# COVER SHEET

PW2

SEC Registration Number

A SORIANO CORPORATION

(Company's Full Name)

7/F PACIFIC STAR BLDG.
COR. MAKATI AVE. & G. PUYAT AVE.
MAKATI CITY

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

MS. NARCISA M. VILLAFLOR

(Contact Person)

819-0251

(Company Telephone Number)

| 1 2 | 3 1 | SEC17A | THIRD WEDNESDAY | 0 4 | |
|---|---|---|---|---|---|
| *Month* | *Day* | (Form Type) | | *Month* | *Day* |
| (Fiscal Year) | | | | (Annual Meeting) | |

**Not Applicable**

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

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

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

2. SEC Identification Number **PW – 02** 3. BIR Tax Identification No. **000-103-216-000**

4. Exact name of issuer as specified in its charter **A. SORIANO CORPORATION**

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

6. (SEC Use Only)
   Industry Classification Code:

7. **7/F Pacific Star Building, Makati Ave., cor Gil Puyat Avenue, Makati City** **1209**
   Address of principal office Postal Code

8. **(632) 819-0251 to 70**
   Issuer's telephone number, including area code

9. **Not applicable**
   Former name, former address, and former fiscal year, if changed since last report.

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

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common stock, ₱1 par value** | **2,500,000,000** |
| **Long-term commercial paper** | **none** |

11. Are any or all of these securities listed on a Stock Exchange.

    Yes [X] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:
    **Philippine Stock Exchange** **Common stock, ₱1 par value**

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

    Yes [X] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [X]  No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

Aggregate market value as of February 29, 2012 - **P4,545,390,364**

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

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

**NOT APPLICABLE**

Yes [ ]  No [ ]

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

**Portion of the Company's 2011 Annual Report to Stockholders is incorporated by reference into Part II of this report.**

(b) Any information statement filed pursuant to SRC Rule 20;

**Definitive Information Statement filed pursuant to SRC Rule 20.**

(c) Any prospectus filed pursuant to SRC Rule 8.1.

**Not applicable**

**A. SORIANO CORPORATION**
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**SEC FORM 17-A**

# PART I - BUSINESS AND GENERAL INFORMATION

## Item 1. Business

A. Soriano Corporation ("Anscor") was incorporated on February 13, 1930.

Anscor is a Philippine holding company with diverse investments. Anscor's major investments are in Phelps Dodge Philippines Energy Products Corporation ("PDP Energy") which manufactures wire and cable products and Seven Seas Resorts and Leisure, Inc., owner of Amanpulo Resort. It has investments in US-based nurse and physical therapists staffing company. It has other investments in companies engaged in a wide range of activities in the Philippines including aviation, nurse deployment, school, broadband services, business process outsourcing and real estate. As a holding company, the principal sources of income for Anscor are: the share in net earnings of the companies in which it has investments, management fees, interest income, dividends and gains from the sale of investments mainly the trading gain on marketable securities and bonds.

As of 31st December 2011, the Company's consolidated total assets stood at P12.6 billion. For the year ended 31st December 2011, consolidated revenues of the Company amounted to about P2.8 billion.

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

A. Soriano Corporation has the following direct/indirect subsidiaries/associates as of December 31, 2011:

| Company | % of Ownership | Business | Jurisdiction |
|---|---|---|---|
| A. Soriano Air Corporation | 100% | Service/Rental | Philippines |
| Pamalican Island Holdings, Inc. | 62% | Holding Company | Philippines |
| Island Aviation, Inc. | 62% | Air Transport | Philippines |
| Anscor Consolidated Corporation | 100% | Holding Company | Philippines |
| Anscor International, Inc. | 100% | Holding Company | British Virgin Island |
| IQ Healthcare Investments Limited | 100% | Manpower Services | British Virgin Island |
| Cirrus Medical Staffing, Inc. | 94% | Manpower Services | USA |
| Cirrus Holdings USA, LLC | 94% | Manpower Services | USA |
| Cirrus Allied, LLC (formerly MDI Medicals, LLC) | 94% | Manpower Services | USA |
| NurseTogether, LLC | 94% | Online Community Management | USA |
| Anscor Property Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Makatwiran Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Makisig Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Malikhain Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Akapulko Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Sutton Place Holdings, Inc. | 100% | Holding Company | Philippines |
| Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) | 93% | Manpower Services | Philippines |
| IQ Healthcare Professional Connection, LLC | 93% | Manpower Services | Houston, Texas, USA |
| Seven Seas Resorts and Leisure, Inc. | 62% | Villa Project Development | Philippines |
| Pamalican Resort, Inc. | 62% | Resort Operations | Philippines |
| New Co, Inc. | 45% | Real Estate | Philippines |
| AFC Agribusiness Corporation | 45% | Real Estate | Philippines |
| Anscor-Casto Travel Corporation | 44% | Travel Agency | Philippines |
| Phelps Dodge International Philippines, Inc. | 40% | Holding Company | Philippines |
| Minuet Realty Corporation | 60% | Landholding | Philippines |
| Phelps Dodge Philippines Energy Products Corporation | 40% | Wire Manufacturing | Philippines |
| PD Energy International Corporation | 40% | Wire Manufacturing | Philippines |
| Vicinetum Holdings, Inc. | 27% | Holding Company | Philippines |
| Columbus Technologies, Inc. | 27% | Holding Company | Philippines |
| Multi-media Telephony, Inc. | 27% | Broadband Services | Philippines |
| Enderun Colleges, Inc. | 20% | Culinary School | Philippines |
| Prople, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-bpo, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-kpo, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-contents, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| DirectWithHotels, Inc. | 16% | Online Hotel Reservation | Philippines |
| KSA Realty Corporation | 11% | Realty | Philippines |

## Investments

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

PDP Energy is the leading domestic integrated manufacturer of quality wires and cables.

Phelps Dodge International Philipines, Inc. (PDIPI), the parent company of PDP Energy, was incorporated in 1955 and commenced production in 1957. Its product line is composed principally of copper-based wires and cables including building wires, telecommunication cables, power cables, automotive wires and magnet wires. The principal shareholders of PDIPI are Anscor and GCC, the 2nd largest wire and cable manufacturing firm in the world. PDP Energy has a technical assistance contract with GCC and a management contract with Anscor covering marketing, administration and finance. The management contract provides, among others, for payment of annual management fees amounting to P7.2 million (VAT inclusive) plus certain percentages of audited income before tax and management and technical assistance fee (VAT exclusive). The technical assistance agreement also provides annual payment amounting to a certain percentage of audited income before tax and management and technical assistance fee (VAT exclusive). The strategy of PDP Energy is to focus on the production of higher value-added wire and cable products. All the manufacturing operation of PDIPI effective September 1998, was lodged under PDP Energy.

The principal products and percentage of contribution to sales are as follows:

| Product Line | 2011 |
|---|---|
| Building wires | 73% |
| Autowires | 7% |
| Communication/Special | 11% |
| Power Cables | 8% |

PDP Energy's clients include telecommunication companies, contractors, building developers, power companies, government corporations and other industrial companies.

At present, PDP Energy's major suppliers of copper rods are Kembla, Metallurgie and CL Metas; suppliers of Aluminum are Mitsui & Co. Ltd. and Kanematsu; suppliers of chemicals are Matsuyama, Mitsui and Electro Marketing; suppliers of jelly are Phelps Dodge International Corp. and BP Chemical.

The Philippine wire and cable industry is comprised of both imported and domestically manufactured products. The leading four manufacturers in terms of sales are Phelps Dodge, American Wire and Cable Co., Inc., Columbia Wire and Cable Corp. and Philflex Cable Corp.

In 2009, the wholly-owned subsidiary, PEZA-registered PD Energy International Corporation (PDEIC), began exporting to Australia and India.

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

Pursuing its customer service, manufacturing process and cost reduction programs, the company secured ISO 9001/14001/18001 certification for Quality, Environment, and Health and Safety for PDEIC from Certification International (UK). PDP also continued promoting new products and solutions, notably special cables for export, medium and high voltage cables up to 230 KV, low smoke halogen-free cables, and aluminum cables. It leveraged its medium voltage (MV) cable manufacturing facility to offer shorter delivery time of MV 35 KV cables to power utilities, and widened sales coverage to new provincial dealers and customers. It also advanced consumer education and safety awareness through the Philippine Electrical Wires Manufacturers Association's campaign against counterfeit wires.

### Seven Seas Resorts and Leisure, Inc. (SSRLI; owner of Amanpulo Resort)

Seven Seas Resorts and Leisure, Inc. was incorporated on August 28, 1990 for the primary purpose of planning, developing, operating and promoting of Pamalican Island as a world class resort named Amanpulo. The Resort started commercial operations on January 1, 1994.

SSRLI owns a 40-room resort in Pamalican Island, Cuyo Palawan and operates originally two luxurious villas until 2007, each villa comprising four (4) rooms. Seven Seas is a joint venture among Anscor, Palawan Holdings, Inc. and Aboitiz & Co. In 2008, it sold seven (7) villas and now manages a total of 9 villas comprising of 39 villa rooms for rental.

As a resort operator, principal products/services offered are as follows:

| Products/Services | Markets | Contribution to revenues |
|---|---|---|
| Rooms | Local & international | 55% |
| Food and Beverage | -do- | 24% |
| Others | -do- | 21% |

The resort's services are offered through the worldwide Amanresort marketing group based in Singapore, accredited travel agents, reservation sources/systems and direct selling.

Amanpulo is in competition with all other small 5 star resort companies in other destinations that are generally better known than the Philippines, such as Indonesia, Thailand and Malaysia. At present there are no direct competitors to Amanpulo in the Philippines in the triple A category.

Seven Seas entered into several agreements with Silverlink Group of Companies for the development, operation and promotion of Amanpulo. The term of the agreement is for 5 years, subject to renewal upon mutual agreement of both parties. The original contract expired in December 1998, renewed last December 2003 and December 2008. The last five years of the first 20-year agreements are expiring in June 30, 2013. These agreements are as follows: (1) Operating and Management Agreement, (2) Marketing Services Contract and (3) License Contract.

Amanpulo's new spa complex, which opened in late 2010, is now fully operational, with facilities for hairdressing, gym and pilates, plunge pools and massage treatments. The company has also invested ₱40 million in a 1000 MW generating unit and a new desalination plant to boost power efficiency.

During the year, Gallivanter's Tourist Guide 21st Annual Reader Poll cited Amanpulo as No. 3 Best Leisure Hotel Worldwide, No. 4 Best Resort in Southeast Asia, and No. 3 Best Small Hotel/Resort under 100 Rooms.

### Cirrus Medical Staffing, Inc. (US-based nurse and physical therapist staffing business)

In January 2008, Anscor acquired all of the outstanding equity interests in North Carolina-based Cirrus Medical Staffing, LLC and its travel nursing affiliate Cirrus Holdings USA, LLC, which places registered nurses on contracts of twelve weeks or longer.

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.

Investments in increased recruitment and account management personnel were made and will support future growth. The company closed its Atlanta, Georgia office in September and consolidated all operations into a single office in Charlotte, North Carolina, to allow better coordination of Cirrus Medical's market strategy across both nursing and therapy specialties. The National Physical Therapy Examinations (NPTE) lifted its ban on graduates from Egypt, India, Pakistan and the Philippines, which will allow Filipino physical therapists to once again become licensed and employed in the United States. Philippine support operations continue to provide effective back-office service.

Last year's Annual Report announced the acquisition of NurseTogether, which owns two on-line properties catering to health care professionals who seek job postings. NurseTogether saw an increase in user traffic and encouraging customer feedback throughout the year but, given its early stage nature, generated a loss for 2011. Continuing investment in technology, sales and support capabilities will enable NurseTogether to become a critical component in Cirrus' overall offering.

A number of factors - the aging of both the baby boomer generation and American nurses (whose average age is about 50 years) and the broader insurance coverage resulting from health care reform - constitute an assurance that health care will be among the fastest growing job sectors over the next decade.

### Cirrus Global, Inc. (CGI; formerly International Quality Manpower Services, Inc., IQMAN)

Cirrus Global Inc. was registered and incorporated on May 14, 1999 primarily to engage in the business of recruitment of overseas workers. CGI takes placements of Filipino nurses in the United States of America.

CGI is a 93%-owned subsidiary of Sutton Place Holdings, Inc. (Sutton). Its ultimate parent company is A. Soriano Corporation.

In November 2004, Cirrus Global acquired 100% ownership interest in IQ Healthcare Professional Connection, L.L.C. (IQHPC), a limited liability corporation organized under the law of the state of Texas, United States of America.

### Sutton Place Holdings, Inc.

The Company was registered with the SEC on May 22, 1997, primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property of every kind and description.

Sutton's 93% holding of Cirrus Global represents Anscor's interest in a nurse recruitment in Manila for deployment of nurses and physical therapists in various client hospitals in the USA.

### KSA Realty Corporation (KSA)

KSA was registered with the SEC on August 3, 1990. Anscor exchanged its old building located at Paseo de Roxas, Makati in 1990 for an 11.42 percent stake in KSA Realty Corporation, which developed The Enterprise Center (TEC), a two tower, grade A office building located at the corner of Ayala Avenue and Paseo de Roxas in Makati. The Enterprise Center starting January 1999 was offered for office space rental. TEC is registered with PEZA as an information technology building.

In July 2009, following the Securities and Exchange Commission's approval of a decrease in its authorized capital stock, KSA retired 2.4 million preferred shares to treasury.

In 2011, KSA declared and paid cash dividends of P250 million, of which P28.6 million accrued to Anscor.

TEC received a Special Award of Distinction from the Makati Fire Safety Foundation and the Makati City Government for consistently winning the Building Fire Safety Award, Building Fire Brigade Award and Corporate Fire Safety Award.

