|---|
| Net sales | ₱ | 2,788.1 | ₱ | 4,794.5 |
| Cost of goods sold | | 2,413.9 | | 4,190.1 |
| Gross profit | | 374.2 | | 604.4 |
| Expenses | | 75.7 | | 164.5 |
| Income before income tax | | 298.5 | | 439.9 |
| Provision for income tax | | 104.5 | | 140.5 |
| Net income from a deconsolidated subsidiary | ₱ | 194.0 | ₱ | 299.4 |
| Earnings per share - basic / diluted, for net income attributable to equity holdings of the parent from a deconsolidated subsidiary (see Notes 20 and 26) | ₱ | 0.08 | ₱ | 0.11 |

The net cash flows from (used in) the activities of PDIPI and subsidiaries for the six-month period ended June 30, 2008 and for the year ended December 31, 2007 are as follows (in millions):

| | | June 30, 2008 (Six Months) | | December 31, 2007 (One Year) |
|---|---|---|---|---|
| Operating | ₱ | 197.5 | ₱ | 296.8 |
| Investing | | (47.1) | | (45.8) |
| Financing | | (133.0) | | (133.1) |
| Net cash inflow | ₱ | 17.4 | ₱ | 117.9 |

## 8. Cash and Cash Equivalents

| | | **2009** | | 2008 |
|---|---|---|---|---|
| Cash on hand and with banks | ₱ | **240,814,508** | ₱ | 755,647,090 |
| Short-term investments | | **353,712,691** | | 462,984,013 |
| | ₱ | **594,527,199** | ₱ | 1,218,631,103 |

Cash with banks earn interest at the respective bank deposit rates ranging from 0.25% to 0.725% in 2009 and 0.75% to 0.875% in 2008. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company (see Note 23).

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

| | | **2009** | | 2008 |
|---|---|---|---|---|
| Bonds | ₱ | **477,505,188** | ₱ | 369,947,553 |
| Funds and equities | | **178,471,233** | | 149,718,254 |
| Others | | **77,809,185** | | 146,998,440 |
| | ₱ | **733,785,606** | ₱ | 666,664,247 |

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:

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

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

| (In Millions) | Unrealized valuation gains (losses) in market values | | Gain (loss) on increase (decrease) in market value of |
|---|---|---|---|
| 2007 | 2007 | 2006 | FVPL investments |
| Bonds | ₱ 25.7 | ₱ 2.2 | ₱ 23.5 |
| Funds and equities | (14.9) | 29.9 | (44.8) |
| Others | 93.8 | 0.8 | 93.0 |
| Total | ₱ 104.6 | ₱ 32.9 | 71.7 |
| Add realized gain on sale of FVPL investments | | | 99.5 |
| Net gain on increase in market value of FVPL investments | | | ₱ 171.2 |

The Company entered into non-deliverable currency forwards and structured derivatives in 2008 recorded under FVPL - Others. The outstanding derivatives have a positive net fair value of ₱1.0 million as of December 31, 2008. There was no outstanding derivative as of 2009.

## 10. Receivables

| | 2009 | 2008 |
|---|---|---|
| Trade (Note 30) | ₱ **141,392,543** | ₱ 266,600,268 |
| Interest receivable | **28,468,859** | 32,315,265 |
| Tax credits/refunds | **16,671,582** | 15,145,267 |
| Advances to officers and employees | **2,420,719** | 2,018,242 |
| Others | **65,941,551** | 6,581,218 |
| | **254,895,254** | 322,660,260 |
| Less allowance for doubtful accounts | **34,874,749** | 30,260,814 |
| | ₱ **220,020,505** | ₱ 292,399,446 |

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

Other receivables in 2009 include receivables related to the proceeds from sale of AFS investments amounting to ₱33.3 million from ATR-Kim Eng Securities, Inc. which were subsequently collected in 2010.

Movements in the allowance for doubtful accounts are as follows:

| | 2009 | 2008 |
|---|---|---|
| At January 1 | ₱ **30,260,814** | ₱ 36,601,720 |
| Provision for the year (Note 23) | **4,925,709** | 2,399,104 |
| Written off during the year | **(311,774)** | (963,633) |
| Recoveries | **–** | (78,192) |
| Amount attributable to a deconsolidated subsidiary (Note 7) | **–** | (7,698,185) |
| At December 31 | ₱ **34,874,749** | ₱ 30,260,814 |

## 11. Inventories

| | 2009 | 2008 |
|---|---|---|
| At cost: | | |
| Materials and supplies in transit | ₱ **89,073** | ₱ 2,491,755 |
| Aircraft spare parts and supplies - net of allowance for inventory losses of ₱0.5 million in 2009 and 2008 | **14,053,152** | 10,713,516 |
| | **14,142,225** | 13,205,271 |
| At net realizable value: | | |
| Residential units held for sale - net of allowance for impairment losses of ₱0.3 million in 2009 and 2008 | **284,099** | 284,099 |
| | ₱ **14,426,324** | ₱ 13,489,370 |

A subsidiary sold one residential unit in 2008. In relation to this sale, the corresponding allowance for impairment of ₱0.8 million was removed from the total allowance for impairment. Gain on sale of residential units amounted to ₱1.0 million in 2008. No similar sale took place in 2009.

## 12. Investments and Advances

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Investments at equity - net | ₱ | **989,726,116** | ₱ | 925,528,778 |
| Advances - net of allowance for doubtful accounts of ₱542.1 million in 2009 and 2008 | | **51,007,449** | | 68,002,968 |
| | ₱ | **1,040,733,565** | ₱ | 993,531,746 |

Investments at equity consist of:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Acquisition cost: | | | | |
| Common shares | ₱ | **412,600,120** | ₱ | 412,250,120 |
| Preferred shares | | **90,390,853** | | 90,390,853 |
| | | **502,990,973** | | 502,640,973 |
| Accumulated equity in net earnings (losses): | | | | |
| Balances at beginning of year | | **493,132,716** | | (182,362,261) |
| Accumulated equity in net earnings of a deconsolidated subsidiary (Note 7) | | **–** | | 576,235,734 |
| Equity in net earnings for the year | | **78,246,910** | | 99,259,243 |
| Dividend received | | **(41,600,000)** | | – |
| Balances at end of year | | **529,779,626** | | 493,132,716 |
| Valuation allowance | | **(43,044,483)** | | (70,244,911) |
| | ₱ | **989,726,116** | ₱ | 925,528,778 |

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

**PDP Energy**

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Balance Sheets: | | | | |
| Current assets | ₱ | **1,519.5** | ₱ | 2,160.3 |
| Noncurrent assets | | **218.9** | | 227.5 |
| Current liabilities | | **237.2** | | 948.0 |
| Noncurrent liabilities | | **1.0** | | 1.0 |
| Statements of Income: | | | | |
| Net sales | | **3,416.7** | | 5,133.4 |
| Net income | | **165.3** | | 207.2 |

**SSRLI**

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Balance Sheets: | | | | |
| Current assets | ₱ | **480.5** | ₱ | 380.4 |
| Noncurrent assets | | **525.9** | | 527.2 |
| Current liabilities | | **299.6** | | 313.9 |
| Noncurrent liabilities | | **127.6** | | 57.4 |
| Statements of Income: | | | | |
| Gross revenues | | **458.5** | | 661.9* |
| Net income | | **42.2** | | 204.4 |

*Inclusive of net gain from sale of villas amounting to ₱169.7 million.

In addition to those discussed in Notes 6 and 7, the significant transactions involving the Group's investments in subsidiaries and associates for 2009, 2008 and 2007 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 October 2009, February 2008 and March 2007, PDIPI (parent company of PDP Energy) declared cash dividends to its stockholders. Cash dividends received by the Company amounted to ₱41.6 million at ₱17.63 per share in 2009 and ₱58.3 million at ₱16.95 per share in 2008 and 2007.

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 and January 2007, the Company received ₱35.8 million and ₱19.1 million, respectively, from SSRLI representing proceeds from SSRLI's redemption of the preferred shares held by the Company.

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:

| | 2009 | 2008 |
|---|---|---|
| MTI (net of allowance for doubtful accounts of ₱564.8 million in 2009 and 2008) | ₱ **25,000,000** | ₱ 25,000,000 |
| Newco (Note 30) | **14,798,148** | 16,795,048 |
| SSRLI | **8,281,703** | 19,077,850 |
| Others (net of allowance for doubtful accounts of ₱2.3 million in 2009 and 2008) | **2,927,598** | 7,130,070 |
| | ₱ **51,007,449** | ₱ 68,002,968 |

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 ₱25.0 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

| | 2009 | 2008 |
|---|---|---|
| Quoted equity shares | **₱ 2,987,342,446** | ₱ 1,406,977,877 |
| Unquoted equity shares | **500,971,672** | 466,068,254 |
| Bonds | **839,512,777** | 416,046,352 |
| Funds and equities | **279,946,411** | 179,101,877 |
| Proprietary shares | **75,218,250** | 75,413,250 |
| | **₱ 4,682,991,556** | ₱ 2,543,607,610 |

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, 2009 and 2008.

In 2008, the Company sold its shares in eTelecare resulting in a gain of ₱740.4 million.