**Enderun Colleges, Inc.**

On October 15, 2008, Anscor acquired a 20% equity stake, or 16,216,217 new shares, in Enderun Colleges, Inc.

Established in 2005 by a group of business leaders, including senior executives from Hyatt Corporation in the U.S., Enderun offers a full range of bachelor's degree and non-degree courses in hospitality management, culinary arts and business.

Its main college campus in McKinley Hills, Taguig, offers 4-year bachelor's degrees in International Hospitality Management, with majors in hotel administration and culinary arts. It also offers short courses and certificate programs in baking, pastry and culinary foundation, customized hospitality and language classes.

Enderun's mission is to train hospitality leaders and entrepreneurs who can compete and excel in the global marketplace. To this end, it combines high-level classroom instruction with real-world internships, and offers students the opportunity to earn international credentials, including certificates from Les Roches Hotel School in Switzerland and Alain Ducasse Formation in France, en route to the bachelor's degree. Alain Ducasse restaurants in Paris, London and Monte Carlo boast three Michelin stars, the highest rating awarded by the authoritative "Red Guide". Enderun's network of some 200 corporate partnerships will work with students and graduates to ensure lifelong careers.

Enderun held its second graduation rites in April 2011, with 71 students receiving degrees in BS International Hospitality Management. During the year, 248 students completed internships, bringing to 686 the number that the school has placed since 2006, in such prestigious establishments as Hyatt Regency Lake Tahoe, Hotel Arts in Barcelona, Alain Ducasse in Paris, Le Meridien in Kuala Lumpur and Shangri-La in Abu Dhabi. Foreign internships in 2011 numbered 146, or 59% of this year's batch.

The school continued to upgrade its campus facilities, spending over P30 million to complete five additional classrooms, a new state-of-the-art kitchen, and a multi-purpose covered court.

**Prople, Inc.**

In December 2007, Anscor signed a Subscription Agreement to acquire 6,665 shares – equivalent to 20% – of Prople, Inc. for US$800,000. Prople derives its name from its key strengths – PROcess and peoPLE – mobilized for growth opportunities in business process outsourcing, knowledge process outsourcing and content services. Three business lines offer its target markets a complete suite of outsourcing solutions of ascending complexity: Prople-bpo, specializing in finance and accounting, human resources administration, and transaction and payroll processing; Prople-kpo, offering industry and market analysis, research, valuation and other services requiring more customized technical and analytical skills; and Prople-content, which will center on multi-media deployment of content, rich media conversion, assembly and editing, brand marketing and communication planning.

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

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

The company gained 23 new customers, boosting its client base to 102, and expanded contracts with five existing clients, entailing longer service terms, added seats, supplemental finance and accounting, information and technology outsourcing, and knowledge process work. New service lines in HR, information and technology, and knowledge process outsourcing grew 118%, 142% and 105%, respectively, and now represent 14%, 18% and 12%, of total revenues, respectively. Prople's proprietary cloud-computing-based technologies are expected to attract new business and expanded contracts in 2012.

In April, Prople closed its Calgary satellite office, which proved unable to penetrate the North American market, but is maintaining its Business Partner Network for future tie-ups.

### Alphion Corporation

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

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

In October 2011, Alphion successfully completed the first closing of its Series F financing, led by the Aditya Birla Group of companies, which invested $20 million in Indian Rupees (INR). Birla is a leading Indian conglomerate headquartered in Mumbai, with $35 billion in annual revenues and 133,000 employees worldwide. It first ventured into telecommunications in 2006 and its investment in Alphion represents a significant endorsement of Alphion's quality, technology and management team. A further indicator of Alphion's promise is that new orders have been placed by customers in India, the US, Canada and Russia.

As the INR-denominated Birla fund is restricted to investing in Indian companies, it was placed in Alphion India Private Limited, a wholly-owned Alphion subsidiary. Since foreign exchange restrictions on converting INR into other currencies limit the company's ability to leverage these funds to the fullest, Alphion is working on additional credit facilities.

### DirectWithHotels

Anscor International, Inc. owned 16% of the shares of DirectWithHotels. The company is engaged in online reservations for hotels, and specializes in launching, marketing and maximizing the performance of partner hotels' websites. Its target market is small and medium-sized chains and independent hotels in Asia Pacific, Africa, North America and Latin America.

### Multi-media Telephony, Inc. (MTI)

MTI, a wholly owned subsidiary of Columbus Technologies, Inc. (CTI), was incorporated in the Philippines on September 20, 1993. MTI offers broadband services through a technology called local multipoint distribution system (LMDS). Its network is made up of wireless transmitters that are capable of providing high-speed internet and data access, voice, as well as virtual private networks, web hosting, internet data center and e-business applications.

MTI has interconnection agreements with leading telecommunications players like 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 however indicate the coming dominance of data service, hence the company's choice of CDMA technology and its efforts to offer 3G services.

### A. Soriano Air Corporation (ASAC)

ASAC was incorporated on March 28, 1985 to engage in the general business of a common and/or private carrier. Effective January 1, 1995, the Company ceased its operations and transferred its license as operator of a common and/or private carrier to Island Aviation, Inc. (IAI), formerly A. Soriano Aviation Inc. (ASAI).

In May 2003, ASAC took over the hangar lease and the ground handling and avionics-related services that were previously performed by ASAI. Subsequently, ASAC resumed its commercial operations.

### Pamalican Island Holdings, Inc. (PIHI)

The Company was registered with the Securities and Exchange Commission on May 18, 1995 and has started commercial operations on June 2, 1995. Its primary purpose is to acquire, purchase, sell or dispose of airplanes, flying machines, or freight, or as common carriers on regularly established routes; to maintain a service station for the repair, overhauling and testing of said machines and dirigible balloons of any and all types whatsoever; to deal in parts and supplies for said machines; and, to carry for hire passengers, and to maintain supply depots for airplane and flying machines service generally.

On January 20, 1999, the Company temporarily stops its air charter operation and subsequently change the nature of its business to holding company.

On June 8, 2001, the SEC approved the amended articles of incorporation of the Company. Amendments to the First Article to change the name of the Corporation from Island Aviation, Inc. to Pamalican Island Holdings, Inc. and the Second Article to change the primary purpose of the Corporation – to acquire by purchase, lease, donation or otherwise, and to own, use, sell, mortgage, exchange, lease and hold for investment or otherwise, properties of all kinds, and improve, manage or otherwise dispose of buildings and houses, apartments, and other structures of whatever kind together with their appurtenances.

### Island Aviation, Inc. (IAI; formerly A. Soriano Aviation, Inc., ASAI)

IAI is the PIHI's wholly owned charter airline operation registered with the SEC on January 7, 1987. In May 2003, ASAI was renamed IAI, it resumed its air service operations while other activities such as aircraft hangarage, ground handling and avionics-related services were transferred to A. Soriano Air Corporation (ASAC).

IAI is now the exclusive air service provider of SSRLI/Amanpulo Resort and operates two (2) Dornier planes both for Amanpulo and outside charter requirements. A third plane was acquired in 2009 while one (1) plane underwent repair and is now operational in 2011.

### Anscor Consolidated Corporation

The Company was registered with the SEC on April 8, 1995 primarily to invest the Company's fund in other corporations or businesses and to enter into, make, perform and carry out contracts of every kind and for any lawful purpose pertaining to the business of the Company, or any manner incident thereto, as principal agent or otherwise, with any person, firm, association or corporation.

This Company used to hold the Anscor Group stake in ICTSI which was sold last May 2006. It now owns 1,201,317,039 shares of Anscor as of December 31, 2011.

### Anscor Property Holdings, Inc. (APHI)

APHI is a wholly owned Subsidiary of Anscor. The Company was registered with the SEC on January 7, 1986 primarily to engage in the management and development of real estate.

Pursuant to Section 76 and 77 of the Corporation Code of the Philippines, the Board of Directors and the stockholders of the Company, Anscorland, Inc. (ALI) and Anscor Insurance Brokers, Inc. (AIBI) (collectively referred to as "Constituent Corporation") at joint meeting held on April 15, 2008 approved the Plan of Merger between the Constituent Corporation under certain terms and conditions.

Since the Constituent Corporation are under common control, the company used the pooling of interest method to account for this transaction.

On December 23, 2008, the SEC approved the Plan of Merger.

APHI is Anscor's landbanking company. APHI has interests in land covering an area of approximately 830.12 hectares in Berong, Palawan, 24.1 hectares in San Vicente, Palawan and parcels of land with a total area of 40.41 hectares in Cebu. Also, APHI owns a lot at the Cebu Business Park and about 1.27 hectare properties in Puerto Princesa, Palawan and one (1) townhouse unit in Alpha Village, Capitol Hills, Quezon City.

### Anscor-Casto Travel Corporation

Anscor-Casto Travel Corporation (ACTC) was registered with SEC on March 21, 1983 to engage in all forms of business related to the tourism industry.

Following the sale in September 1996 of a 51 percent stake to Casto Travel, a San Francisco-based travel agent, Anscor has a 44 percent stake in ATC. In 2001, the Company's name was changed to Anscor-Casto Travel Corporation.

ACTC's principal products are airline tickets, package tours, services like passporting, visas and immigration clearances.

ATC maintains sales staff to reach its target markets. Airline ticket booking is being done directly through the airline reservations' system.

**New Investment**

In October 2011, Anscor invested $3.0 million in Predictive Edge Media Holdings, LLC (PEMH), which is building a portfolio of early stage technology companies focused on applying its proprietary artificial intelligence product to clinical drug trials, financial market performance, politics and social media. Within social media, PEMH intends to create a protective on-line infrastructure for the 60 million "tweens," or youth between the ages of 9 to 13, who are at risk from on-line predators, cyber-bullying, and adult content. This environment is regulated by the Children's On-line Privacy Protection Act (COPPA), which was passed by the US Congress in 2000, and defines privacy standards, holds web operators responsible for age validation and data collection disclosure for children under the age of 13.

Anscor made a second new investment in December, placing $5.0 million in AG&P, Southeast Asia's leading modular fabricator of refinery and petrochemical plants, power plants, liquid natural gas facilities, mining processing, offshore platforms, and other infrastructure.

Modular fabrication's advantages include reduction of on-site labor cost and construction risk, parallel processing that eliminates bottlenecks in the oil and gas, mining, power, and civil infrastructure industries, and a more benign impact on local communities and environments.

AG&P has 110 years of experience serving clients like British Petroleum, Shell, Total and leading engineering procurement construction companies in the world's key energy and mining regions. Its prowess in modular engineering and construction has earned it a respected brand name and track record in multiple large-scale and long-term projects. It possesses ISO 9001:2008 certification, expects to receive its and OSHAS 18001:2007 certification in April 2012 and a safety record of 16 million man-hours without lost time. Its in-house training facility can turn out 1,000 skilled workers annually, whose strength is high productivity in a low-cost environment.

AG&P is currently a finalist for several mega-projects with potential awards of $50 million and more.

## Other Information

Except as discussed above, disclosures of the following information are not applicable for the registrant and its subsidiaries:

*Business Development*

- Bankruptcy, receivership or similar proceedings
- Material reclassification, merger, consolidation or purchase or sale of a significant amount of asset

*Business of the Issuer*

- Distribution methods of the products or services
- Status of any publicly-announced new product and services
- Competition
- Transaction with and/or related parties (except those disclosed in the notes to financial statements)
- Patents, trademarks, copyrights, licenses, franchises, royalty, etc.
- Need for any government approval of principal products and services
- Effect of existing or probable governmental regulations on the business
- The amount spent on development activities and its percentage to revenues during each of the last three years.

Anscor and its subsidiaries are not aware of any major risks involved in their businesses.

## Employees

The Company and the Group as of December 31, 2011, has 19 and 577 employees, respectively. Breakdowns are as follows:

| | Parent | Subsidiaries | Group |
|---|---|---|---|
| Management | 8 | 43 | 51 |
| Rank and file | 11 | 515 | 526 |
| **TOTAL** | **19** | **558** | **577** |

- The Company and the Group were not subjected to any employees' strike in the past three years nor were there any threatening strike for the ensuing year.

- Employees of the Group are not subject to Collective Bargaining Agreement (CBA).

- The Group provides various employee benefits including health care and retirement benefits and has enjoyed good labor relations in the past.

# Item 2. Properties

Anscor owns and maintains its office at 7/F, Pacific Star Building in Makati City with approximately 2,000 square meters. It also owns the following:

| | |
|---|---|
| Shipping Centre Bldg., Intramuros, Manila | 1 office condo unit/509 sq. meters |

Information regarding properties of major subsidiaries and affiliates are:

- PDP Energy plants are situated on an 18.4 hectare property owned by Phelps Dodge's wholly owned subsidiary, Minuet Realty Corporation in the Luisita Industrial Park in San Miguel, Tarlac.

- Seven Seas owns a 40-room resort in Pamalican Island, called Amanpulo. This covers about 75 hectares of land, with 40 room casitas of about 65 sq. meter each and back of house facilities to service its power and water and staff house requirements. Additional 39 villa rooms are available for rent under the management agreement executed by SSRLI and the villa owners.

- APHI has interests in land covering an area of approximately 830.12 hectares in Berong, Palawan, 24.1 hectares in San Vicente, Palawan and parcels of land with a total area of 40.41 hectares in Cebu. Also, APHI owns a lot at the Cebu Business Park, about 1.27 hectare properties in Puerto Princesa and 1 townhouse unit in Alpha Village, Capitol Hills, Quezon City.

**Other Information**

- The registrant is not involved in lease contracts requiring it to pay substantial amount of rental fees.
- There were no commitments for major capital expenditures or acquisitions of properties in the next twelve months.