AFS investments in bonds represent foreign currency-denominated bond securities with fixed coupon interest rate per annum ranging from 4.56% to 10.75% in 2009 and 6.25% to 11.75% in 2008. Maturity dates range from July 9, 2010 to October 25, 2017. Effective interest rates range from 4.91% to 10.15% and 5.67% to 10.96% for foreign currency-denominated AFS investments in 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 2009, 2008 and 2007, gain (loss) on sales of AFS investments amounted to ₱186.3 million, (₱73.4 million) and ₱548.3 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 ₱33.4 million. Investment in Prople is accounted for as AFS at cost 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 and that the shares of stock of Prople are not publicly-traded. In 2009, the Company made additional investment in Prople amounting to ₱3.0 million.

b. Enderun Colleges, Inc.
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 Colleges, Inc. (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 ₱286.2 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
In March 2009, the Company invested US$900,000 (₱43.7 million) for 387,297 Series E preference shares of Alphion Corporation (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 2009, 2008 and 2007, the Company received cash dividends amounting to ₱22.8 million, ₱31.4 million and ₱22.8 million, respectively.

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

| | 2009 | 2008 |
|---|---|---|
| Beginning balance | (₱ 612,661,838) | ₱ 1,088,155,097 |
| Gain (loss) recognized directly in equity | 1,405,882,101 | (1,269,157,340) |
| Amount removed from equity and recognized in profit and loss | (136,489,137) | (431,659,595) |
| Ending balance | ₱ 656,731,126 | (₱ 612,661,838) |

In 2008, the Group recognized impairment loss on equity securities amounting to ₱8.3 million and ₱227.7 million for equities and funds and quoted equity shares, respectively. In 2009, the Group recognized impairment loss, included in the valuation allowances, amounting to ₱19.7 million on its AFS equities and funds and quoted equity shares and ₱64.0 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.

## 14. Property and Equipment

| | 2009 | | |
|---|---|---|---|
| | Buildings and Improvements | Machinery and Other Equipment | Flight and Ground Equipment |
| Cost | | | |
| January 1 | ₱ 148,086,461 | ₱ – | ₱ 173,410,449 |
| Additions | 636,986 | – | 97,612,782 |
| Disposals | – | – | (97,022) |
| Write off | – | – | – |
| Foreign exchange adjustment | 56,457 | – | – |
| December 31 | 148,779,904 | – | 270,926,209 |
| Accumulated Depreciation and Amortization: | | | |
| January 1 | 85,907,853 | – | 112,682,605 |
| Depreciation and amortization | 8,547,661 | – | 26,325,334 |
| Disposals | 16,887 | – | – |
| Foreign exchange adjustment | (1,735) | – | – |
| December 31 | 94,470,666 | – | 139,007,939 |
| Impairment Loss | – | – | 3,292,953 |
| **Net Book Value** | **₱ 54,309,238** | **₱ –** | **₱ 128,625,317** |

| | 2009 | | | |
|---|---|---|---|---|
| | Subtotal* | Furniture, Fixtures and Office Equipment | Transportation Equipment | Total |
| Cost | | | | |
| January 1 | ₱ 321,496,910 | ₱ 57,483,443 | ₱ 27,178,435 | ₱ 406,158,788 |
| Additions | 98,249,768 | 405,900 | 2,449,805 | 101,105,473 |
| Disposals | (97,022) | (2,769,091) | (47,750) | (2,913,863) |
| Write off | – | – | – | – |
| Foreign exchange adjustment | 56,457 | – | (297,325) | (240,868) |
| December 31 | 419,706,113 | 55,120,252 | 29,283,165 | 504,109,530 |
| Accumulated Depreciation and Amortization: | | | | |
| January 1 | 198,590,458 | 42,410,763 | 19,105,627 | 260,106,848 |
| Depreciation and amortization | 34,872,995 | 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 | 233,478,605 | 42,723,076 | 24,122,375 | 300,324,056 |
| Impairment Loss | 3,292,953 | – | – | 3,292,953 |
| **Net Book Value** | **₱ 182,934,555** | **₱ 12,397,176** | **₱ 5,160,790** | **₱ 200,492,521** |

* Sum of property and equipment details indicated in the first table.

| | 2008 | | | |
|---|---|---|---|---|
| | Land and Improvements | Buildings and Improvements | Machinery and Other Equipment | Flight and Ground Equipment |
| Cost | | | | |
| January 1 | ₱ 41,454,045 | ₱ 306,230,852 | ₱ 656,335,730 | ₱ 193,617,288 |
| Additions | – | 846,702 | – | 175,331 |
| Disposals | – | (530,226) | – | – |
| Write off | – | – | – | (11,849,257) |
| Amounts attributable to a deconsolidated subsidiary (see Note 7) | (41,454,045) | (158,460,867) | (656,335,730) | (8,532,913) |
| December 31 | – | 148,086,461 | – | 173,410,449 |
| Accumulated Depreciation and Amortization: | | | | |
| January 1 | 6,111,384 | 150,066,599 | 421,303,566 | 94,676,975 |
| Depreciation and amortization | – | 8,999,994 | – | 26,319,624 |
| Disposals | – | (80,319) | – | – |
| Amounts attributable to a deconsolidated subsidiary (see Note 7) | (6,111,384) | (73,078,421) | (421,303,566) | (8,313,994) |
| December 31 | – | 85,907,853 | – | 112,682,605 |
| Impairment Loss | – | – | – | 3,292,953 |
| Net Book Value | ₱ – | ₱ 62,178,608 | ₱ – | ₱ 57,434,891 |

| | 2008 | | | |
|---|---|---|---|---|
| | Subtotal* | Furniture, Fixtures and Office Equipment | Transportation Equipment | Total |
| Cost | | | | |
| January 1 | ₱ 1,197,637,915 | ₱ 77,454,382 | ₱ 53,066,675 | ₱ 1,328,158,972 |
| Additions | 1,022,033 | 9,523,685 | 3,298,081 | 13,843,799 |
| Disposals | (530,226) | (467,403) | (2,681,817) | (3,679,446) |
| Write off | (11,849,257) | – | – | (11,849,257) |
| Amounts attributable to a deconsolidated subsidiary (see Note 7) | (864,783,555) | (29,027,221) | (26,504,504) | (920,315,280) |
| December 31 | 321,496,910 | 57,483,443 | 27,178,435 | 406,158,788 |
| Accumulated Depreciation and Amortization: | | | | |
| January 1 | 672,158,524 | 64,937,182 | 35,089,637 | 772,185,343 |
| Depreciation and amortization | 35,319,618 | 4,991,887 | 3,148,533 | 43,460,038 |
| Disposals | (80,319) | (94,919) | (2,518,181) | (2,693,419) |
| Amounts attributable to a deconsolidated subsidiary (see Note7) | (508,807,365) | (27,423,387) | (16,614,362) | (552,845,114) |
| December 31 | 198,590,458 | 42,410,763 | 19,105,627 | 260,106,848 |
| Impairment Loss | 3,292,953 | – | – | 3,292,953 |
| Net Book Value | ₱ 119,613,499 | ₱ 15,072,680 | ₱ 8,072,808 | ₱ 142,758,987 |

* Sum of property and equipment details indicated in the first table.

In December 2009, IAI purchased an aircraft amounting to ₱62.2 million.

Depreciation charged to operations amounted to ₱42.8 million, ₱43.5 million and ₱85.5 million in 2009, 2008 and 2007, respectively.

## 15. Investment Properties

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Land | Land Improvements | Buildings | Condominium Units | Total |
| Cost | | | | | |
| January 1 | ₱ 181,302,172 | ₱ – | ₱ 145,073,170 | ₱ – | ₱ 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** | **₱ 185,742,977** | **₱ –** | **₱ 78,339,512** | **₱ –** | **₱ 264,082,489** |

| | 2008 | | | | |
|---|---|---|---|---|---|
| | Land | Land Improvements | Buildings | Condominium Units | Total |
| Cost | | | | | |
| January 1 | ₱ 178,841,087 | ₱ 20,306,698 | ₱ 257,790,358 | ₱ 18,057,001 | ₱ 474,995,144 |
| Additions | 114,603,613 | – | – | – | 114,603,613 |
| Disposals | (38,872) | – | – | – | (38,872) |
| Amounts attributable to a deconsolidated subsidiary (see Note 7) | (112,103,656) | (20,306,698) | (112,717,188) | (18,057,001) | (263,184,543) |
| December 31 | 181,302,172 | – | 145,073,170 | – | 326,375,342 |
| Accumulated Depreciation: | | | | | |
| January 1 | – | 15,291,364 | 102,993,069 | 1,805,700 | 120,090,133 |
| Depreciation for the year | – | – | 5,802,927 | – | 5,802,927 |
| Amounts attributable to a deconsolidated subsidiary (see Note 7) | – | (15,291,364) | (47,865,264) | (1,805,700) | (64,962,328) |
| December 31 | – | – | 60,930,732 | – | 60,930,732 |
| Net Book Value | ₱ 181,302,172 | ₱ – | ₱ 84,142,438 | ₱ – | ₱ 265,444,610 |

In February 2007, APHI sold one of its lots in Cebu Business Park. Gain arising from the sale amounted to ₱47.4 million.

In May 2006, APHI entered into a Memorandum of Agreement with another company for the sale of certain lots. The selling price amounted to US$1.2 million. The sale was completed in May 2007. Gain arising from the sale amounted to ₱54.7 million.

Fair values of the investment properties amounted to ₱547.9 million and ₱601.9 million as of December 31, 2009 and 2008, 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 ₱32.0 million as of December 31, 2009 and 2008 (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: | 2009 | 2008 |
|---|---|---|
| A. Soriano Corporation | ₱ 278,450,856 | ₱ 141,623,021 |
| IAI | 66,102,880 | – |
| IQMAN | – | 11,880,000 |
| | ₱ 344,553,736 | ₱ 153,503,021 |

The loans bear annual interest rates ranging from 6.2% to 10% in 2009 and 6.2% to 9.0% in 2008. As of December 31, 2009 and 2008, the Group's unavailed loan credit line from banks amounted to ₱600.0 million.

## 18. Accounts Payable and Accrued Expenses

| | 2009 | 2008 |
|---|---|---|
| Trade payables | ₱ 51,191,690 | ₱ 53,433,974 |
| Accrued expenses | 133,935,210 | 153,639,446 |
| Due to affiliates (Note 30) | 53,496,443 | 38,291,957 |
| Other payables | 10,198,709 | 29,858,943 |
| | ₱ 248,822,052 | ₱ 275,224,320 |

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 2010.

## 19. Long-term Debt

Long-term debt pertains to the following:

| | 2009 | 2008 |
|---|---|---|
| Long-term debt availed by IAI | ₱ 34,650,000 | ₱ 47,520,000 |
| Less current portion | 14,437,500 | 14,839,062 |
| | ₱ 20,212,500 | ₱ 32,680,938 |

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 based on the average 90-day LIBOR rate plus spread of 3.5% per annum. The loan is collateralized by chattel mortgages on IAI's two aircraft with a carrying value of ₱66.4 million and ₱57.3 million as of December 31, 2009 and 2008, respectively.

Annual interest rates charged in 2009, 2008 and 2007 ranged from 6.2% to 10%, 7.7% to 9.8% and 8.0% to 8.9%, 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, 2009 and 2008 totaled 1,441,819,922 and 1,443,049,922, respectively. The Company's number of equity holders as at December 31, 2009 is 11,883.

In 2009, 2008 and 2007, the Company declared the following cash dividends:

| | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Cash dividends per share | ₱ | **0.06** | ₱ | 0.12 | ₱ | 0.10 |
| Month of declaration | | **April** | | February | | April |
| Stockholders of record | | **May 8, 2009** | | March 11, 2008 | | May 2, 2007 |
| Total cash dividends | ₱ | **150 million** | ₱ | 300 million | ₱ | 250 million |
| Share of a subsidiary | ₱ | **63.4 million** | ₱ | 115.2 million | ₱ | 93.3 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 totalling ₱250 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 and 2007.

As of December 31, 2009 and 2008, the Company had dividends payable amounting to ₱121.7 million and ₱269.3 million, respectively. Dividends payable amounting to ₱112.5 million and ₱112.3 million represent mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2009 and 2008, respectively, due to problematic addresses of some of the Company's stockholders.

On March 4, 2010, the BOD approved the declaration of cash dividends of ₱0.10 per share for stockholders of record as of March 25, 2010, payable on April 21, 2010.

*Shares held by a subsidiary*

As of December 31, 2009 and 2008, a subsidiary held 1,058,180,078 shares and 1,056,950,078 shares, respectively, of the Company. Cost of shares of the Company purchased by the subsidiary in 2009, 2008 and 2007 amounted to ₱2.8 million, ₱311.3 million and ₱141.2 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".

## 21. Cost of Services Rendered and Operating Expenses

Cost of services rendered consist of:

| | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Salaries, wages and employee benefits (Note 22) | ₱ | **604,818,050** | ₱ | 789,631,541 | ₱ | 12,845,303 |
| Recruitment services | | **67,633,583** | | 64,424,330 | | – |
| Housing cost | | **50,894,508** | | 65,551,379 | | – |
| Insurance | | **47,446,679** | | 26,743,245 | | 3,329,761 |
| Depreciation and amortization (Notes 14 and 15) | | **26,159,563** | | 26,109,813 | | 23,509,856 |
| Repairs and maintenance | | **24,632,524** | | 19,781,714 | | 23,664,361 |
| Fuel cost | | **18,887,205** | | 33,374,873 | | 25,854,825 |
| Dues and subscriptions | | **18,594,170** | | 18,720,182 | | – |
| Nurse deployment expenses (Note 30) | | **10,866,860** | | 16,458,773 | | 24,138,254 |
| Transportation and travel | | **7,339,403** | | 19,482,884 | | – |
| Variable nurse costs (Note 30) | | **3,067,894** | | 1,660,195 | | 9,409,675 |
| Outside services | | **2,664,191** | | 6,326,947 | | 1,024,891 |
| Technical assistance fees (Note 30) | | **70,458** | | 77,445 | | – |
| Cost of residential units sold | | **–** | | 2,777,186 | | – |
| Others | | **9,621,934** | | 6,204,131 | | 442,252 |
| | ₱ | **892,697,022** | ₱ | 1,097,324,638 | ₱ | 124,219,178 |

Operating expenses consist of:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Salaries, wages and employee benefits (Note 22) | ₱ 190,667,958 | ₱ 192,773,588 | ₱ 101,474,454 |
| Professional fees | 66,980,578 | 87,118,208 | 43,460,275 |
| Depreciation and amortization (Notes 14 and 15) | 27,517,845 | 26,493,049 | 22,831,833 |
| Rental (Note 30) | 21,951,673 | 17,740,501 | 11,613,842 |
| Insurance | 14,048,135 | 9,874,961 | 2,693,837 |
| Advertising | 13,037,999 | 10,489,430 | 1,382,715 |
| Commissions | 12,807,095 | 35,001,584 | 3,950,666 |
| Transportation and travel | 12,349,455 | 15,123,998 | 7,120,530 |
| Communications | 12,329,852 | 9,439,681 | 7,658,315 |
| Taxes and licenses | 8,260,406 | 7,455,730 | 16,495,956 |
| Entertainment, amusement and recreation | 7,727,978 | 4,725,426 | 4,548,249 |
| Utilities | 5,957,347 | 6,659,426 | 5,860,941 |
| Security services | 5,946,411 | 5,304,745 | 4,839,497 |
| Office supplies | 4,672,396 | 3,548,806 | 2,755,213 |
| Association dues | 3,719,227 | 4,124,495 | 1,897,869 |
| Repairs and maintenance | 2,529,541 | 1,934,057 | 2,312,269 |
| Meetings and conferences | 2,187,250 | 2,270,764 | 3,766,365 |
| Shipping and delivery expenses | 1,691,390 | 1,836,171 | 445,189 |
| Project-related | – | – | 40,639,464 |
| Others | 21,747,413 | 26,161,481 | 24,545,313 |
| | ₱ 436,129,949 | ₱ 468,076,101 | ₱ 310,292,792 |

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

## 22. Personnel Expenses

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Salaries and wages | ₱ 783,708,695 | ₱ 966,406,555 | ₱ 104,759,412 |
| Pension costs (Note 24) | 4,287,622 | 3,147,158 | 4,202,654 |
| Social security premiums, meals and other employees' benefits | 7,489,691 | 12,851,416 | 5,357,691 |
| | ₱ 795,486,008 | ₱ 982,405,129 | ₱ 114,319,757 |

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 ₱25.0 million, as approved by the BOD and the Compensation Committee in December 2008. There was no special and nonrecurring bonus declared in 2009 and 2007.

## 23. Interest Income, Interest Expense and Valuation Allowances

Interest income consists of:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Debt instruments | ₱ 106,980,373 | ₱ 88,151,036 | ₱ 79,024,737 |
| Cash equivalents | 8,541,376 | 12,203,199 | 31,375,993 |
| Funds and equities | 4,190,172 | 3,932,126 | 41,191,997 |
| Others | 497,190 | 2,684,748 | 37,810 |
| | ₱ 120,209,111 | ₱ 106,971,109 | ₱ 151,630,537 |

Interest income on debt instruments is net of bond premium amortization amounting to ₱3.7 million in 2009, ₱0.3 million in 2008 and ₱1.2 million in 2007.

Interest expense consists of:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Notes payable (see Note 17) | ₱ 8,470,272 | ₱ 20,810,517 | ₱ 6,095,584 |
| Long-term debt (see Note 19) | 2,221,638 | 3,189,144 | 9,236,611 |
| Others | 101,492 | 79,850 | – |
| | ₱ 10,793,402 | ₱ 24,079,511 | ₱ 15,332,195 |

Valuation allowances consist of:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Valuation allowances on: | | | |
| AFS investments (Note 13) | ₱ 83,673,558 | ₱ 236,046,300 | ₱ – |
| Receivables (Note 10) | 4,925,709 | 2,399,104 | – |
| Advances to associates (Note 12) | – | 2,263,724 | 25,000,000 |
| Other noncurrent assets | 657,213 | 821,171 | – |
| Recovery of allowances for: | | | |
| Impairment losses (Notes 10, 11 and 14) | – | (78,192) | (10,185,291) |
| Advances to an associate (Note 12) | – | (25,000,000) | – |
| | ₱ 89,256,480 | ₱ 216,452,107 | ₱ 14,814,709 |

## 24. Pension and Other Post-employment Benefit Plans

The Group has funded defined benefit pension plans covering substantially all of its officers and employees.