## Item 3. Legal Proceedings

The Company or its affiliates are not involved in any material litigation or other proceedings involving properties the outcome of which might, individually or taken as a whole, adversely affect the financial results, operations or prospects of the Company or the Group. However, ASAC, Seven Seas Resorts, and PDP Energy are parties to various legal actions and tax claims.

ASAC is a defendant in labor lawsuits and claims. As of December 31, 2011, management has recognized provisions for losses amounting to ₱5.7 million that may be incurred from these lawsuits.

Except for the matter discussed above, the Company does not believe such litigation will have a significant impact on the financial results, operations or prospects of the Company or the Group.

## Item 4. Submission of Matters to a Vote of Security Holders

There were no items/matters submitted during the fourth quarter of 2011 to a vote of security holders through the solicitation of proxies or otherwise.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

PRINCIPAL MARKET - Philippine Stock Exchange

Latest Market Price – February 29, 2012

| | | |
|---|---|---|
| Previous Close – | P | 3.67 |
| High | | 3.58 |
| Low | | 3.50 |
| Close | | 3.50 |

The following are the high and low sales prices of the shares of the Company for each quarter within the last two fiscal years:

| **2011** | **High** | **Low** |
|---|---|---|
| First Quarter | 3.35 | 2.98 |
| Second Quarter | 3.80 | 3.30 |
| Third Quarter | 3.60 | 3.00 |
| Fourth Quarter | 3.75 | 3.00 |
| **2010** | **High** | **Low** |
| First Quarter | 2.26 | 2.00 |
| Second Quarter | 2.34 | 2.10 |
| Third Quarter | 3.20 | 2.00 |
| Fourth Quarter | 3.20 | 3.03 |

Source: Monthly PSE Report

## Shareholdings Information

The total number of stockholders/accounts as of February 29, 2012 is 11,659 holding 2,500,000,000 shares of common stock.

The top 20 stockholders as of February 29, 2012 are as follows:

| | Stockholder Name | Number of Common Shares | % of Ownership |
|---|---|---|---|
| 1. | Anscor Consolidated Corporation | 1,201,317,039 | 48.05% |
| 2. | PCD Nominee Corp. (Non-Filipino) | 505,656,814 | 20.23% |
| 3. | A-Z Asia Limited Philippines, Inc | 176,646,329 | 7.07% |
| 4. | PCD Nominee Corp. (Filipino) | 163,991,517 | 6.56% |
| 5. | Universal Robina Corporation | 64,605,739 | 2.58% |
| 6. | Andres Soriano III | 50,490,265 | 2.02% |
| 7. | C & E Property Holdings, Inc. | 28,011,922 | 1.12% |
| 8. | Edmen Property Holdings Inc. | 27,511,925 | 1.10% |
| 9. | MCMS Property Holdings, Inc | 26,513,928 | 1.06% |
| 10. | EJS Holdings, Inc. | 25,884,905 | 1.04% |
| 11. | Express Holdings, Inc. | 23,210,457 | 0.93% |
| 12. | Phil. International Life Insurance Co. | 19,002,875 | 0.76% |
| 13. | TTC Development Corporation | 9,207,345 | 0.37% |
| 14. | Dao Investment & Management Corp. | 8,628,406 | 0.35% |
| 15. | Philippine Remnants Co., Inc. | 7,556,183 | 0.30% |
| 16. | Balangingi Shipping Corporation | 2,767,187 | 0.11% |
| 17. | Dolmar Real Estate Dev. Corporation | 2,531,106 | 0.10% |
| 18. | Lennie A. Lee | 2,000,000 | 0.08% |
| 19. | Jocelyn C. Lee | 2,000,000 | 0.08% |
| 20. | Leonardo T. Siguion-Reyna | 2,000,000 | 0.08% |
| | TOTAL | 2,349,533,942 | 93.99% |

The above shareholdings do not materially affect the holdings of the 5% beneficial owners, each director and nominee and all the directors and officers as a group.

**Dividends**

In 2011, the Board of Directors declared the following cash dividends:

| Classification | Peso Rate Per Share | Declaration Date | Record Date | Payable Date |
|---|---|---|---|---|
| Regular | 0.12 | 18-Feb-11 | 7-Mar-11 | 30-Mar-11 |
| Special | 0.12 | 11-Oct-11 | 26-Oct-11 | 21-Nov-11 |

The cash dividends declared by the Board in 2010 were:

| Classification | Peso Rate Per Share | Declaration Date | Record Date | Payable Date |
|---|---|---|---|---|
| Special | 0.10 | 4-Mar-10 | 25-Mar-10 | 21-Apr-10 |
| Regular | 0.12 | 14-Oct-10 | 4-Nov-10 | 26-Nov-10 |

There is no restriction on payment of dividends other than the availability of retained earnings following the SEC rule on calculation of available retained earnings for dividend declaration. As of December 31, 2011, the Company has sufficient retained earnings available for dividend declaration.

The undistributed earnings of subsidiaries and associates amounting to ₱1,046.8 million, ₱1,210.8 million and ₱952.5 million as of December 31, 2011, 2010 and 2009, respectively, which are included in retained earnings, are not available for declaration as dividends until declared by the subsidiaries and associates.

There are no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

## Item 6. Management's Discussion and Analysis or Plan of Operation

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 |
|---|---|---|---|---|---|
| **2011** | **994.5** | **11,291.5** | **1,350.7** | **0.74** | **8.69** |
| 2010 | 1,975.4 | 10,776.1 | 1,351.6 | 1.46 | 8.28 |
| 2009 | 289.6 | 7,453.9 | 1,442.6 | 0.20 | 5.17 |
| 2008(Note 1) | 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 |

| YEAR | GROSS REVENUES | TOTAL ASSETS | INVESTMENT PORTFOLIO |
|---|---|---|---|
| **2011** | **2,807.8** | **12,550.1** | **10,519.4** |
| 2010 | 3,501.9 | 11,430.3 | 8,742.5 |
| 2009 | 1,736.2 | 8,354.7 | 7,173.7 |
| 2008(Note 1) | 2,271.0 | 6,942.0 | 5,023.2 |
| 2007(Note 2) | 1,225.6 | 9,687.6 | 5,419.1 |

Note 1 Included the one-time gain on sale of PDIPI and eTelecare shares amounting to P312.3 million and P740.4 million, respectively.

Note 2 Gross revenues for 2007 were restated to deconsolidate PDIPI.

* 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.

**Below are the key performance indicators of the Company:**

Over the last three years, consolidated revenues and net income from operations are as follows (in thousand pesos):

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **REVENUES** | | | |
| Services | **₱1,572,688** | ₱866,113 | ₱1,056,014 |
| Dividend income | **223,198** | 145,749 | 102,137 |
| Interest income | **120,204** | 111,236 | 120,209 |
| Equity in net earnings of associates | **93,030** | 115,225 | 78,247 |
| Management fee | **36,065** | 37,755 | 28,251 |
| Others | **36,436** | 34,077 | 27,931 |
| | **2,081,620** | 1,310,155 | 1,412,788 |
| **INVESTMENT GAINS (LOSSES)** | | | |
| Gain on sale of: | | | |
| AFS investments | **676,840** | 2,091,925 | 186,272 |
| Property and equipment and investment property | **39,886** | – | 340 |
| Long-term investments | **16,725** | – | – |
| Gain (loss) on increase (decrease) in market values of FVPL investments | **(7,243)** | 99,868 | 136,823 |
| | **726,208** | 2,191,793 | 323,435 |
| **TOTAL** | **2,807,828** | 3,501,948 | 1,736,223 |
| **NET INCOME** | **₱996,276** | ₱1,976,723 | ₱282,578 |
| | | | |
| **Attributable to** | | | |
| **Equity holdings of the Parent** | **₱994,507** | ₱1,975,358 | ₱289,644 |
| Noncontrolling interests | **1,769** | 1,365 | (7,067) |
| | **₱996,276** | ₱1,976,723 | ₱282,578 |

**Significant financial indicators of the Group are the following:**

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| 1. Book Value Per Share (Note 1) | **8.69** | 8.28 | 5.17 |
| 2. Current Ratio (Note 2) | **3.14** | 7.04 | 2.23 |
| 3. Interest Rate Coverage Ratio (Note 3) | **115.48** | 144.34 | 26.54 |
| 4. Debt to Equity Ratio (Note 4) | **0.08** | 0.06 | 0.12 |
| 5. Asset to Equity Ratio (Note 5) | **1.11** | 1.06 | 1.12 |
| 6. Profit Ratio (Net Income Attributable to Equity Holdings of the Parent/Total Revenues) | **35.4%** | 56.4% | 16.7% |
| 7. Return on Equity (Net Income/Equity Attributable to Equity Holdings of the Parent) | **8.8%** | 18.3% | 3.8% |

Note 1 – Equity Attributable to Equity Holdings of the Parent/Outstanding Shares
Note 2 – Current Assets/Current Liabilities
Note 3 – EBIT (earnings before interest and taxes)/ total interest expense
Note 4 – Total Liabilities/Equity Attributable to Equity Holdings of the Parent
Note 5 – Total Assets/Equity Attributable to Equity Holdings of the Parent

## Financial Performance Year 2011

The Company earned P994.5 million in consolidated net income in 2011, against P1.98 billion in 2010. The decrease came largely from the reduced volume of traded available-for-sale securities in the financial portfolio which, as stated in last year's report, is principally in companies such as ICTSI, Aboitiz Equity Ventures and Aboitiz Power. In 2011, the Philippine Stock Exchange Index rose by 4.07 %, while Anscor's marketable securities posted an 11% rate of return. Anscor considered it prudent to liquidate a smaller number of shares in 2011, for a gain of P621.0 million compared to 2010's P1.95 billion.

The portfolio's remaining investments continue to possess considerable values above their original cost, and these values are reflected in the balance sheet. The gain will be reflected in the income statement when the investments are sold.

Anscor also deemed it advisable to dispose of certain bonds and equity funds at a small loss which was offset by the gain of P37.1 million realized from the sale of its floor at the Enterprise Center and income of P66.5 million and P16.7 million from the sale of holdings in ATR Kim-Eng Financial Corporation and Vesper Industrial and Development Corporation, respectively.

The peso remained relatively stable against the US dollar and hedging transactions enabled Anscor to reduce significantly last year's consolidated foreign exchange loss of P138.4 million to P7.4 million.

During the year, Anscor generated dividend and interest income of P223.2 million and P120.2 million, respectively, vis a vis last year's P145.7 million dividend income and P111.2 million interest income, posting a total increase of 34%.

Results in the operating businesses were generally favorable despite the somber business climate and many of the Company's newer operations recorded improved EBITDA or reduced losses.

## Investments – Group Operations

| (In Million Peso) | **2011** | 2010 |
|---|---|---|
| **Phelps Dodge Philippines Energy Products Corporation (Note 1)** | | |
| Revenues | **6,504** | 5,039 |
| Net Income | **222** | 228 |
| Total Assets | **3,299** | 2,461 |
| Stockholders' Equity | **2,256** | 1,628 |
| **Cirrus Medical Staffing, Inc. and Subsidiaries** | | |
| Revenues | **1,040** | 712 |
| Loss Before Tax | **6** | 38 |
| Total Assets | **808** | 774 |
| Stockholders' Equity | **556** | 577 |

| (In Million Pesos) | **2011** | 2010 |
|---|---|---|
| **Seven Seas Resorts and Leisure, Inc.** | | |
| Revenues | **517** | 488 |
| Net Income | **24** | 52 |
| Total Assets | **1,624** | 981 |
| Stockholders' Equity | **1,242** | 633 |
| **Revenues - Other Affiliates** | | |
| KSA Realty Corporation | **857** | 670 |
| Enderun Colleges, Inc. | **297** | 232 |
| Island Aviation, Inc. | **157** | 141 |
| Prople, Inc. | **95** | 78 |
| Cirrus Global, Inc. (consolidated; formerly IQMAN) | **10** | 5 |

*Available figures as of March 2, 2012.*
*Note 1: Inclusive of PD Energy International Corporation's financial information.*

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

PDP Energy's diversified product line registered a 9% rise in copper and aluminum sales, mainly from expanded exports to General Cable Australia. However, domestic sales volumes declined with the slack in economic growth.

Despite lower sales volumes, copper prices lifted domestic revenues by 10.3% to P4.93 billion from P4.47 billion in 2010. Export sales revenues of PEZA-registered PD Energy International Corporation (PDEIC) rose from P606 million last year to P1.57 billion. Net income slipped 3% to P221.8 million, owing to the learning curve that typically attends the development and delivery of new products to new customers overseas.

### Seven Seas Resorts and Leisure, Inc.

Amanpulo experienced a challenging year as Japanese tourists chose to stay home and held back from the island resort after the March 2011 tsunami and other international travelers were affected by the recessionary environment. To counteract this, Management focused their efforts on domestic travelers and other regional foreign guests. The Resort generated revenues of P516.9 million, a 6.0% improvement over 2010, mainly from higher room revenues (4.8%), food and beverage (8.3%) and villa handling and management fees (20.0%). The average room rate was increased by $25 to $924 per night. However, net profit fell to P24.3 million due to the P19.5 million increase in depreciation expense of the special capital expenditure program that started in 2007 (inclusive of the SPA) and higher power generating costs by P11.6 million.

### Cirrus Medical Staffing, Inc.

Demand for temporary health care staffing improved throughout 2011, bringing a steady increase in job orders. Revenues in 2011 increased 41% to P1.04 billion and consolidated losses before tax dropped to P5.7 million from P37.7 million in 2010, due to stronger demand and higher recruiter productivity.

### KSA Realty Corporation

The office leasing market turned more competitive with the entry of new players offering additional space and lower rates in the Makati Central Business District and alternative locations. However, The Enterprise Center (TEC) signed up new lessees and existing tenants expanded leased areas, raising average occupancy rate to 86.8% from 80.8% in 2010.

Gross revenues climbed 28% to P857.4 million while net income of P562.6 million is 35% over last year, attributable to the 2011 fair value adjustment in investment property of P157 million.

### Enderun Colleges, Inc.

Enderun posted its first operating profit of P10 million, from a P50 million loss last year, on the back of robust enrollment, which rose 15% to 952 full-time college and certificate students in the current school year. Revenues likewise gained 28% to reach P297 million in 2011. Noteworthy in this progress is Restaurant 101, the Colleges' application restaurant, which generated revenues of P30 million over the previous year, and the continuing education unit Enderun Extension, whose revenues grew 40% to P21 million.

### Prople, Inc.

Business process services provider Prople experienced a turnaround year. Focusing on its three priorities of responsible growth, building capability and operational excellence, it increased total revenues by 21% to P94.7 million, and improved EBITDA significantly from negative ₱23.5 million in 2010 to a virtual break-even performance.

The turnaround began in June when monthly EBITDA first turned positive, then rose steadily and peaked in December. Investments in software, processes and employee productivity enabled the company to push overhead costs down from 68% of revenues to 59%, and improved contribution margin from 32% to 41%, in 2010 and 2011, respectively.

**The key performance indicator of our major subsidiaries, are the following:**

***Cirrus Group***

1. Submission to lock ratio (Operating statistic to evaluate recruitment)
2. Nurse/therapist retention ratio (Operating statistic to evaluate retention of nurse and therapist in the pool for staffing business.

In Thousand Pesos

| | **2011** | 2010 |
|---|---|---|
| 3. Service income | **1,005,133** | 730,011 |
| 4. Cost of services rendered | **822,106** | 596,058 |
| 5. Income (losses) before interest, taxes, depreciation and amortization | **4,361** | (24,955) |

***Seven Seas Group***

In Thousand Pesos

| | **2011** | 2010 |
|---|---|---|
| 1. Occupancy rate | **48.0%** | 47.7% |
| 2. Hotel revenue | **516,925** | 487,529 |
| 3. Gross operating profit (GOP) | **143,172** | 149,544 |
| 4. GOP ratio | **27.7%** | 30.7% |
| 5. Net Income before tax | **32,634** | 72,392 |

## Financial Condition

The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.79% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group as of December 31, 2011 versus December 31, 2010.

***Cash and Cash Equivalents***

The decrease in cash and cash equivalents can be attributed to net cash flows used in investing and financing activities with a total of P1.9 billion which included additional AFS investments and property and equipment; and payment of dividends. Cash generated from operating activities amounted to P266.0 million

(Please see attached consolidated cash flow statements for detailed analysis of cash movements.)

***Fair Value Through Profit or Loss (FVPL) Investments***

The increase in the account can be attributed to the net additional investment for the period of about P74.2 million. The increase was reduced by the market value of foreign denominated investment in bonds, stocks and funds which decreased by P7.2 million vs. December 31, 2010 market values. Unrealized foreign exchange loss related to FVPL investments amounted to P1.2 million.

***Receivables***

The increase in receivables was mainly due to consolidation of SSRLI balances as of December 31, 2011.

***Inventories***

Inventories increased by P67.3 million; one of the reasons was the consolidation of SSRLI inventories. Also, minimal purchases were made in 2011 for spare parts and supplies needed by the aviation subsidiary.

***Prepayments and Other Current Assets***

Change in the account balance can be attributed mainly to the net reduction in refundable/miscellaneous deposits by the air transport subsidiary.

***Investments and Advances***

By consolidating SSRLI, investments and advances decreased by P299.2 million, the recorded value of the 46% holdings of Anscor in SSRLI held as investment in associate as of February 28, 2011.

The decrease in investments and advances was offset by equity earnings of associates amounting to ₱93.0 million for the year ended December 31, 2011.

Cash dividends received from an associate amounted to ₱45.6 million.

***Available for Sale (AFS) Investments***

Change in the account can be attributed mainly to the net additions that were mostly in bonds, equity funds and traded equities amounting to ₱2.1 billion. There was a net decrease of about ₱173.6 million in market value of AFS investments. Foreign exchange loss from translation of foreign currency-denominated AFS investments amounted to ₱10.5 million.

Valuation allowances on the AFS on its quoted investment amounted to P35.9 million.

***Investment Properties***

The parent company sold the 34th floor of Enterprise Center with a book value of ₱71.6 million as of February 28, 2011 which resulted to reduction in the investment properties account.

The reduction in the account was offset by the consolidation of SSRLI balances by about ₱28.5 million.

Depreciation for the period amounted to P1.0 million.

***Property and Equipment - net***

The consolidation of SSRLI increases the property and equipment by ₱688.0 million. As required by the new accounting standard for business combination, when Anscor increased its stake in SSRLI from 47% to 62.3%, the net assets of SSRLI were valued at ₱774.3 million using discounted cash flow from operations (including future PPE acquisition) for the next 10 years, reduced by its book value of ₱650.4 million as of February 28, 2011, resulting in an upward adjustment in fair value attributable to property and equipment amounting to ₱123.9 million.

Depreciation charged to operations amounted to P104.3 million. Additions to property and equipment amounted to P186.3 million.

***Goodwill***

The provisional goodwill that arises from the acquisition of SSRLI amounted to P99.3 million.

The goodwill from US-based staffing business, amounting to P510.9 million as of December 31, 2010 decreased by P5.6 million due to foreign exchange loss of the peso equivalent of the dollar investment.

***Other Noncurrent Assets***

Change in the account balance can be attributed mainly to the consolidation of SSRLI balances. Other noncurrent assets include the following: (a) Fund for villa operations of PRI amounting to ₱47.1 million as of December 31, 2011, which is a restricted cash fund for the villas held as a source of future maintenance requirements and association dues when the need arises as determined by PRI. Interest income on this fund shall accrue to the villa owners. A liability related to the fund was recognized and is included under "Other noncurrent liabilities" in the balance sheet, (b) Deferred nurse costs of IQHPC amounting to ₱33.3 million and ₱29.3 million as of December 31, 2011 and 2010, (c) Property development in progress of SSRLI amounting to ₱11.5 million as of December 31, 2011, which pertains to the development costs incurred on Phase 3 and Phase 4 projects started in 2009 by SSRLI, (d) A restricted cash fund for future replacement of the resort's generator set and desalination plant amounting to ₱2.7 million as of December 31, 2011 and is also recognized under "Other noncurrent liabilities'" in the balance sheet.

***Notes Payable***

The increase in the account was due to net additional loan availed by IAI and Cirrus as of December 31, 2011.

***Accounts Payable and Accrued Expenses***

The change in the account was mainly due to consolidation of SSRLI balances as of December 31, 2011.

***Dividends payable***

As of December 31, 2011 and 2010, the Company had dividends payable amounting to ₱146.6 million and ₱134.9 million, respectively. Dividends payable represent mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2011 and 2010 due to problematic addresses of some of the Company's stockholders.

***Income Tax Payable***

Movement in the account was attributable to income tax payment made by the group for nine months of 2011 offset by the provision for income tax for the year ended December 31, 2011.

***Advances from Customer***

The 2010 balance was a related party transaction between the Aviation subsidiary and Seven Seas. For 2011, the whole amount was eliminated during the consolidation since Seven Seas is already a subsidiary of Anscor.

***Long-term debt (current and noncurrent)***

The account balance increased as a result of the consolidation of SSRLI balances as of December 31, 2011.

***Deferred Income Tax Liability***

Deferred tax effect of the fair value adjustment on property, plant and equipment of SSRLI amounted to P37.2 million (30% of P123.9 million).

***Retirement benefits payable***

The increase in the account was due to consolidation of SSRLI balances as of December 31, 2011.

***Other noncurrent liabilities***

Fund for villa operations of PRI amounting to ₱47.1 million as of December 31, 2011, which is a restricted cash fund for the villas held as a source of future maintenance requirements and association dues when the need arises as determined by PRI. Interest income on this fund shall accrue to the villa owners. A liability related to the fund was recognized and is included under this account.

Also, a restricted cash fund for future replacement of the resort's generator set and desalination plant amounting to P2.7 million as of December 31, 2011 is also recognized under this account.

***Unrealized valuation gains on AFS investments (equity portion)***
The net decrease in market values of AFS investments from December 31, 2010 to December 31, 2011 amounted P155.0 million, net of deferred income taxes. When the related assets are sold, the gain or loss is realized and will be reflected in the consolidated statements of income.

***Cumulative Translation Adjustment***
This account includes translation adjustments of Anscor International, Inc., Cirrus Medical Staffing, Inc. and Cirrus Global, Inc. (formerly IQMAN)**.**

***Noncontrolling interests***
Increase in noncontrolling interests was mainly due to share of minority shareholders on net assets of SSRLI as of December 31, 2011.

***Retained Earnings – Appropriated***
On December 6, 2011, the BOD approved the appropriation of the Company's unrestricted retained earnings amounting to ₱2.1 billion for expansion projects and investments in 2012 onwards in the areas of tourism, business process outsourcing (BPOs), manpower services, education and manufacturing.

***Others***
There were no commitments for major capital expenditures in 2011.

## Results of Operation

Management is not aware of any known trends, events or uncertainties except for political and market uncertainties that may have material impact on the Company's recurring revenues and profits.

**Year Ended December 31, 2011 Compared with Year Ended December 31, 2010**

***Revenues***
This year's consolidated gross revenues of P2.8 billion was 19.8% lower than last year's revenue of P3.5 billion. The gain from sale of AFS investments was significantly lower compared to the gain reported last year. This reduction in revenues was partially offset by improved service revenues of Cirrus group and inclusion of SSRLI's P412.4 million hotel revenues for the period March 1 to December 31, 2011.

***Cost of Services Rendered***
Increase in cost of services rendered was mainly attributable to higher cost of services of nurse staffing business (as a result of improved revenues) and consolidation of SSRLI cost of services for the period March 1 to December 31, 2011.

***Operating Expenses***
Operating expenses increased as a result of consolidation of SSRLI operating expenses for the period March 1 to December 31, 2011.

***Recoveries (Valuation Allowances) - net***

As a result of recovery in market values of some AFS investments mostly from bonds, previously booked provisions were reversed.

***Foreign Exchange Loss***

Due to the appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss.

***Interest Expense***

The Group reported lower charges for interest expense in 2011 resulting from payment of the parent company of its loan.  Despite the pick up in the consolidated balance sheet of SSRLI's loans/debt, the interest expense that was considered only pertained to March 1 to December 31, 2011, as the effectivity of consolidation of income statement accounts of SSRLI was March 1, 2011.

***Other Income***

Other income reported in 2011 pertains mainly to gain from fair value adjustment of net assets of acquired subsidiary and forfeiture of rental deposit from lessee by the parent company.

***Provision for Income Tax - net***

The current provision for income tax of the group increased due to consolidation of SSRLI's income tax expense of P4.7 million for the period March 1 to December 31, 2011. The parent company sets up provision for deferred income tax liability on uncollected management fee during the year and wrote off the tax benefit on unrealized foreign exchange loss and unrealized loss from decrease in market value of AFS investments.

***Noncontrolling  Interests***

Increase in noncontrolling interests was mainly due to share of minority shareholders on reduced losses of Cirrus Global, Inc. and Cirrus Medical Staffing, Inc. and the share of minority shareholders on results of SSRLI from March 1 to December 31, 2011.

***Year Ended December 31, 2010 Compared with Year Ended December 31, 2009 (as reported in 2010 SEC 17-A)***

***Revenues***

This year's consolidated gross revenues of P3.5 billion doubled last year's revenue of P1.7 billion. Anscor posted higher equity in net earnings from associates and investment gain from sale of AFS investments, mostly locally traded shares amounting P115.2 million and P2.1 billion, respectively. The increase in revenues was partially reduced by the lower service revenues of Cirrus Medical Staffing, Inc., from P916.7 million to P711.5 million.

***Costs of Services Rendered***

Decrease in cost of services rendered was mainly attributable to decline in business activities of the nurse staffing and recruitment services.

***Operating Expenses***
Operating expenses increased slightly. In view of the substantial income generated by the Company in 2010 for the sale of its investments, the parent company declared and paid bonuses to its executive officers and directors as approved by the BOD and the Compensation Committee.

***Valuation Allowances***
The Parent Company setup a provision for decline in market value of some AFS investments based on reduced market values as of December 31, 2010 vs. values as of December 31, 2009 and/or original acquisition cost. Additional provision was also setup for some of its equitized investments. Likewise, provisions for doubtful accounts receivable was set up.

***Foreign Exchange Loss***
Due to appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss. The loss could have been higher if not for the hedging transaction.

***Interest Expense***
The Group reported higher charges for interest expense resulting from additional loans obtained by the parent company and its subsidiary during 2010.

***Other Expenses- net***
Minimal rental income was recognized in 2010. In 2009, the rental income amounted to P14.5 million and shown as part of “Other expenses-net” in the consolidated statements of income.

***Provision for Income Tax***
This account increased mainly due to the higher income tax due by a subsidiary.

***Noncontrolling Interest***
Increase in noncontrolling interest represents the share of minority shareholders on income of the aviation subsidiary, net of share in losses of minority shareholders of Cirrus Global, Inc. and Cirrus Medical Staffing, Inc. for the year ended December 31, 2010.