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.

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Pension income: | | | |
| Current service cost | ₱ – | ₱ 3,864,948 | ₱ 3,588,957 |
| Interest cost on benefit obligation | – | 6,242,134 | 5,937,673 |
| Expected return on plan assets | – | (15,331,538) | (12,844,872) |
| Net actuarial gains recognized | – | (1,737,125) | (1,491,002) |
| | – | (6,961,581) | (4,809,244) |
| Retirement benefit expense: | | | |
| Current service cost | 5,150,909 | 2,324,501 | 3,020,375 |
| Interest cost on benefit obligation | 8,221,741 | 812,890 | 1,208,872 |
| Amortization of transition liability | 135,702 | – | – |
| Expected return on plan assets | (8,634,780) | (84,883) | (121,607) |
| Net actuarial losses (gain) recognized | (585,950) | 94,650 | 95,014 |
| | 4,287,622 | 3,147,158 | 4,202,654 |
| Net benefit expense (income) | ₱ 4,287,622 | (₱ 3,814,423) | (₱ 606,590) |
| | | | |
| Actual return (loss) on plan assets | ₱ 18,065,740 | (₱ 17,482,326) | ₱ 14,628,510 |

Parent Company

Computation of pension asset:

| | 2009 | 2008 |
|---|---|---|
| Fair value of plan assets | ₱ 134,090,660 | ₱ 112,428,181 |
| Defined benefit obligation | 97,960,362 | 80,889,830 |
| | 36,130,298 | 31,538,351 |
| Unrecognized net actuarial gains | (19,298,615) | (17,061,004) |
| Pension asset | ₱ 16,831,683 | ₱ 14,477,347 |

Pension asset is included under “Other noncurrent assets - net” in the consolidated balance sheets.

Subsidiaries

Computation of pension liability:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Defined benefit obligation | ₱ | **7,841,532** | ₱ | 3,708,773 |
| Fair value of plan assets | | **1,194,728** | | 1,036,122 |
| | | **6,646,804** | | 2,672,651 |
| Unrecognized net actuarial gain (loss) | | **5,741,913** | | 5,943,659 |
| Unrecognized net transition asset | | **–** | | (156,510) |
| Pension liability | ₱ | **12,388,717** | ₱ | 8,459,800 |

Pension liability is included under "Accounts payable and accrued expenses" in the consolidated balance sheets.

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

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Opening defined benefit obligation | ₱ | **84,598,603** | ₱ | 123,230,889 |
| Interest cost | | **8,221,741** | | 7,055,024 |
| Current service cost | | **5,150,909** | | 6,189,449 |
| Benefits paid | | **(1,565,635)** | | (837,002) |
| Actuarial loss (gains) on obligation | | **9,396,276** | | (18,736,516) |
| | | **105,801,894** | | 116,901,844 |
| Amounts attributable to a deconsolidated subsidiary (Note 7) | | **–** | | (32,303,241) |
| Closing defined benefit obligation | ₱ | **105,801,894** | ₱ | 84,598,603 |

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

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Opening fair value of plan assets | ₱ | **113,464,303** | ₱ | 147,469,620 |
| Expected return | | **8,634,780** | | 15,416,421 |
| Contributions | | **5,318,343** | | 5,318,343 |
| Benefits paid | | **(1,565,635)** | | (837,002) |
| Actuarial gain (loss) | | **9,433,597** | | (32,898,747) |
| | | **135,285,388** | | 134,468,635 |
| Amounts attributable to a deconsolidated subsidiary (Note 7) | | **–** | | (21,004,332) |
| Closing fair value of plan assets | ₱ | **135,285,388** | ₱ | 113,464,303 |

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:

| | 2009 | 2008 |
|---|---|---|
| Bonds | **53%** | 69% |
| Stocks | **26%** | 24% |
| Others | **21%** | 7% |

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:

| | 2009 | 2008 |
|---|---|---|
| Discount rate | **10%-11%** | 10%-19% |
| Expected rate of return on plan assets | **7%-8%** | 8% |
| Future salary increases | **5%-10%** | 7.5%-10% |

Amounts for 2009, 2008, 2007, 2006 and 2005 are as follows:

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Defined benefit obligation | ₱ **105,801,894** | ₱ 84,598,603 | ₱ 123,230,889 | ₱ 109,739,506 | ₱ 88,905,349 |
| Plan assets | **135,285,388** | 113,464,303 | 147,469,620 | 122,250,842 | 80,221,586 |
| Surplus | **29,483,494** | 28,865,700 | 24,238,731 | 12,511,336 | 8,683,763 |
| Experience adjustments on plan liabilities | **2,786,272** | 11,811,516 | 6,239,288 | 13,069,399 | – |
| Experience adjustments on plan assets | **9,433,597** | 32,898,747 | 509,298 | 24,664,655 | – |

## 25. Income Taxes

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Current | ₱ **6,998,848** | ₱ 8,613,306 | ₱ 10,268,373 |
| Deferred | **(22,160,802)** | 79,092,990 | (28,316,264) |
| | **(₱ 15,161,954)** | ₱ 87,706,296 | (₱ 18,047,891) |

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

Parent Company

| | 2009 | 2008 |
|---|---|---|
| Net deferred income tax assets: | | |
| Recognized directly in the consolidated statements of income: | | |
| Deferred income tax assets: | | |
| Allowances for impairment loss | ₱ **15,851,787** | ₱ 2,498,798 |
| Unamortized past service cost | **1,243,982** | 2,227,959 |
| Unrealized foreign exchange losses | **8,988,639** | – |
| MCIT | **–** | 9,396,205 |
| | **26,084,408** | 14,122,962 |
| Deferred income tax liabilities: | | |
| Pension asset | **(5,049,505)** | (4,459,374) |
| Uncollected management fees | **(2,816,572)** | (8,838,920) |
| Derivative asset | **–** | (301,385) |
| Unrealized foreign exchange gains | **–** | (4,782,088) |
| | **(7,866,077)** | (18,381,767) |
| | **18,218,331** | (4,258,805) |
| Recognized directly in equity: | | |
| Unrealized valuation losses (gains) on AFS investments | **(18,218,331)** | 76,316,532 |
| Cumulative translation adjustment (CTA) | **–** | (4,176,411) |
| | **(18,218,331)** | 72,140,121 |
| | ₱ **–** | ₱ 67,881,316 |

Subsidiaries

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Net deferred income tax liabilities: | | | | |
| Recognized directly in the consolidated statements of income: | | | | |
| Deferred income tax assets: | | | | |
| NOLCO | ₱ | **4,386,907** | ₱ | 4,971,828 |
| Allowance for doubtful accounts | | **–** | | 289,729 |
| Others | | **6,293,147** | | 6,388,256 |
| | | **10,680,054** | | 11,649,813 |
| Deferred income tax liabilities: | | | | |
| Goodwill amortization | | **(14,891,369)** | | (15,316,836) |
| Others | | **(4,085,869)** | | (3,612,565) |
| | | **(18,977,238)** | | (18,929,401) |
| | | **(8,297,184)** | | (7,279,588) |
| Recognized directly in equity: | | | | |
| Unrealized valuation gains on AFS investments | | **–** | | (822,451) |
| | (₱ | **8,297,184)** | (₱ | 8,102,039) |

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:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Allowances for: | | | | |
| Doubtful accounts | ₱ | **785,941,362** | ₱ | 572,324,538 |
| Impairment losses | | **14,683,652** | | 4,054,208 |
| Inventory losses | | **761,255** | | – |
| Market adjustments on FVPL investments | | **57,864,384** | | 281,910,557 |
| Market adjustments on AFS investments | | **33,371,736** | | – |
| NOLCO | | **216,328,441** | | 193,808,721 |
| MCIT | | **14,832,190** | | 5,712,160 |
| Accrued pension benefit and others | | **14,419,945** | | 14,654,582 |

The Parent Company and other subsidiaries domiciled in the Philippines are subject to the Philippine statutory tax rate of 30% in 2009 and 35% in 2008 and 2007 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:

| | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Provision for income tax at statutory tax rates | ₱ | **84,847,062** | ₱ | 248,124,545 | ₱ | 132,363,988 |
| Additions to (reductions from) income taxes resulting from: | | | | | | |
| Movement in unrecognized deferred income tax assets | | **13,454,957** | | 328,616,472 | | 53,869,235 |
| Nondeductible expenses | | **4,696,804** | | 855,422 | | 6,345,682 |
| Nondeductible interest expense | | **303,761** | | 617,736 | | 2,124,724 |
| Interest income already subjected to final tax | | **(540,955)** | | (1,436,066) | | (20,657,049) |
| Equity in net earnings of associates not subject to income tax | | **(23,474,073)** | | (34,740,798) | | (12,164,529) |
| Dividend income not subject to income tax | | **(29,455,051)** | | (42,861,214) | | (23,965,795) |
| Gain on sale of AFS investments, marketable equity securities and other investments subjected to final tax | | **(65,125,964)** | | (443,128,705) | | (154,200,393) |
| Effects of change in tax rates | | **–** | | 14,070,110 | | (1,434,943) |
| Others | | **131,505** | | 17,588,794 | | (328,811) |
| | (₱ | **15,161,954)** | ₱ | 87,706,296 | (₱ | 18,047,891) |

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

NOLCO

| Period of Recognition | Availment Period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2006 | 2007-2009 | ₱ 39,734,795 | ₱ – | (₱39,734,795) | ₱ – |
| 2007 | 2008-2010 | 18,159,653 | – | – | 18,159,653 |
| 2008 | 2009-2011 | 150,537,297 | – | – | 150,537,297 |
| 2009 | 2010-2012 | 62,254,515 | – | – | 62,254,515 |
| | | ₱ 270,686,260 | ₱ – | (₱39,734,795) | ₱ 230,951,465 |

As of December 31, 2009, a foreign subsidiary has NOLCO for federal and income tax purposes of approximately US$3.0 million and US$2.7 million, respectively, which will begin to expire in the year 2027.