***Year Ended December 31, 2009 Compared with Year Ended December 31, 2008 (as reported in 2009 SEC 17-A)***

***Revenues***
This year’s consolidated gross revenues of P1.7 billion declined by P534.7 million from last year’s P2.3 billion revenues. Cirrus’ P 916.7 million service revenues were lower compared to prior year’s P1.2 billion. The 2008 revenues include nonrecurring gain from sale of eTelecare shares and PDIPI shares of P740.4 million and P312.3 million, respectively.

***Cost of Services Rendered***
Decrease in cost of services rendered was mainly attributable to decrease in Cirrus’ and IQMan’s cost of services due to slowdown in business activities.

***Operating Expenses***
Operating expenses decreased as a result of cost reduction both for the Parent company and the group, mainly there was no bonus paid by the Parent company in 2009.

***Valuation Allowances***
The Parent Company setup a provision for decline in market value of some AFS investments based on reduced market values as of December 31, 2009 vs. values as of December 31, 2008 and/or original acquisition cost, but the amount of valuation allowances was lower at P89.3 million as against 2008's P216.5 million.

***Foreign Exchange Loss***
Due to the slight appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss.

***Interest Expense***
The Group reported lower charges for interest expense. Parent Company and its Air transport subsidiary availed additional short-term loan during the latter part of 2009.

***Provision for Income Tax***
This account decreased mainly due to the Parent Company's set up of deferred tax assets pertaining to unrealized foreign exchange loss and impairment of AFS investments as of December 31, 2009.

***Income from Deconsolidated Subsidiary***
On June 30, 2008, the Parent Company entered into 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 the total outstanding shares) in Phelps Dodge International Philippines Inc. (PDIPI). As a result, the Parent Company's ownership of PDIPI has been reduced to 40% and is therefore deconsolidated starting July 1, 2008. The Parent Company's investment in PDIPI is accounted for under equity method effective July 1, 2008.

***Minority Interest***
This account no longer included the share of non-Anscor owners in PDPI's net income. What was included in this account is the share of minority interest in the results of ASAC, IQMAN/IQHPC and Cirrus, Inc.

## Cash Flows
Management has no knowledge of known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

## Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations based on IFRIC which were adopted as of January 1, 2011. Unless otherwise indicated, the adoption of these changes did not significantly affect the consolidated financial statements.

- Amendment to PAS 24, *Related Party Disclosures*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

*Improvements to PFRS Issued in 2010*
The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of these amendments did not significantly impact the financial position or performance of the Group.

- PFRS 7, *Financial Instruments: Disclosures*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put quantitative information in context.

- PAS 1, *Presentation of Financial Statements*, clarifies than an entity may present an analysis of each component of other comprehensive income, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 34, *Interim Financial Reporting*, provides guidance to illustrate how to apply disclosure principles of PAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between levels of fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment is applied retrospectively.

The following interpretations and amendments to PAS and interpretations did not have any significant impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendment to PFRS 3, *Business Combination - Measurement Options Avaiable for Non - Controlling Interest*
- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2011
The Group will adopt the standards and interpretations enumerated below when these become effective. The Group continues to assess the impact of the following new and amended accounting standards and interpretations. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

*Effective in 2012*
- Amendment to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and will have no impact on the Group's financial position or performance.

- Amendment to PAS 12, *Income Taxes - Deferred Taxes: Recovery of Underlying Assets*, introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. The amendments also introduce the requirements that deferred tax on non-depreciable assets measured using the revaluation model on property, plant and equipment should always be measured on a sale basis.

*Effective in 2013*

- Amendments to PAS 1, *Presentation of Financial Statements*, improve how we present components of other comprehensive income. The new requirements are effective for annual periods beginning on or after July 1, 2012.

- Amendment to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

- PFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard defines control when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. PFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation - Special Purpose Entities* and PAS 27. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements in PAS 27. Earlier application is permitted.

- PAS 27, *Separate Financial Statements (as revised in 2011)*, as a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PFRS 11, *Joint Arrangements*, supersedes PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* This standard describes the accounting for joint arrangements with joint control. Further, proportionate consolidation is not permitted for joint ventures under the new definition of a joint venture. Earlier application is permitted.

- PAS 28, *Investment in Associates and Joint Ventures (as revised in 2011)*, as a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

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

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

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

- PFRS 12, *Disclosures of Interests in Other Entities*, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Earlier application is permitted.

- PFRS 13, *Fair Value Measurement*, establishes new guidance on fair value measurement and disclosures. Earlier application is permitted.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

*Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective in 2015*

- PFRS 9, *Financial Instruments*, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39. The approach in this new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

  The Group decided not to early adopt PFRS 9 for its 2011 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2011 do not reflect the impact of the said standard.

  The Group shall conduct another impact evaluation in early 2012 using the consolidated financial statements for the year ended December 31, 2011. Given the amendments on PFRS 9, *Financial Instruments*, the Group at present, does not plan to early adopt in 2012 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2012 financial reporting will be disclosed in its consolidated financial statements as at and for the period ending March 31, 2012. Should the Group decide to early adopt the said standard for its 2012 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2012 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group's impact evaluation.

The Group's AFS investments, receivables, notes payable, accounts payable and accrued expenses, dividends payable and long term debt may be affected by the adoption of this standard.

*Effectivity date to be determined*

- Philippine Interpretation IFRIC 15, *Agreements 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. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

## Business Combination

On February 28, 2011, the Company acquired additional 15.51% shares in SSRLI which increased the Company's ownership from 46.79% to 62.30%.

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

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

| | Fair Value Recognized on Acquisition (in millions) |
|---|---:|
| Cash | ₱96.2 |
| Receivables –net | 76.6 |
| Property and equipment | 470.9 |
| Other assets | 46.8 |
| Total assets | 690.5 |
| Accounts payables and accrued expenses | 93.4 |
| Other liabilities | 137.8 |
| Net assets | 459.3 |
| Goodwill arising from the acquisition | 99.3 |
| Total consideration | ₱558.6 |

The total cost of the combination was ₱558.6 million broken down as follows (in millions):

| | |
|---|---|
| Cash consideration | ₱255.9 |
| Fair value of 46.79% investment | 302.7 |
| Total consideration | ₱558.6 |

## Other Financial information

- There are no material events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

- There are no off-balance sheet transactions, arrangements, obligations including contingent obligations, and other relationships of the Company with unconsolidated entities or other persons created during the year.

- There were no commitments for major capital expenditures in 2011 and onwards.

- The management has no knowledge of known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenue or income from continuing operations.

- There are no seasonality or cyclicality trends in the business that would have material effect on the Company's result of operations and financial condition.

- There is no other change in composition of the registrant, no restructuring, except the business combination mentioned above.

- There is no other material event subsequent to the reporting period that has not been reflected in the financial statements.

## Item 7. Financial Statements

1. The financial statements were presented using the classified balance sheet format in accordance with the Philippine Financial Reporting Standards (PFRS).

2. The financial statements were prepared in accordance with the disclosures required by SRC Rule 68 as amended and PFRS.

3. The consolidated financial statements include disclosures with regards to new accounting standards that the Company and its subsidiaries adopted.

## Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

SyCip Gorres Velayo & Co. (SGV) has been the Company's independent auditors since its establishment in 1946. They will again be nominated for reappointment and presented for approval by the stockholders during the stockholders' meeting as external auditors for the ensuing fiscal year. Unless marked to the contrary, proxies received will be voted FOR the appointment of SGV as the independent auditors for the ensuing year. The Management recommends a vote FOR the appointment of SGV as independent auditors for the Company for the current year.

The Company has no disagreements with its independent auditors on Accounting and Financial Disclosure and changes in Accounting and Financial Disclosures are included in the attached Notes to Consolidated Financial Statements, if applicable.

In compliance with SRC Rule 68 as amended, Part I, number 3.B (ix) (Rotation of External Auditors), the SGV audit partner, as of December 31, 2011, is Ms. Josephine Estomo, who is on her third year of audit engagement.

The Company paid to its external auditors the following fees in the past two years:

| Year | Audit Fees |
|---|---|
| 2011 | P988,500 |
| 2010 | 988,500 |

The audit fees were approved by the Audit Committee based on the scope of work of external auditors and the complexity of accounting and audit issues identified. There are no other fees paid to the external auditors for other assurance and related services.

No tax consultancy fees were paid by the Company to SGV for the year 2011 and 2010.

## PART III - CONTROL AND COMPENSATION INFORMATION

## Item 9. Directors and Executive Officers of the Registrant

**Directors**

The Board of Directors of the Company has ultimate responsibility for the administrative affairs of the Company. The business address of all of the Directors is the registered office of the Company. The Board meets approximately once every quarter or about four times a year. A majority of the Board shall constitute a quorum for the holding of a Board meeting. The decision of a majority of the quorum present shall be sufficient to pass a Board resolution.

The Directors and their respective positions with the Company are listed below.

| Name | Position | Term of Office | Period Served as Director |
|---|---|---|---|
| Andres Soriano III | Chairman and Chief Executive Officer; President and Chief Operating Officer | 1 year | 29 years |
| Eduardo J. Soriano | Vice Chairman – Treasurer | 1 year | 31 years |
| Ernest K. Cuyegkeng | Director | 1 year | 3 years |
| John L. Gokongwei, Jr. | Director | 1 year | 31 years |
| Oscar J. Hilado | Director | 1 year | 13 years |
| Jose C. Ibazeta | Director | 1 year | 24 years |
| Roberto R. Romulo | Director | 1 year | 13 years |

**Executive Committee and Management**

The management structure of the Company consists of an Executive Committee that reports directly to the Board of Directors. The members of the Executive Committee and their respective positions with the Company are listed below.

| | |
|---|---|
| Mr. Andres Soriano III | Chairman |
| Mr. Eduardo J. Soriano | Vice Chairman |
| Mr. Ernest K. Cuyegkeng | Member |
| Mr. Oscar J. Hilado | Member |
| Mr. Jose C. Ibazeta | Member |

The following are the members of the Audit Committee and Compensation Committee:

Audit Committee:

| | |
|---|---|
| Mr. Oscar J. Hilado | Chairman |
| Mr. Eduardo J. Soriano | Member |
| Mr. Jose C. Ibazeta | Member |

Compensation Committee:

| | |
|---|---|
| Mr. Oscar J. Hilado | Chairman |
| Mr. Andres Soriano III | Member |
| Mr. Eduardo J. Soriano | Member |

Selected biographical information on the Company's directors and other principal officers is set out below.

***Directors***

**ANDRES SORIANO III**, age 60, American, Director of the Company since 19 May 1982; Chairman and Chief Executive of the Company (1983 to present); Chairman and President of Anscor Consolidated Corporation (1987 to present); Chairman of Andres Soriano Foundation, Inc. (1985 to present) and Pamalican Resort, Inc. (May 2011 to present); Director of Anscor Property Holdings, Inc. (1998 to present), A. Soriano Air Corporation (2003 to present) and Anscor-Casto Travel Corporation (1983 to present); Chairman of Phelps Dodge International Philippines, Inc. (1983 to present), Phelps Dodge Philippine Energy Products Corporation (1997 to present), Seven Seas Resorts and Leisure, Inc. (1998 to present); Director of Cirrus Medical Staffing, Inc. (2007 to present); Director of International Container Terminal Services, Inc. (ICTSI) (1992 to present), ICTSI, Ltd. (2001 to present), International Container Terminal Holdings, Inc. (1999 to present), Manila Peninsula Hotel, Inc. (1986 to present). Mr. Soriano was formerly President and Chief Operating Officer of San Miguel Corporation and was subsequently Chairman and Chief Executive Officer of San Miguel Corporation. He was Chairman of Coca-Cola (Philippines), Coca-Cola Amatil (Australia) and Nestle (Philippines). He was a Director of SPI Technologies and eTelecare Global Solutions, Inc. until 2006. He was also a Member of the G.E. Asian Advisory and the Wharton East Asia Executive Board. He holds a Bachelor of Science Degree in Economics, Major in Finance and International Business, Wharton School of Finance and Commerce, University of Pennsylvania, (1972).

**EDUARDO J. SORIANO**, age 57, Filipino, Director of the Company since 21 May 1980; Vice Chairman-Treasurer of the Company (1990 to present); Chairman of Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) (2004 to present), A. Soriano Air Corporation (2003 to present); Chairman and President of Anscor Property Holdings, Inc. (1985 to present); Director of Phelps Dodge Philippines Energy Products Corporation (1997 to present), Phelps Dodge International Phils., Inc. (1997 to present), Sutton Place Holdings, Inc. (2009 to present), Minuet Realty Corporation, Anscor Consolidated Corporation (1982 to present), Pamalican Island Holdings; Chairman & President of NewCo, Inc. (1997 to present); Trustee of Andres Soriano Foundation, Inc. (1985 to present); Graduate of Bachelor of Science Degree in Economics, Major in History, University of Pennsylvania, (1977).

**ERNEST K. CUYEGKENG**, age 65, Filipino, Director of the Company since 22 April 2009; Executive Vice President and Chief Financial Officer of the Company (1990 to present); President and Director of Anscor Property Holdings, Inc. (1990 to present), Phelps Dodge Philippines Energy Products Corporation (1999 to present), A. Soriano Air Corporation (2003 to present), and Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) (2004 to present); Director of Pamalican Island Holdings, Inc. (1995 to present), KSA Realty Corporation (2001 to present) and T-O Insurance (2008 to present); AB Capital & Investment Corporation (2003 to present), Artha Land (2007 to present) and Sumifru, Singapore (2003 to present) and Pamalican Resort, Inc. (May 2011 to present); Trustee of Andres Soriano Foundation, Inc. (1990 to present); Member of the Management Association of Philippines, Makati Business Club and Financial Executive

Institute of the Philippines (FINEX); Graduate of De La Salle University, B.A. Economics and B.S. Business Administration, (1968). Masters Degree in Business Administration, Columbia Graduate School of Business, New York, (1970).