MCIT

| Period of Recognition | Availment Period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2006 | 2007-2009 | ₱ 3,869,421 | ₱ – | (₱ 3,869,421) | ₱ – |
| 2007 | 2008-2010 | 7,751,929 | – | – | 7,751,929 |
| 2008 | 2009-2011 | 3,487,015 | – | – | 3,487,015 |
| 2009 | 2010-2012 | 3,593,246 | – | – | 3,593,246 |
| | | ₱ 18,701,611 | ₱ – | (₱ 3,869,421) | ₱ 14,832,190 |

In 2009, the deductible temporary differences above include the parent company's NOLCO and MCIT amounting to ₱7.0 million and ₱6.7 million, respectively, that will expire in 2010.

Republic Act (RA) No. 9337

On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed as RA No. 9337 or the E-VAT Act (The Act) of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulations (RR) 16-2005 which provided for the implementation of the rules and regulations of the new E-VAT law. The Act, among others, introduced the following changes:

- Regular corporate income tax rate for domestic corporations, and resident and non-resident foreign corporations is increased from 32% to 35% for the next three years effective on November 1, 2005, and will be reduced to 30% starting January 1, 2009 and thereafter;

- Increased nondeductible interest expense rate from 38% to 42% with a reduction thereof to 33% beginning January 1, 2009.

Republic Act (RA) No. 9504

On July 7, 2008, RA No. 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deductions (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deductions in an amount not exceeding 40% of their gross income.

## 26. Earnings Per Share - Basic / Diluted

Earnings per share - basic / diluted were computed as follows:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Net income attributable to equity holdings of the parent from: | | | |
| Continuing operations | ₱ **289,644,550** | ₱ 662,860,843 | ₱ 445,089,156 |
| Deconsolidated subsidiary | **–** | 113,175,919 | 174,692,828 |
| | ₱ **289,644,550** | ₱ 776,036,762 | ₱ 619,781,984 |

| | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Weighted average number of shares (Note 20) | | **1,442,579,922** | | 1,502,294,797 | | 1,558,074,644 |
| | | | | | | |
| Earnings per share from: | | | | | | |
| Continuing operations | ₱ | **0.20** | ₱ | 0.44 | ₱ | 0.29 |
| Deconsolidated subsidiary | | **–** | | 0.08 | | 0.11 |
| | ₱ | **0.20** | ₱ | 0.52 | ₱ | 0.40 |

The Company does not have potentially dilutive common stock equivalents.

**27. Related Party Transactions**

In the normal course of business and in addition to those disclosed in Notes 12 and 30, the Group grants/receives interest and noninterest-bearing cash advances to/from its associates and affiliates.

*Compensation of key management personnel* (in millions):

| | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Short-term employee benefits (Notes 13 and 22) | ₱ | **43.6** | ₱ | 87.6 | ₱ | 58.0 |
| Post-employment benefits | | **4.4** | | 4.4 | | 4.4 |
| Total compensation of key management personnel | ₱ | **48.0** | ₱ | 92.0 | ₱ | 62.4 |

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

The Company's principal financial instruments comprise cash and cash equivalents, receivables, investments in debt instruments, quoted and unquoted equity securities, investments in mutual and hedge funds, and short-term and long term bank loans.

The Company's investment objectives consist mainly of:

a) maintaining a bond portfolio that earns adequate cash yields and,
b) maintaining a stable equity portfolio that generates capital gains through a combination of long-term strategic investments and short-term to medium-term hold type investment.

The main risks arising from the use of these financial instruments are foreign currency risk, credit risk, liquidity risk, interest rate risk and equity price risk. These risks are monitored by the Company's Investment Committee (the Committee).

The Committee evaluates the performance of all investments and reviews fund allocation to determine the future strategy of the fund. The Committee is formed by the Company's Chairman, Vice Chairman, Chief Finance Officer, and an independent consultant. The evaluation and meetings occur at least every quarter.

The BOD reviews and approves the Company's risk management policies. The Company's policies for managing each of these risks are summarized below.

*Credit risk*
The Group is exposed to credit risk primarily because of its investing and operating activities. Credit risk losses may occur as a result of either an individual, counterparty or issuer being able to or unwilling to honor its contractual obligations. The Group is exposed to credit risk arising from the counterparties (i.e., foreign and local currency denominated debt instruments and receivables) to its financial assets.

*Credit risk management*

In managing credit risk on these investments, capital preservation is paramount. The Group transacts only with recognized and creditworthy counterparties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in foreign equity funds are made in mutual funds and/or hedge funds with investments in A-rated companies with good dividend track record as well as capital appreciation. The investment portfolio mix between debt and equities is reviewed regularly by the Committee.

*Credit risk exposures*

The carrying amounts of the assets represent maximum credit exposure. The table below shows the gross maximum exposure to on- and off-balance sheet credit risk exposures of the Group without considering the effects of collateral, credit enhancements and other credit risk mitigation techniques:

| | **2009** | 2008 |
|---|---|---|
| Cash in banks | ₱ **240,814,508** | ₱ 755,647,090 |
| Short-term investments | **353,712,691** | 462,984,013 |
| FVPL investments (bonds) | **477,505,188** | 369,947,553 |
| AFS investments (bonds) | **839,512,777** | 416,046,352 |
| Loans and receivables: | | |
| Trade | **141,392,543** | 266,600,268 |
| Interest receivable | **28,468,859** | 32,315,265 |
| Advances to officers and employees | **2,420,719** | 2,018,242 |
| Others | **65,941,551** | 6,581,218 |
| | **238,223,672** | 307,514,993 |
| Less allowance for doubtful accounts | **34,874,749** | 30,260,814 |
| | **203,348,923** | 277,254,179 |
| | ₱ **2,114,894,087** | ₱ 2,281,879,187 |

*Credit quality per class of financial asset*

For the Group's receivables, credit quality is monitored and managed using internal credit ratings. Internal risk ratings are derived in accordance with the Group's rating policy. The table below shows the credit quality by class of financial asset based on the Group's credit rating system:

| | Financial Assets that are Neither Past Due nor Impaired | | | | |
|---|---|---|---|---|---|
| **2009** | High Grade | Standard Grade | Substandard Grade | Past Due and Impaired | Total |
| Cash in banks | ₱ **240,814,508** | ₱ **–** | ₱ **–** | ₱ **–** | ₱ **240,814,508** |
| Short-term investments | **353,712,691** | **–** | **–** | **–** | **353,712,691** |
| FVPL investments - Bonds* | **132,007,260** | **268,873,054** | **76,624,874** | **–** | **477,505,188** |
| AFS investments - Bonds* | **149,533,223** | **611,926,875** | **21,267,354** | **56,785,325** | **839,512,777** |
| Receivables: | | | | | |
| Trade | **–** | **89,746,990** | **7,726,811** | **43,918,742** | **141,392,543** |
| Interest receivable | **–** | **28,468,859** | **–** | **–** | **28,468,859** |
| Advances to officers and employees | **–** | **2,420,719** | **–** | **–** | **2,420,719** |
| Others | **35,534,531** | **12,381,926** | **12,045,068** | **5,980,026** | **65,941,551** |
| Total | ₱ **911,602,213** | ₱ **1,013,818,423** | ₱ **117,664,107** | ₱ **106,684,093** | ₱ **2,149,768,836** |

**Substandard grade includes intruments which are not rated.*

| 2008 | Financial Assets that are Neither Past Due nor Impaired<br>High Grade | Standard Grade | Substandard Grade | Past Due and Impaired | Total |
|---|---|---|---|---|---|
| Cash in banks | ₱ 755,647,090 | ₱ – | ₱ – | ₱ – | ₱ 755,647,090 |
| Short-term investments | 462,984,013 | – | – | – | 462,984,013 |
| FVPL investments | | | | | |
| Bonds | 22,406,825 | 340,412,728 | 7,128,000 | – | 369,947,553 |
| AFS investments | | | | | |
| Bonds | – | 410,819,152 | 5,227,200 | – | 416,046,352 |
| Receivables: | | | | | |
| Trade | – | 154,633,578 | 53,480,167 | 58,486,523 | 266,600,268 |
| Interest receivable | – | 32,315,265 | – | – | 32,315,265 |
| Advances to officers and employees | – | 2,018,242 | – | – | 2,018,242 |
| Others | – | 1,164,818 | – | 5,416,400 | 6,581,218 |
| Total | ₱ 1,241,037,928 | ₱ 941,363,783 | ₱ 65,835,367 | ₱ 63,902,923 | ₱ 2,312,140,001 |

The Group evaluates credit quality on the basis of the credit strength of the security and/or counterparty/ issuer. High grade financial assets reflect the investment grade quality of the investments and/or counterparty; realizability is thus assured. Standard grade assets are considered moderately realizable.