**JOHN L. GOKONGWEI, JR**., age 85, Filipino, Director of the Company since 21 May 1980; Director and Chairman Emeritus of JG Summit Holdings, Inc. (2002 to present); Chairman and CEO of JG Summit Holdings, Inc. (1990 to 2001); Director of Robinsons Land Corporation (1980 to present), JG Summit Petrochemical Corporation (1994 to present), Universal Robina Sugar Milling Corporation (1987 to present), Southern Negros Development Corporation (1982 to present), Robinsons Inc, (1987 to present), Gokongwei Brothers Foundation, Inc. (1992 to present); Graduate of De La Salle University, Masters Degree in Business Administration, (1977) Advance Management Program, Harvard University, (1972-1973).

**OSCAR J. HILADO**, age 74, Filipino, an independent Director of the Company since 13 April 1998; Chairman & CEO of Philippine Investment Management (PHINMA), Inc. (January 1994 to August 2005) and as Chairman (August 2005 to present); Chairman of Holcim Phils., Inc.; Chairman of the Board & Chairman of the Executive Committee of Phinma Corporation; Chairman of the Board of Phinma Property Holdings Corporation; Vice Chairman of Trans Asia Power Generation Corporation (1996 to present); Chairman of Trans Asia Oil & Energy Development Corporation (April 2008 to present); Director of Manila Cordage Corporation (1986 to present), Seven Seas Resorts & Leisure, Inc., First Philippine Holdings Corporation (November 1996 to present) and Philex Mining Corporation (December 2009 to present); Trustee of the Andres Soriano Foundation, Inc. (2009 to present); Graduate of De La Salle College (Bacolod), Bachelor of Science in Commerce, (1958) Masters Degree in Business Administration, Harvard Graduate School of Business, (1962). Mr. Hilado also serves as Chairman of the Audit Committee of the Company.

**JOSE C. IBAZETA**, age 69, Filipino, Director of the Company from 1981 to 1998, 2004 to present; Director of International Container Terminal Services, Inc. (1987 to present), Anscor Consolidated Corporation (1980 to present), Anscor Property Holdings, Inc. (1982 to present), Anscor-Casto Travel Corporation (1984 to present), A. Soriano Air Corporation (1988 to present), AFC Agribusiness Corporation (1989 to present), Atlas Consolidated Mining & Development Corporation (1989 to present), Minuet Realty Corporation (1995 to present), Phelps Dodge Philippines Energy Products Corporation (1997 to present), NewCo, Inc. (1997 to present) and Capital Mediaworks, Inc. (2003 to present); President of Seven Seas Resorts & Leisure, Inc. (2008 to present) and Pamalican Resort, Inc. (May 2011 to present); Member, Finance Committee of Ateneo de Manila University (1997 to present); Board of Trustees of Radio Veritas (1991 to present). Mr. Ibazeta was President and CEO of Power Sector Assets & Liabilities Management Corporation (February 2007 to March 2010) and Acting Secretary of Energy (March-June 2010); Graduate of Bachelor of Science in Economics, Ateneo de Manila University, (1963), Masters Degree in Business Administration, University of San Francisco, (1968).

**ROBERTO R. ROMULO**, age 73, Filipino, an independent Director of the Company since 13 April 1998; Chairman of CHARTIS Philippines Insurance, Inc. (formerly AIU Philippines Inc.), PETNET, Inc., Carlos P. Romulo Foundation for Peace and Development, Foundation for Information Technology Education and Development (FIT-ED), MediLink Network, Philippine Foundation for Global Concerns, Inc. (PFGC), Zuellig Family Foundation, Romulo Asia Pacific Advisory, Inc. and Asia-Europe Foundation of the Philippines; Advisory Board Member of Philippine Long Distance Telephone Co. (PLDT); Board Member of Aboitiz Equity Ventures, Inc. and Equicom Savings Bank, 25-year career at IBM Corporation holding CEO positions in the Philippines, Thailand, Burma and Bangladesh; Graduate of Georgetown University, (A.B.) and Ateneo de Manila University (LLB),. Former Ambassador to Belgium, Luxembourg and the European Commission and Secretary of Foreign Affairs.

No incumbent Director has resigned or declined to stand for re-election to the Board of Directors due to disagreement with Management since the date of the last annual meeting.

The nominations for independent Directors complies with SRC Rule 38, which requires that a corporation with a class of equity securities listed for trading on an Exchange or with assets in excess of Fifty million pesos (P50,000,000.00) and having two hundred (200) or more holders, at least two hundred (200) of which are holding at least one hundred (100) shares of a class of its equity securities shall have at least two (2) independent Directors or such independent Directors shall constitute at least twenty percent (20%) of the members of such Board.

The two nominated independent Directors of the Company are Mr. Oscar J. Hilado and Mr. Roberto R. Romulo. They are neither officers nor employees of the Company or of any of its subsidiaries. They do not have any relationship with the Company which would interfere with the exercise of independent judgment in carrying out their responsibilities. Further, the nominated independent Directors possess all the qualifications and none of the disqualifications to serve as independent Directors of the Company. The independent Directors are nominated and elected in the same manner as regular directors in accordance with the nomination and election procedures provided in the By-Laws. The Company amended its By-Laws in 04 March 2010 and 18 February 2011 to incorporate the requirements of SRC Rule 38 with respect to the nomination and election of independent directors.

The following are not nominees but incumbent officers of the Company:

**NARCISA M. VILLAFLOR**, age 49, Filipino, Vice President and Comptroller of the Company since 19 April 2000; Treasurer of Seven Seas Resorts and Leisure. Inc., Pamalican Resort, Inc., Andres Soriano Foundation, Inc., Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.), A. Soriano Air Corporation, Pamalican Island Holdings, Inc., and Sutton Place Holdings, Inc.; Director of Anscor Consolidated Corporation, Cirrus Global, Inc.; Trustee of Andres Soriano Foundation, Inc.. Joined SGV (January 1985 to November 1989) and joined Anscor in December 1989. Graduate of University of the Philippines, Bachelor of Science in Business Administration and Accountancy (1984). Attended AIM Management Program (November 1996).

**LORNA PATAJO-KAPUNAN**, age 59, Filipino, Corporate Secretary of A. Soriano Corporation (1998 to present); Senior Partner of KAPUNAN LOTILLA GARCIA & CASTILLO Law Offices; Corporate Secretary of Central Azucarera de Don Pedro (1995 to present), Central Azucarera de la Carlota (1996 to present), Beverage Industry Association of the Philippines (1991 to present), Seven Seas Resorts & Leisure, Inc (1990 to present), Pamalican Island Holdings, Inc. (1995 to present), iAcademy (2002 to present), Uni-President Phils., Inc. (2002 to present), Huntly Corporation (1992 to present), Palomino Resources, Inc. and Malate Pensionne, Inc.(2001 to present), Cuisine Exchange, Inc. and Culinary Innovators, Inc. (2001 to present), Jose M. Velero Corporation (2001 to present), Creative Concoctions, Inc. (2001 to present), Hotel Concepts, Inc. (2001 to present), Creative Hotel Concepts, Inc. (2001 to present), Culinary Events, Inc. (2001 to present), AH Distribution Corporation, Hotel & Resorts Trench, Inc. (2002 to present), It’s About Taste (I’ATE), Inc. (2002 to present), Kitchen Alley, Inc. (2001 to present), & Les Maitres Gourmands, Inc. (2001 to present); Traditional Financial Services Philippines, Inc. (2008 to present); Avaya Philippines, Inc. (2006 to present); Elixir Gaming Technologies Philippines, Inc. (2007-2008); Elixir Group Philippines, Inc. (2006-2008); Director of AMAX Holdings Limited (2008 to present); Graduate of University of the Philippines College of Law, (1978).

**JOSHUA L. CASTRO**, age 37, Filipino, Executive Assistant and Assistant Corporate Secretary of the Company (2006 to present); Assistant Corporate Secretary of Seven Seas Resorts and Leisure, Inc. (2006 to present) and Island Aviation, Inc. (2006 to present); Corporate Secretary of Phelps Dodge International Philippines, Inc., PD Energy International Corporation, Phelps Dodge Philippines Energy Products Corporation (2006 to present), A. Soriano Air Corporation (2006 to present), Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) (2006 to present), Anscor Property Holdings, Inc. (2006 to present), and Andres Soriano Foundation, Inc. (2006 to present). Tax Lawyer, SyCip Gorres Velayo & Co. (1999 to 2005). Graduate of San Beda College of Law (1999).

Additional Information

There is no person who is not an executive and is expected by the registrant to make a significant contribution to the business.

Except for Andres Soriano III and Eduardo J. Soriano who are brothers, the directors, executive officers or persons nominated or chosen by the registrant to become directors or executive officers have no family relationship up to the 4th civil degree either by consanguinity or affinity.

For the last five years and as of 29 February 2012, Management is not aware of any pending material legal proceeding i.e. bankruptcy petitions, convictions by final judgment, being subject to any order, judgment or decree or violation of a Securities or Commodities Law involving its nominees for directorship, executive officers and incumbent officers and directors.

The Company does not own any other equity securities beneficially owned by its directors and other nominees.

## Item 10. Executive Compensation

As approved in 2004, Directors are paid a per diem of ₱20,000.00 per meeting attended and are given directors bonus representing no more than 1% of previous year's net income. Similarly, annual bonus, of no more than 3% of the preceding year's net income as well as salary increase of Executive Officers are approved by the Compensation Committee and Board of Directors.

The total compensation paid to the top five (5) Officers of the Company and the rest of the Directors for the last two years and the ensuing year are as follows:

| Name | Principal Position | Compensation | | |
|---|---|---|---|---|
| | | 2010 Actual | 2011 Actual | 2012 (Estimate) |
| Andres Soriano III | Chairman & Chief Executive | | | |
| Eduardo J. Soriano | Vice Chairman & Treasurer | | | |
| Ernest K. Cuyegkeng | Executive Vice President & Chief Financial Officer | | | |
| Narcisa M. Villaflor | Vice President & Comptroller | | | |
| Joshua L. Castro | Executive Assistant & Assistant Corporate Secretary | | | |
| Salaries | | P45,035,314 | P46,982,205 | P48,917,524 |
| Benefits | | 995,909 | 2,225,679 | 2,210,834 |
| Bonus | | 34,550,000 | 45,511,778 | 14,547,500 |
| Sub-Total Top Executive | | P80,581,223 | P94,719,662 | P65,675,858 |
| Other Directors | | 13,536,049 | 13,901,049 | 7,436,049 |
| Total | | P94,117,272 | P108,620,711 | P73,111,907 |

There are no other arrangements, including consulting contracts, to which any director was compensated, directly or indirectly except for the consultancy agreement between the Company and Mr. Jose C. Ibazeta, involving about P3.21 million fees for one year.

All the executive officers are not subject of any employment contract. Neither are there any compensatory plans or arrangements with respect to the named executive officers that will result from their resignation, retirement or any other termination or from change in control in the Company or change in the named executive officers' responsibilities following a change in control.

There are no warrants or options granted to the Directors, Chief Executive Officer, and other named Executive Officers.

## Item 11. Security Ownership of Certain Beneficial Owners and Management

Except as indicated below, no person holds 5% or more of the common stock of the Company under a voting trust or similar agreement.

As of February 29, 2012, the following are the Security Ownership of Certain Record and Beneficial Owners of the Company:

**a. Security Ownership of Certain Record (R) and Beneficial Owners (B)**

| Title of Class | Name/Address of Record Owner & Relationship w/ Issuer | Name of Beneficial Ownership & Relationship with Record Owner | Citizenship | Number of Shares | Percentage Held |
|---|---|---|---|---|---|
| Common | Anscor Consolidated Corporation<br>7th Flr. Pacific Star Bldg., Makati Avenue<br>Makati City<br>(Subsidiary) | Anscor Consolidated Corporation<br>(Subsidiary) | Filipino | 1,201,317,039 * | 48.053% |
| Common | PCD Nominee Corp. (Non-Filipino)<br>37th Flr. The Enterprise Center, Inc.<br>Ayala Avenue corner Paseo de Roxas,<br>Makati City<br>(Depository Account) | PCD Nominee Corp. (Non-Filipino)<br>(Depository Account) | Non-Filipino | 505,656,814 | 20.226% |
| Common | A-Z Asia Limited Philippines, Inc.<br>Barrio Mabacan<br>Calauan, Laguna<br>(Stockholder) | A-Z Asia Limited Philippines, Inc.<br>(Stockholder) | Filipino | 176,646,329 | 7.066% |
| Common | PCD Nominee Corp. (Filipino)<br>37th Flr. The Enterprise Center, Inc.<br>Ayala Avenue corner Paseo de Roxas,<br>Makati City<br>(Depository Account) | PCD Nominee Corp. (Filipino)<br>(Depository Account) | Filipino | 163,991,517 | 6.560% |
| **TOTAL** | | | | **2,047,611,699** | **81.905%** |

* Includes 299,144,736 shares lodged with PCD Nominee Corp. (Filipino)

Anscor Consolidated Corporation is wholly owned by A. Soriano Corporation, the registrant Company, represented by Mr. Ernest K. Cuyegkeng as Treasurer.

PCD Nominee Corporation, a wholly owned subsidiary of Philippine Central Depository, Inc. (“PCD”), is the registered owner of the shares in the books of the Company’s transfer agent in the Philippines. The beneficial owners of such shares are PCD’s participants, who hold the shares on their behalf or in behalf of their clients of which ATR Kim-Eng Securities, Inc., represented by Nilaida Enriquez, is the sole owner of more than 5%, specifically 26.786%, the bulk of which or 19.158% is owned by Deerhaven, LLC, a company registered in Delaware, USA. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines.