*Financial assets that are past due but not impaired*

The table below shows the aging analysis of past due but not impaired loans/receivables per class that the Group held. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

| **December 31, 2009** | Financial Assets that are Past Due but Not Impaired<br>Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| Trade | ₱ **4,526,777** | ₱ **2,987,538** | ₱ **1,922,758** | ₱ **1,267,370** | ₱ **10,704,443** |
| Others | **834,957** | **637,403** | **2,184,505** | **662,710** | **4,319,575** |
| Total | ₱ **5,361,734** | ₱ **3,624,941** | ₱ **4,107,263** | ₱ **1,930,080** | ₱ **15,024,018** |

| December 31, 2008 | Financial Assets that are Past Due but Not Impaired<br>Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| Trade | ₱ 20,970,011 | ₱ 8,352,523 | ₱ – | ₱ – | ₱ 29,322,534 |
| Others | – | – | – | 4,628,837 | 4,628,837 |
| Total | ₱ 20,970,011 | ₱ 8,352,523 | ₱ – | ₱ 4,628,837 | ₱ 33,951,371 |

*Liquidity risk*

Liquidity risk is defined as the risk that the fund may not be able to settle or meet its obligations as they fall due. Aside from yielding good returns, the Group ensures investments have ample liquidity to finance operations and capital requirements. Short-term bank loans are secured to fill in temporary mismatch of funds for new investments.

Where applicable, long-term debt or equity are used for financing when the business requirement calls for it to ensure adequate liquidity in the subsidiaries and affiliates' operation.

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due, this is done by primarily investing in highly liquid investments. The Group is exposed to liquidity risk arising from its short-term bank loans from local and investment banks.

The table below summarizes the maturity profile of the Group's financial liabilities at December 31 based on undiscounted contractual payments.

| December 31, 2009 | | Within 6 months | | 6 to 12 months | | 1 to 5 years | | Total |
|---|---|---|---|---|---|---|---|---|
| Notes payable | ₱ | **344,553,736** | ₱ | **–** | ₱ | **–** | ₱ | **344,553,736** |
| Accounts payable and accrued expenses* | | **62,214,188** | | **–** | | **–** | | **62,214,188** |
| Long-tem debt | | **–** | | **14,437,500** | | **20,212,500** | | **34,650,000** |
| Dividends payable | | **121,684,225** | | **–** | | **–** | | **121,684,225** |
| Interest payable | | **1,296,614** | | **976,462** | | **1,568,743** | | **3,841,819** |
| | ₱ | **529,748,763** | ₱ | **15,413,962** | ₱ | **21,781,243** | ₱ | **566,943,968** |

**Excluding other nonfinancial liabilities amounting to ₱169.8 million.*

| December 31, 2008 | | Within 6 months | | 6 to 12 months | | 1 to 5 years | | Total |
|---|---|---|---|---|---|---|---|---|
| Notes payable | ₱ | 153,503,021 | ₱ | – | ₱ | – | ₱ | 153,503,021 |
| Accounts payable and accrued expenses* | | 85,290,747 | | – | | – | | 85,290,747 |
| Long-term debt | | – | | 14,839,062 | | 32,680,938 | | 47,520,000 |
| Dividends payable | | 269,327,107 | | – | | – | | 269,327,107 |
| Interest payable | | 2,719,026 | | 1,483,906 | | 3,917,513 | | 8,120,445 |
| | ₱ | 510,839,901 | ₱ | 16,322,968 | ₱ | 36,598,451 | ₱ | 563,761,320 |

**Excluding other nonfinancial liabilities amounting to ₱175.5 million.*

*Market risks*

Market risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. It is the risk coming from adverse movements in factors that affect the market value of financial instruments of the Group. The Group is exposed primarily to the financial risks of changes in interest rates, foreign currency risk and equity price risks.

Investments exposed to market risk are foreign and local currency denominated quoted debt instruments, foreign and local currency denominated equity instruments and mutual fund/hedge fund investments.

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

a. Interest rate risks

*Cash flow interest rate risk*

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

The following table demonstrates management's best estimate of the sensitivity to reasonably possible change in interest rates, with all other variables held constant:

| 2009 | Change interest rates (in bps) | Effect on income before tax Increase (Decrease) |
|---|---|---|
| Floating debt investments | **+150** | **₱ 2,975,947** |
| | **-150** | **(2,975,947)** |

| 2008 | Change interest rates (in bps) | Effect on income before tax Increase (Decrease) |
|---|---|---|
| Floating debt investments | +150 | ₱ 1,170,720 |
| | -150 | (1,170,720) |

The sensitivity analysis shows the effect on the consolidated statements of income of assumed changes in interest rates on the net interest income for one year, based on the floating rate of financial assets held at December 31, 2009 and 2008. There is no other impact on equity other than those affecting profit and loss.

*Fair value interest rate risk*

The Group accounts for its debt investments at fair value. Changes in benchmark interest rate will cause changes in the fair value of quoted debt instruments.

The basic sensitivity analysis assumes that the bond's standard deviation on its historical yield for the past one year provides the basis for the range of reasonably possible change in bond prices. In establishing the relative range of bond yields based on historical standard deviation, the Group assumes a 99% confidence level.

The table below shows the impact on income before income tax and equity of the estimated future bond yields using a sensitivity approach. Items affecting profit and loss are bonds classified as FVPL and items affecting equity account are bonds classified as AFS.

| | | Increase (Decrease) | |
|---|---|---|---|
| **2009** | Change in relative average yield | Effect on income before tax | Effect on equity |
| AFS investments | **+12.91% to + 108.77%** | **₱ –** | **(₱ 144,098,559)** |
| | **-12.91% to – 108.77%** | **–** | **96,173,840** |
| FVPL investments | **+1.40% to + 106.77%** | **(101,440,489)** | **–** |
| | **-1.40% to – 106.77%** | **44,794,560** | **–** |

For 2009, the annual standard deviation of the changes in the bond's historical yield ranges from 1.40% to 108.77%. With 99% confidence level, the returns could range between 3.26% and 326.80% of the average yield.

| | | Increase (Decrease) | |
|---|---|---|---|
| 2008 | Change in relative average yield | Effect on income before tax | Effect on equity |
| AFS investments | +16.58% to +94.67% | ₱ – | (₱ 298,762,196) |
| | -16.58% to -94.67% | – | 258,443,152 |
| FVPL investments | +16.58% to +94.67% | (80,512,438) | – |
| | -16.58% to -94.67% | 75,521,501 | – |

For 2008, the annual standard deviation of the changes in the bond's historical yield ranges from 16.58% to 94.67%. With 99% confidence level, the returns could range between 37.21% to 219.63% of the average yield.

b. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Group's investment in stocks listed in the PSE index (PSEi). For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

The basic sensitivity analysis assumes that the stocks' standard deviation on its historical yield for the past one year provides the basis for the range of reasonably possible changes in prices of the stock investments. In establishing the relative range of the stock investment yields based on historical standard deviation, the Group assumes a 99% confidence level.

The table below shows the impact on income before income tax and equity of the estimated future yield of the stock investments using a sensitivity approach.

| | | Increase (Decrease) | |
|---|---|---|---|
| **2009** | Change in PSEi average returns | Effect on income before tax | Effect on equity |
| AFS investments | **+70.70%** | ₱ **–** | ₱ **1,207,087,129** |
| | **-70.70%** | **–** | **(1,207,087,129)** |

The annual standard deviation of the PSEi is approximately 33.56%. With 99% confidence level, the returns could be +/- 70.70% from the average returns. There are no outstanding stock investments listed in PSE that are classified as FVPL as of December 31, 2009.

| | | Increase (Decrease) | |
|---|---|---|---|
| 2008 | Change in PSEi average returns | Effect on income before tax | Effect on equity |
| AFS investments | +78.08% | ₱ – | ₱ 524,617,356 |
| | -78.08% | – | (524,617,356) |

The annual standard deviation of the PSEi is approximately 33.56%. With 99% confidence level, the returns could be +/- 78.08% from the average returns. There are no outstanding stock investments listed in PSE that are classified as FVPL as of December 31, 2008.

c. Price interest risk of mutual funds

The Group is exposed to the risks of changes in the fund's net asset value due to its market risk exposures.

The basic sensitivity analysis assumes that the related market indices' standard deviation on its historical yield for the past one year provides the basis for reasonably possible change in prices of the investments in mutual funds. In establishing the relative range of the market indices' yields based on historical standard deviation, the Group assumes a 99% confidence level.

The table below shows the impact on income before income tax and equity of the estimated future yield of the related market indices of the mutual funds using a sensitivity approach. The effect on income before tax pertains to the changes in the fair value of mutual funds at FVPL, while effect on equity arises from changes in the fair value of mutual funds classified as AFS.

| | | Increase (Decrease) | |
|---|---|---|---|
| **2009** | Change in relative average return | Effect on income before tax | Effect on equity |
| Mutual funds | **+17.5% to +109.83%** | ₱ **123,169,660** | ₱ **169,019,587** |
| | **-17.5% to -109.83%** | **(123,169,660)** | **(169,019,587)** |

The annual standard deviation of the yield of related indices ranges from 17.5% to 109.83%. With 99% confidence level, the returns could range between 40.7% and 255.5% from the average returns.

| | | Increase (Decrease) | |
|---|---|---|---|
| 2008 | Change in relative average return | Effect on income before tax | Effect on equity |
| Mutual funds | +10.45% to +132.06% | ₱ 245,251,010 | ₱ 53,607,279 |
| | -10.45% to -132.06% | (245,251,010) | (53,607,279) |

The annual standard deviation of the yield of related indices ranges from 10.45% to 132.06%. With 99% confidence level, the returns could range between 24.31% and 307.23% from the average returns.

d. Foreign exchange risks

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows. This arises primarily from investments in foreign currency denominated debt investments and equity securities.

The Company and a subsidiary's foreign exchange risk arises primarily from investments in foreign currency denominated debt and equity securities. To minimize income volatility due to exchange rate movements, liquid investments are held in a basket of currencies, including Philippine peso and other major currencies such as U.S. dollar and Euro. This also enables the Company and a subsidiary to access investment opportunities in those currencies. The Company and a subsidiary occasionally engage in foreign currency forward contracts as a defensive measure against foreign currency volatility.

On borrowings, it is the Company's group-wide policy for its subsidiaries and associates where it has significant influence to minimize any foreign exchange risks. Thus, all borrowings whether short-term or long-term, in general, should be in Philippine peso. Any foreign currency borrowings may be engaged only if matched by the entities' corresponding currency revenue flows or by a foreign currency asset. As such, SSRLI and IQMAN can borrow in U.S. dollar as their revenues are dollar-based. It is also the policy of the Group to minimize any foreign exchange exposure in its management of payables. Any substantial exposure is covered by foreign exchange contracts, if necessary.

The table below indicates the currencies to which the Group had significant exposure as of December 31, 2009 and 2008.

The analysis discloses management's best estimates of the effect of reasonably possible movement of the currency rate against the Philippine peso. It assumes that all other variables remain constant. A negative amount in the table reflects a potential reduction in income or equity, while a positive amount reflects a net potential increase.

| | | Increase (Decrease) | |
|---|---|---|---|
| **2009** | Change in currency rate | Effect on income before tax | Effect on equity |
| US dollar | **+1.717%** | **₱ 29,594,215** | **₱ 3,395,394** |
| | **-1.717%** | **(29,594,215)** | **(3,395,394)** |
| Euro | **+14.355%** | **39,041,313** | **75,128** |
| | **-14.355%** | **(39,041,313)** | **(75,128)** |

| | | Increase (Decrease) | |
|---|---|---|---|
| 2008 | Change in currency rate | Effect on income before tax | Effect on equity |
| US dollar | +5.219% | ₱ 56,710,193 | ₱ 8,676,906 |
| | -5.219% | (56,710,193) | (8,676,906) |
| Euro | +4.953% | 3,285,424 | – |
| | -4.593% | (3,285,424) | – |

The effect on equity arises from revaluation of foreign securities classified as AFS.

*Capital Management*

Due to the diversity of the operations of each company in the Group, capital risk management processes in place are specific to each company. Below are the capital risk management policies of the Company and its more significant subsidiary and associate:

a. The primary objective of the Company's capital management is to ensure an adequate return to its shareholders and to maximize its value to its shareholders. In pursuance of this goal, the Company establishes an optimum risk return investment objectives through a sound diversified investment portfolio and in ensuring a fair credit rating, the Company establishes prudent financial policies through appropriate capitalization ratios in its investments and maintain reasonable liquidity.

   No changes were made in the objectives, policies or process for the years ended December 31, 2009 and 2008.

b. Cirrus' and IQMAN's capital management objectives are:

   - To ensure its ability to continue as a going concern; and
   - To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

IQMAN monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet.

IQMAN sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. It manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying business.

## 29. Financial Instruments

Categorization of Financial Instruments

| **December 31, 2009** | Loans and Receivables | Financial Assets at FVPL | AFS Investments | Total |
|---|---|---|---|---|
| Cash and cash equivalents | ₱ **594,527,199** | ₱ **–** | ₱ **–** | ₱ **594,527,199** |
| FVPL investments | **–** | **733,785,606** | **–** | **733,785,606** |
| AFS investments | **–** | **–** | **4,682,991,556** | **4,682,991,556** |
| Receivables | **203,348,923** | **–** | **–** | **203,348,923** |
| | ₱ **797,876,122** | ₱ **733,785,606** | ₱**4,682,991,556** | ₱ **6,214,653,284** |

| December 31, 2008 | Loans and Receivables | Financial Assets at FVPL | AFS Investments | Total |
|---|---|---|---|---|
| Cash and cash equivalents | ₱ 1,218,631,103 | ₱ – | ₱ – | ₱ 1,218,631,103 |
| FVPL investments | – | 666,664,247 | – | 666,664,247 |
| AFS investments | – | – | 2,543,607,610 | 2,543,607,610 |
| Receivables | 277,254,179 | – | – | 277,254,179 |
| | ₱ 1,495,885,282 | ₱ 666,664,247 | ₱2,543,607,610 | ₱ 4,706,157,139 |

| Other Financial Liabilities | **2009** | 2008 |
|---|---|---|
| Notes payable | ₱ **344,553,736** | ₱ 153,503,021 |
| Accounts payable and accrued expenses* | **62,214,188** | 85,290,747 |
| Loans payable | **34,650,000** | 47,520,000 |
| Dividends payable | **121,684,225** | 269,327,107 |
| | ₱ **563,102,149** | ₱ 555,640,875 |

**Excluding other nonfinancial liabilities amounting to ₱169.8 million and ₱175.5 million in 2009 and 2008, respectively.*

*Fair Values of Financial Assets and Liabilities*

The carrying amounts of cash and cash equivalents, receivables, notes payable and accounts payable and accrued expenses approximate their fair values due to the short-term maturity of these financial instruments.

AFS and FVPL investments are stated at their fair values. The carrying values of long-term debt, which have floating rates with quarterly repricing, approximate their fair values.

*Fair Value Hierarchy*

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

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

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

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

As of December 31, 2009, all of the Group's assets measured at fair value are quoted and are classified as level 1.

| 2009 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| FVPL investments: | | | | |
| Bonds | ₱ 477,505,188 | ₱ – | ₱ – | ₱ 477,505,188 |
| Funds and equities | 178,471,233 | – | – | 178,471,233 |
| Others | 77,809,185 | – | – | 77,809,185 |
| AFS investments | | | | |
| Bonds | 839,512,777 | – | – | 839,512,777 |
| Quoted equity shares | 2,987,342,446 | – | – | 2,987,342,446 |
| Funds and equities | 279,946,411 | – | – | 279,946,411 |
| Proprietary shares | 75,218,250 | – | – | 75,218,250 |
| | ₱ 4,915,805,490 | ₱ – | ₱ – | ₱ 4,915,805,490 |

For the year ended December 31, 2009, there were no transfers from Level 1, Level 2 and Level 3 fair value measurements.

## 30. Contracts and Agreements

Parent Company

The Company leases out its investment property to a third party. The term of the lease is for two years and 10 months, with the lease term starting on February 1, 2007 and is renewable upon mutual agreement of the parties. The lease is subject to an agreed amount of escalation in the second and third years. The lease agreement was not renewed in 2009.

Total rent income recognized in 2009, 2008 and 2007 amounted to ₱14.5 million, ₱14.7 million and ₱14.5 million, respectively, and are shown as part of "Other expenses - net" in the consolidated statements of income.

Sutton

a. On February 26, 2009, IQMAN's BOD ratified the new Service Agreement with IQHPC with a revised fee equivalent to 3% of all billed expenses effective January 1, 2009.

b. In the ordinary course of business, IQHPC enters into Service Agreements with U.S. hospitals and/ or staffing agencies to provide services in relation to the placement of qualified Filipino nurses for full time employment in the U.S. The Service Agreement sets forth the rights, responsibilities, terms and conditions governing IQHPC's services, which include among others, training and procedural assistance in obtaining all required licensure examinations, obtaining U.S. permanent residence status and eventual placement of the nurses to the U.S. hospitals and/or agency.