A-Z Asia Limited Philippines, Inc. is a holding company incorporated in the Philippines on 25 April 2003 represented by Mr. Raul Balaquiao as its Corporate Secretary. Other than the above, there are no Stockholders owning more than 5% of the Company‘s outstanding shares of stock.

The Company is not aware of any material pending legal proceedings to which the Company or any of its subsidiaries is a party.

b. Security Ownership of Certain Beneficial Owners and Management

As of February 29, 2012, the following are the security ownership of the Directors and Officers of the Company:

| **Title of Class** | **Name of Beneficial Owner** | **Amount and Nature Of Beneficial Ownership** | | **Citizenship** | **Percentage** |
|---|---|---|---|---|---|
| Common | Andres Soriano III | 50,490,265 | Direct/Indirect | American | 2.02% |
| Common | Eduardo J. Soriano | 29,035,737 | Direct/Indirect | Filipino | 1.16% |
| Common | Ernest K. Cuyegkeng | 20,000 | Direct | Filipino | 0.00% |
| Common | John L. Gokongwei, Jr. | 345,934 | Direct/Indirect | Filipino | 0.01% |
| Common | Oscar J. Hilado | 6,020,000 | Direct/Indirect | Filipino | 0.24% |
| Common | Jose C. Ibazeta | 32,951 | Direct | Filipino | 0.00% |
| Common | Roberto R. Romulo | 20,000 | Direct | Filipino | 0.00% |
| Total | | 85,964,887 | | | 3.44% |

Narcisa M. Villaflor, Atty. Lorna Patajo-Kapunan and Joshua L. Castro do not own shares of the Company.

**c. Voting Trust Agreement**

The Company does not have any voting trust agreement with any stockholders.

**d. Changes in Control**

No change in control of the Company occurred since the beginning of the last fiscal year. Management is not aware of any arrangement which may result in a change in control of the Company.

## Item 12. Certain Relationships and Related Transactions

In line with the strategic direction of the Company with respect to its investments, i.e., shifting more resources from financial instruments to operating investments, the Company, as of March 1, 2011, acquired additional shares of stock in Seven Seas Resorts and Leisure, Inc. (SSRLI) from other minority shareholders in SSRLI, including shares of stock directly or indirectly owned by Andres Soriano III and Eduardo J. Soriano. The acquisition from all the minority shareholders increased the ownership of the Company from 46.79% to 62.30% of the total outstanding common and preferred shares of SSRLI. The combined purchase price of the acquisition of shares of stock directly and indirectly owned by Andres Soriano III and Eduardo J. Soriano is P131.66 million representing 7.98% of the total outstanding common and preferred shares of stock of SSRLI.

# PART IV – CORPORATE GOVERNANCE

## Item 13. Corporate Governance

On 22 December 2010, the Company submitted its annual Certification to the SEC confirming its substantial compliance with its Manual on Corporate Governance. Before issuance of said Certification, the Board of Directors and Management evaluated the Company's compliance with the Manual on Corporate Governance. The different Board Committees also evaluate the level of compliance with the Manual on Corporate Governance.

The Company continues to improve its systems and processes to enhance adherence and fully comply with leading practices on good corporate governance. In line with this goal, Directors of the Company are required, before assuming office, to attend a seminar on Corporate Governance conducted by a duly recognized private or government institution.

Likewise, the Company participates in the annual Corporate Governance Scorecard Self-Assessment for Publicly-Listed Companies conducted by the Institute of Corporate Directors. Before submitting the self-assessment, Management evaluates the responses and considers the scorecard as a tool to further improve and ensure compliance with the Manual on Corporate Governance.

As part of the Company's continuing efforts to comply with leading practice on corporate governance, on 10 March 2010, the Company submitted to the SEC and PSE its revised Manual on Corporate Governance in conformity with SEC Memorandum Circular No. 6, Series of 2009. The Manual on Corporate Governance was further revised on 18 February 2011 to comply with additional requirements of the SEC. All the revisions to the Manual on Corporate Governance are discussed and deliberated upon by the Board of Directors prior to its approval and subsequent submission to the SEC.

As of 29 February 2012, there were no deviations from the Company's Manual on Corporate Governance.

## PART V - EXHIBITS AND SCHEDULES

## Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

| | | | |
|---|---|---|---|
| Exhibit | (1) | Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession | NA |
| Exhibit | (2) | Instruments Defining the Rights of Security Holders, Including Indentures | BY-LAWS |
| Exhibit | (3) | Voting Trust Agreement | NA |
| Exhibit | (4) | Annual Report to Security Holders, Form 17-Q or Quarterly Report to Security Holders | ANNUAL REPORT & FORM 17-Q |
| Exhibit | (5) | Letter re: Change in Certified Public Accountant | NA |
| Exhibit | (6) | Letter re: Change in Accounting Principles | NA |
| Exhibit | (7) | Report Furnished to Security Holders | ANNUAL REPORT & FORM 17-Q |
| Exhibit | (8) | Subsidiaries of the Registrant | LIST OF SUBSIDIARIES<br><br>FINANCIAL STATEMENTS OF SIGNIFICANT FOREIGN SUBSIDIARIES |
| Exhibit | (9) | Published Report Regarding Matters Submitted to Vote of Security Holders | NA |
| Exhibit | (10) | Consents of Experts and Independent Counsel | NA |
| Exhibit | (11) | Power of Attorney | NA |
| Exhibit | (12) | Additional Exhibits | NA |

(b) SEC Form 17-C

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on February 17, 2012.

| | | | |
|---|---|---|---|
| **Andres Soriano III**<br>Chairman, President and Chief Executive Officer | Date | **Ernest K. Cuyegkeng**<br>Executive Vice President - Chief Financial Officer | Date |
| **Narcisa M. Villaflor**<br>Vice President-Comptroller | Date | **Salome M. Buhion**<br>Accounting Manager | Date |
| **Atty. Lorna Kapunan**<br>Corporate Secretary | Date | | |

REPUBLIC OF THE PHILIPPIENS)
MAKATI CITY ) S.S.

**SUBSCRIBED AND SWORN** to before me this 17th day of February, 2012, affiants exhibited to me the following:

| NAMES | PASSPORT NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---|---|---|---|
| Andres Soriano III | 711786600 | 08-11-2005 | U.S.A |
| Ernest K. Cuyegkeng | XX3032586 | 02-17-2009 | Manila |
| Narcisa M. Villaflor | XX3804170 | 05-27-2009 | Manila |
| Salome M. Buhion | UU966480 | 03-21-2007 | Manila |
| Atty. Lorna Kapunan | ZZ233171 | 10-05-2007 | Manila |

Doc. No. 196;
Page No. 41;
Book No. IX;
Series of 2012

**REGINALDO L. HERNANDEZ**
Notary Public for and in the City of Makati
Appointment No. M-354; Roll No. 20642
Commission Expires on 12-31-12
PTR No. 3178422; 1-04-12; Makati City
IBP No. 883446; 1-11-12; Pasig City
TIN No. 100-364-501

**A. SORIANO CORPORATION**
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**
**SEC FORM 17-A**

**A. SORIANO CORPORATION**
**INDEX TO EXHIBITS**

| | |
|---|---|
| Instruments Defining the Rights of Security Holders, Including Indentures | BY-LAWS |
| Annual Report to Security Holders, Form 17-Q or Quarterly Report to Security Holders<br><br>Report Furnished to Security Holders | INFORMATION STATEMENT<br>ANNUAL REPORT & FORM 17-Q |
| Subsidiaries of the Registrant | LIST OF SUBSIDIARIES<br><br>FINANCIAL STATEMENTS OF SIGNIFICANT FOREIGN SUBSIDIARIES |

| | | |
|---|---|---|
| February 18, 2011 | SEC 17-C<br>Item No. 9 – | <br>Other Event<br>Date of Stockholders' Meeting<br>Record Date<br>Proxy Validation Date |
| February 18, 2011 | SEC 17-C<br>Item No. 9 – | <br>Other Event<br>Declaration & Approval of Cash Dividend |
| February 28, 2011 | SEC 17-C<br>Item No. 9 – | <br>Acquisition of Additional Shares in Seven Seas Resorts and Leisure, Inc. |
| April 13, 2011 | SEC 17-C<br>Item No. 4 – | <br>Resignations, Removal or Election of Registrant's Directors |
| October 11, 2011 | SEC 17-C<br>Item No. 9 – | <br>Other Event<br>Declaration and Approval of Special Cash Dividends |

# A. SORIANO CORPORATION

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of A. SORIANO CORPORATION is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submits the same to the stockholders or members.

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

| | |
|---|---|
| **ANDRES SORIANO III** | **ERNEST K. CUYEGKENG** |
| Chairman and Chief Executive Officer | Executive Vice President and Chief Financial Officer |

Signed this 17th day of February 17, 2012

REPUBLIC OF THE PHILIPPIENS)
MAKATI CITY ) S.S.

SUBSCRIBED AND SWORN to before me this 17th day of February, 2012, affiants exhibited to me the following:

| NAME | PASSPORT NO. | DATE & PLACE ISSUED |
|---|---|---|
| Andres Soriano III | 71178660 | Aug. 11, 2005 to Aug. 10, 2015/ U.S. |
| Ernest K. Cuyegkeng | XX3032586 | Feb. 17, 2009 to Feb. 16, 2014/Manila |

Doc. No. 195;
Page No. 40;
Book No. IX;
Series of 2012.

**REGINALDO L. HERNANDEZ**
Notary Public for and in the City of Makati
Appointment No. M-354; Roll No. 20642
Commission Expires on 12-31-12
PTR No. 3178422; 1-04-12; Makati City
IBP No. 883446; 1-11-12; Pasig City
TIN No. 100-364-501

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

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

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
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, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the consolidated financial statements presents fairly, in all material respects, the financial position of A. Soriano Corporation and Subsidiaries as at December 31, 2011 and 2010 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-2 (Group A),
February 11, 2010, Valid until February 10, 2013
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174595, January 2, 2012, Makati City

February 17, 2012

## A. SORIANO CORPORATION AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 6 and 7) | **₱542,426,682** | ₱2,188,123,589 |
| Fair value through profit or loss (FVPL) investments (Note 8) | **883,456,012** | 817,656,671 |
| Receivables (Notes 6 and 9) | **335,048,616** | 230,447,395 |
| Inventories (Notes 6 and 10) | **83,192,215** | 15,909,310 |
| Prepayments and other current assets (Note 6) | **58,532,769** | 66,280,014 |
| **Total Current Assets** | **1,902,656,294** | 3,318,416,979 |
| **Noncurrent Assets** | | |
| Available-for-sale (AFS) investments (Note 11) | **8,093,777,731** | 6,213,532,572 |
| Investments and advances (Note 12) | **725,232,813** | 942,752,891 |
| Property and equipment (Notes 6, 13 and 18) | **906,768,274** | 143,177,924 |
| Investment properties (Notes 6, 14 and 29) | **216,432,223** | 260,483,302 |
| Goodwill (Note 6) | **604,598,071** | 510,905,060 |
| Other noncurrent assets (Notes 6, 15 and 29) | **100,593,994** | 41,033,781 |
| **Total Noncurrent Assets** | **10,647,403,106** | 8,111,885,530 |
| **TOTAL ASSETS** | **₱12,550,059,400** | ₱11,430,302,509 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Notes payable (Note 16) | **₱86,797,229** | ₱64,393,852 |
| Accounts payable and accrued expenses (Notes 6, 17 and 29) | **346,976,595** | 257,440,701 |
| Dividends payable (Note 19) | **146,644,057** | 134,856,337 |
| Income tax payable | **1,113,407** | 3,617,707 |
| Current portion of long-term debt (Notes 6 and 18) | **23,854,113** | 10,960,000 |
| **Total Current Liabilities** | **605,385,401** | 471,268,597 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 6 and 18) | **118,625,887** | 10,960,000 |
| Deferred revenues (Note 29) | **80,142,589** | 80,142,589 |
| Deferred income tax liabilities - net (Notes 6 and 24) | **43,273,997** | 8,227,521 |
| Retirement benefits payable (Notes 6 and 23) | **43,297,692** | 23,343,489 |
| Advances from customer (Note 29) | **–** | 22,141,811 |
| Other noncurrent liabilities (Notes 6 and 15) | **49,809,710** | – |
| **Total Noncurrent Liabilities** | **335,149,875** | 144,815,410 |
| **Total Liabilities** | **940,535,276** | 616,084,007 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **Equity Attributable to Equity Holdings of the Parent** (Note 19) | | |
| 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 noncontrolling interest (Note 3) | **(26,356,543)** | (26,356,543) |
| Cumulative translation adjustment | **(70,632,555)** | (68,240,077) |
| Unrealized valuation gains on AFS investments (Note 11) | **2,495,985,688** | 2,650,946,926 |
| Retained earnings: | | |
| Appropriated (Note 19) | **2,100,000,000** | |
| Unappropriated | **4,555,062,107** | 5,972,637,668 |
| Cost of shares held by a subsidiary (1,201,317,039 shares in 2011 and 1,198,438,093 shares in 2010) (Note 19) | **(1,836,655,862)** | (1,827,024,465) |
| | **11,291,506,746** | 10,776,067,420 |
| **Noncontrolling Interests** (Note 3) | **318,017,378** | 38,151,082 |
| **Total Equity** | **11,609,524,124** | 10,814,218,502 |
| **TOTAL LIABILITIES AND EQUITY** | **₱12,550,059,400** | ₱11,430,302,509 |