As of December 31, 2009, IQHPC has outstanding Service Agreements with different U.S. hospitals and one with a staffing agency. Service income recognized in 2009 and 2008 amounted to ₱21.5 million and ₱34.1 million, respectively.

c. As of December 2009, IQHPC has an outstanding commission agreement with an independent consulting firm.

d. IQMAN entered into a non-cancellable operating lease covering certain offices. The lease has terms ranging up to three years, with renewal options and includes annual escalation rates of 5% to 10%. The future minimum rentals payable under the non-cancellable operating lease as of December 31, 2009 and 2008 are as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Within one year | ₱ | **1,063,742** | ₱ | 1,823,557 |
| After one year but not more than five years | | **–** | | 1,063,742 |
| | ₱ | **1,063,742** | ₱ | 2,887,299 |

Rent expense in 2009 and 2008 amounted to ₱2.4 million and ₱3.1 million, respectively.

Cirrus

Cirrus Holdings USA, LLC and Cirrus Allied, LLC have various staffing contracts with their US clients concerning certain rates and conditions, among others. Service income amounted to ₱917 million and ₱1,220 million in 2009 and 2008, respectively.

Cirrus has entered into a third party non-cancelable operating lease agreements for the rental of office space and equipment. The leases include options to renew as well as rent escalation clauses and in certain cases, incentives from the landlord for rent-free months and allowances for tenant improvements. The rent escalations and incentives have been reflected in the following table. Future minimum lease payments, as of December 31, 2009 and 2008, associated with these agreements with terms of one year or more are as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Within one year | ₱ | **5,583,316** | ₱ | 8,222,528 |
| After one year but not more than five years | | **2,079,139** | | 7,352,389 |
| | ₱ | **7,662,455** | ₱ | 15,574,917 |

Rent expense in 2009 and 2008 amounted to ₱9.8 million and ₱6.3 million, respectively (see Note 14).

IAI

In June 2003, IAI entered into a Maintenance Cost Assurance Program with Honeywell (Singapore) Pte. Ltd. effective for five years for the latter to provide support services to IAI's aircraft engine. On August 23, 2006, IAI entered into a Maintenance Service Plan with Honeywell effective for five years for the latter to provide support services to IAI's additional aircraft engine acquired in 2007. Under the terms of the programs, IAI agrees to pay a fee computed at a rate of the engine's actual operating hours or the minimum operating hours, subject to annual escalation.

SSRLI

a. Since 1995, the Company charges SSRLI a monthly fee amounting to US$4,000 on its peso equivalent for the Company's general, administrative and legal services rendered to SSRLI. In addition, the Company also made advances to SSRLI for the latter's operating expense. Due from SSRLI amounting to ₱8.3 million and ₱5.7 million as of December 31, 2009 and 2008, respectively (see Note 10).

b. SSRLI executed an Operating and Management Agreement (OMA) with Amanresorts Management, B.V. (the Operator of Amanresorts), a company based in Amsterdam, the Nertherlands, for a fee of 5% of SSRLI's gross operating profits, as defined in the OMA. The OMA provides for, among others, the reimbursements by SSRLI to Amanresorts of all costs and expenses incurred by the latter in connection with the management and operation of SSRLI and a reserve cash funding equivalent to 4% of gross revenues which will be used to cover the cost of replacements, renewals, and additions to furniture, fixtures and equipment. Operating and management fee amounted to ₱13.8 million, ₱14.7 million and ₱13.1 million, in 2009, 2008 and 2007, respectively.

Likewise, marketing services and license contracts with Amanresorts, were entered into by SSRLI, providing marketing fee of 3% of SSRLI's hotel revenues and US$1,000 monthly fee, respectively.

c. SSRLI has an agreement with IAI for the latter to provide regular air service. IAI shall charge SSRLI a fixed round trip rate per passenger, subject to an annual review by both parties, with a guarantee that all of IAI's operating costs will be covered. The original agreement had a duration of no less than two years and was renewed in February 2006 for another two years. Agreement is for renewal upon its expiry.

Revenues earned by IAI from these flights amounted to ₱86.3 million, ₱84.7 million and ₱77.8 million in 2009, 2008 and 2007, respectively, and is shown as part of "Services" in the consolidated statements of income.

In line with the above agreement, SSRLI made several advances to IAI, which IAI expects to pay through application against future services to be rendered by IAI to SSRLI. Advances from SSRLI amounted to ₱19.4 million and ₱32.7 million as of December 31, 2009 and 2008, respectively. These are included in "Accounts payable and accrued expenses" in the consolidated balance sheets.

d. The latest renewal of the lease agreement between SSRLI and IAI covers the two-year period from September 2009 to August 2011. The agreement provides that SSRLI is not allowed to sublease any part of the premises or facilities that it leases. Rent relating to the lease amounted to ₱1.3 million in 2009 and 2008.

e. In January 2007, APHI and SSRLI entered into a consultancy agreement whereby APHI will provide project management, general and specific administration and supervision over pre-construction and post-construction stages of SSRLI's Amanpulo Phase 2 and other capital expenditure projects for a certain fee agreed by the two parties.

PDIPI and Subsidiaries

a. The Company has a management contract with PDP Energy which provides, among others, for payment of annual management fees amounting to ₱7.2 million (VAT inclusive) plus certain percentages of audited income before tax and management and technical assistance fees (VAT exclusive). Due from PDP Energy amounted to ₱10.5 million and ₱33.0 million as of December 31, 2009 and 2008, respectively (see Note 10). Management fees amounted to ₱25.4 million and ₱40.2 million in 2009 and 2008, respectively.

b. Beginning January 2004, PDP Energy entered into a new technical assistance contract with Phelps Dodge International Corporation which provides an annual payment of technical fees amounting to a certain percentage of audited income before tax (VAT inclusive). Technical fees amounted to ₱25.4 million, ₱34.9 million and ₱40.9 million in 2009, 2008 and 2007, respectively. These are included in "Management fee" in the Group's statements of income.

**31. Other Matters**

ASAC

a. ASAC is a founding member of Federation of Aviation Organization of the Philippines, (FEDAVOR) since 1986. In 2005, FEDAVOR won a Supreme Court case against Manila International Airport Authority (MIAA) involving MIAA's imposition of higher rates for rental and other services without a public hearing. ASAC accrued its share in FEDAVOR's legal expenses. ASAC is now set to enter into a new contract with MIAA after the general membership of FEDAVOR agreed to accept a negotiated average increase of 71% (from 1997 rates) in MIAA's rental and related rates for general aviation concessionaries, retroactive September 2009.

b. ASAC is a defendant in various labor lawsuits and claims. As of December 31, 2009 and 2008, management has recognized provisions for losses amounting to ₱5.7 million that may be incurred from these lawsuits.

# BOARD OF DIRECTORS

Oscar J. Hilado

**Andres Soriano III**
Chairman of the Board/
Chief Executive Officer/ President

**Ernest K. Cuyegkeng**

**Jose C. Ibazeta**

**John L. Gokongwei, Jr.**

**Eduardo J. Soriano**
Vice Chairman/
Treasurer

**Roberto R. Romulo**

# OFFICERS

**Ernest K. Cuyegkeng**
Executive Vice President & Chief Financial Officer

**Narcisa M. Villaflor**
Vice President & Comptroller

**Joshua L. Castro**
Executive Assistant & Assistant Corporate Secretary

**Lorna P. Kapunan**
Corporate Secretary

# CORPORATE DIRECTORY

## SUBSIDIARIES

A. Soriano Air Corporation
Anscor Consolidated Corporation
Anscor International, Inc.
Anscor Property Holdings, Inc.
Cirrus Allied, LLC
Cirrus Global, Inc.
(formerly International Quality Manpower Services, Inc.)
Cirrus Holdings USA, LLC
Cirrus Medical Staffing, Inc.
IQ Healthcare Investments Limited
International Quality Healthcare Professional Connection, LLC
Island Aviation, Inc.
Pamalican Island Holdings, Inc.
Sutton Place Holdings, Inc.

## AFFILIATES

Anscor-Casto Travel Corporation
Columbus Technologies, Inc.
DirectWithHotels
Enderun Colleges, Inc.
KSA Realty Corporation
Minuet Realty Corporation
Multi-media Telephony, Inc.
NewCo., Inc.
PD Energy International Corporation
Phelps Dodge International Philippines, Inc.
Phelps Dodge Philippines Energy Products Corporation
Prople, Inc.
Seven Seas Resorts and Leisure, Inc.
Vesper Industrial and Development Corporation
Vicinetum Holdings, Inc.

***Office Address***........................................ 7th Floor Pacific Star Building,
Makati Ave. cor Gil Puyat Ave. Ext.,
Makati City, 1209 Philippines

***Website***. ........................................................ www.anscor.com.ph

***Telephone Numbers***.................................. 819-02-51 to 70

***Facsimile Number***...................................... 811-56-52

***External Auditors***......................................... SyCip Gorres Velayo & Co.

***Stock Transfer Agent***................................ .... Stock Transfer Services, Inc.
34th Floor, Unit D, Rufino Pacific Tower
6784 Ayala Avenue, Makati City

***Legal Counsels***............................................ Kapunan Lotilla Flores Garcia & Castillo
Picazo Buyco Tan Fider & Santos
Tan Acut Lopez & Pison

7th Floor Pacific Star Building
Makati Avenue cor Gil Puyat Avenue Ext.,
Makati City, 1209 Philippines

Printed by: JEN PRINT, INC. ◆ Designed by: MARIVIC CLEMENTE