*See accompanying Notes to Consolidated Financial Statements.*

## A. SORIANO CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **REVENUES** | | | |
| Services (Note 29) | **₱1,572,687,890** | ₱866,112,933 | ₱1,056,013,587 |
| Dividend income (Notes 8 and 11) | **223,197,863** | 145,749,114 | 102,136,741 |
| Interest income (Notes 11 and 22) | **120,204,004** | 111,236,357 | 120,209,111 |
| Equity in net earnings of associates (Note 12) | **93,029,847** | 115,224,619 | 78,246,910 |
| Management fee (Note 29) | **36,064,697** | 37,754,660 | 28,251,300 |
| Others | **36,435,545** | 34,077,196 | 27,930,617 |
| | **2,081,619,846** | 1,310,154,879 | 1,412,788,266 |
| **INVESTMENT GAINS (LOSSES)** | | | |
| Gain on sale of: | | | |
| AFS investments (Note 11) | **676,840,454** | 2,091,925,238 | 186,271,990 |
| Property and equipment and investment property (Notes 13 and 14) | **39,885,688** | | 340,199 |
| Long-term investments (Note 3) | **16,725,079** | | – |
| Gain (loss) on increase (decrease) in market values of FVPL investments (Note 8) | **(7,243,193)** | 99,867,962 | 136,822,715 |
| | **726,208,028** | 2,191,793,200 | 323,434,904 |
| **TOTAL** | **2,807,827,874** | 3,501,948,079 | 1,736,223,170 |
| Costs of services rendered (Note 20) | **(1,108,860,054)** | (714,101,500) | (892,697,022) |
| Operating expenses (Note 20) | **(691,909,530)** | (445,459,266) | (436,129,949) |
| Recoveries (valuation allowances) - net (Note 22) | **34,259,012** | (185,766,042) | (89,256,480) |
| Foreign exchange loss - net | **(7,446,980)** | (138,365,146) | (34,433,061) |
| Interest expense (Note 22) | **(9,092,211)** | (13,934,412) | (10,793,402) |
| Other income (expenses) - net (Note 29) | **2,441,843** | (15,666,088) | (5,497,629) |
| | **(1,780,607,920)** | (1,513,292,454) | (1,468,807,543) |
| **INCOME BEFORE INCOME TAX** | **1,027,219,954** | 1,988,655,625 | 267,415,627 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 24) | **30,943,621** | 11,932,537 | (15,161,954) |
| **NET INCOME** | **₱996,276,333** | ₱1,976,723,088 | ₱282,577,581 |
| **Attributable to** | | | |
| Equity holdings of the Parent | **₱994,506,977** | ₱1,975,357,978 | ₱289,644,550 |
| Noncontrolling interests | **1,769,356** | 1,365,110 | (7,066,969) |
| | **₱996,276,333** | ₱1,976,723,088 | ₱282,577,581 |
| **Earnings per share** | | | |
| Basic/diluted, for net income attributable to equity holdings of the Parent (Note 25) | **₱0.74** | ₱1.46 | ₱0.20 |

*See accompanying Notes to Consolidated Financial Statements.*

## A. SORIANO CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **NET INCOME** | **₱996,276,333** | ₱1,976,723,088 | ₱282,577,581 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Unrealized valuation gains on AFS investments (Note 11) | **536,801,995** | 4,101,232,336 | 1,462,159,420 |
| Income tax effect | **23,694,655** | (45,748,745) | (56,277,319) |
| | **560,496,650** | 4,055,483,591 | 1,405,882,101 |
| Realized gains on sale of AFS investments, net of impairment losses, recognized in the statements of income (Note 11) | **(712,214,022)** | (2,107,472,762) | (102,957,571) |
| Income tax effect | **(3,243,866)** | 46,204,971 | (33,531,566) |
| | **(715,457,888)** | (2,061,267,791) | (136,489,137) |
| Subtotal | **(154,961,238)** | 1,994,215,800 | 1,269,392,964 |
| Cumulative translation adjustment | **(2,392,478)** | (37,265,840) | (34,403,096) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | **(157,353,716)** | 1,956,949,960 | 1,234,989,868 |
| **TOTAL COMPREHENSIVE INCOME** | **₱838,922,617** | ₱3,933,673,048 | ₱1,517,567,449 |
| **Attributable to** | | | |
| Equity holdings of the Parent | **₱837,153,261** | ₱3,932,307,938 | ₱1,524,634,418 |
| Noncontrolling interests | **1,769,356** | 1,365,110 | (7,066,969) |
| | **₱838,922,617** | ₱3,933,673,048 | ₱1,517,567,449 |

*See accompanying Notes to Consolidated Financial Statements.*

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

| | Equity Attributable to Equity Holdings of the Parent (Note 19) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Noncontrolling Interest (Note 3) | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 11) | Retained Earnings Appropriated | Retained Earnings Unappropriated | Cost of Shares Held by a Subsidiary | Total | Noncontrolling Interests | Total |
| **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** | **(₱1,514,379,748)** | **₱6,018,610,177** | **₱44,987,162** | **₱6,063,597,339** |
| Total comprehensive income (loss) for the year | – | – | – | (34,403,096) | 1,269,392,964 | – | 289,644,550 | – | 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 19) | – | – | – | – | – | – | (86,587,795) | – | (86,587,795) | – | (86,587,795) |
| Shares repurchased during the year (Note 19) | – | – | – | – | – | – | – | (2,783,560) | (2,783,560) | – | (2,783,560) |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – | – | – | – | – | (1,994,430) | (1,994,430) |
| **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** | **(1,517,163,308)** | **7,453,873,240** | **35,925,763** | **7,489,799,003** |
| Total comprehensive income (loss) for the year | – | – | – | (37,265,840) | 1,994,215,800 | – | 1,975,357,978 | – | 3,932,307,938 | 1,365,110 | 3,933,673,048 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱249.7 million (Note 19) | – | – | – | – | – | – | (300,252,601) | – | (300,252,601) | – | (300,252,601) |
| Shares repurchased during the year (Note 19) | – | – | – | – | – | – | – | (309,861,157) | (309,861,157) | – | (309,861,157) |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – | – | – | – | – | 860,209 | 860,209 |
| **BALANCES AT DECEMBER 31, 2010** | **₱2,500,000,000** | **₱1,574,103,911** | **(₱26,356,543)** | **(₱68,240,077)** | **₱2,650,946,926** | **₱–** | **₱5,972,637,668** | **(₱1,827,024,465)** | **₱10,776,067,420** | **₱38,151,082** | **₱10,814,218,502** |

(Forward)

| | Equity Attributable to Equity Holdings of the Parent (Note 19) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Noncontrolling Interest (Note 3) | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 11) | Retained Earnings Appropriated | Retained Earnings Unappropriated | Cost of Shares Held by a Subsidiary | Total | Noncontrolling Interests | Total |
| **BALANCES AT DECEMBER 31, 2010** | **₱2,500,000,000** | **₱1,574,103,911** | **(₱26,356,543)** | **(₱68,240,077)** | **₱2,650,946,926** | **₱–** | **₱5,972,637,668** | **(₱1,827,024,465)** | **₱10,776,067,420** | **₱38,151,082** | **₱10,814,218,502** |
| Total comprehensive income (loss) for the year | – | – | – | (2,392,478) | (154,961,238) | – | 994,506,977 | – | 837,153,261 | 1,769,356 | 838,922,617 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱287.9 million (Note 19) | – | – | – | – | – | – | (312,082,538) | – | (312,082,538) | – | (312,082,538) |
| Shares repurchased during the year (Note 19) | – | – | – | – | – | – | – | (9,631,397) | (9,631,397) | – | (9,631,397) |
| Acquisition of a subsidiary (Note 6) | – | – | – | – | – | – | – | – | – | 277,897,423 | 277,897,423 |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – | – | – | – | – | 199,517 | 199,517 |
| Appropriation of retained earnings (Note 19) | – | – | – | – | – | 2,100,000,000 | (2,100,000,000) | – | – | – | – |
| **BALANCES AT DECEMBER 31, 2011** | **₱2,500,000,000** | **₱1,574,103,911** | **(₱26,356,543)** | **(₱70,632,555)** | **₱2,495,985,688** | **₱2,100,000,000** | **₱4,555,062,107** | **(₱1,836,655,862)** | **₱11,291,506,746** | **₱318,017,378** | **₱11,609,524,124** |

*See accompanying Notes to Consolidated Financial Statements.*

## A. SORIANO CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱1,027,219,954** | ₱1,988,655,625 | ₱267,415,627 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 13 and 14) | **105,230,051** | 51,579,256 | 53,677,408 |
| Loss (gain) on decrease (increase) in market values of FVPL investments (Note 8) | **7,243,193** | (99,867,962) | (136,822,715) |
| Valuation allowances (recoveries) - net (Note 22) | **(34,259,012)** | 185,766,042 | 89,256,480 |
| Gain on sale of: | | | |
| AFS investments (Note 11) | **(676,840,454)** | (2,091,925,238) | (186,271,990) |
| Investment property (Note 14) | **(39,885,688)** | | |
| Property and equipment (Note 13) | **–** | | (340,199) |
| Long-term investments (Note 3) | **(16,725,079)** | | |
| Dividend income (Notes 8 and 11) | **(223,197,863)** | (145,749,114) | (102,136,741) |
| Gain from fair value adjustment on net assets of acquired subsidiary (Note 6) | **(3,479,270)** | | |
| Equity in net earnings of associates (Note 12) | **(93,029,847)** | (115,224,619) | (78,246,910) |
| Interest income (Note 22) | **(120,204,004)** | (111,236,357) | (120,209,111) |
| Interest expense (Note 22) | **9,092,211** | 13,934,412 | 10,793,402 |
| Retirement benefit expense (Note 23) | **13,651,840** | 35,654,077 | 4,287,622 |
| Unrealized foreign exchange losses - net | **84,246,951** | 69,570,090 | 34,433,061 |
| Operating income (loss) before working capital changes | **39,062,983** | (218,843,788) | (164,164,066) |
| Decrease (increase) in: | | | |
| FVPL investments | **(74,254,005)** | (11,227,963) | 57,597,973 |
| Receivables | **19,092,592** | 15,651,635 | 76,041,442 |
| Inventories | **(13,556,102)** | (1,980,913) | (936,954) |
| Prepayments and other current assets | **28,119,936** | (31,213,767) | 15,853,928 |
| Increase (decrease) in accounts payable and accrued expenses | **(81,148,120)** | 6,121,091 | 46,397,305 |
| Net cash provided by (used in) operations | **(82,682,716)** | (241,493,705) | 30,789,628 |
| Dividends received | **268,797,863** | 177,749,114 | 141,693,151 |
| Retirement benefit contribution | **(7,830,343)** | (5,308,347) | (5,318,343) |
| Interest received | **120,654,946** | 116,310,012 | 120,990,290 |
| Interest paid | **(9,092,211)** | (12,226,912) | (10,793,402) |
| Income taxes paid | **(23,849,020)** | (9,043,380) | (8,140,099) |
| Net cash flows from operating activities | **265,998,519** | 25,986,782 | 269,221,225 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| AFS investments (Note 11) | **(₱5,585,359,166)** | (₱3,193,300,087) | (₱3,124,862,974) |
| Investment properties (Note 14) | **–** | (2,203,739) | (4,440,805) |
| Property and equipment (Note 13) | **(111,945,990)** | (15,719,537) | (101,105,473) |
| Proceeds from sale of: | | | |
| AFS investments (Note 11) | **4,120,839,967** | 5,719,026,524 | 2,383,711,035 |
| Long-term investment (Note 3) | **44,619,226** | | |
| Investment property (Note 14) | **111,455,100** | | |
| Property and equipment (Note 13) | **–** | | 340,199 |
| Collection from associates (Note 12) | **–** | 9,132,897 | 15,445,522 |
| Collection of other noncurrent assets - net | – | 2,560,697 | 137,218 |
| Acquisition of subsidiaries, net of cash acquired (Note 6) | **(141,759,179)** | (23,850,449) | |
| Net cash flows from (used in) investing activities | **(1,562,150,042)** | 2,495,646,306 | (830,775,278) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from notes payable (Note 16) | **263,518,777** | 159,155,452 | 345,450,856 |
| Proceeds from long-term debt (Note 18) | **43,840,000** | | |
| Payments of: | | | |
| Notes payable (Note 16) | **(241,115,400)** | (439,315,336) | (154,400,141) |
| Long-term debt (Note 18) | **(72,942,100)** | (14,437,500) | (12,468,438) |
| Dividends (Note 19) | **(300,294,818)** | (287,080,489) | (234,236,678) |
| Other noncurrent liabilities | **–** | | (401,562) |
| Increase (decrease) in: | | | |
| Advances from customer | **(22,141,811)** | 355,288 | (11,345,153) |
| Deferred revenues | **–** | (4,314,245) | (5,342,185) |
| Noncontrolling interests | **199,517** | 860,209 | (9,061,398) |
| Company shares purchased by a subsidiary (Note 19) | **(9,631,397)** | (309,861,157) | (2,783,560) |
| Net cash flows used in financing activities | **(338,567,232)** | (894,637,778) | (84,588,259) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,634,718,755)** | 1,626,995,310 | (646,142,312) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(10,978,152)** | (33,398,920) | 22,038,408 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **2,188,123,589** | 594,527,199 | 1,218,631,103 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 7) | **₱542,426,682** | ₱2,188,123,589 | ₱594,527,199 |

*See accompanying Notes to Consolidated Financial Statements.*

# A. SORIANO CORPORATION AND SUBSIDIARIES
# 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. On July 17, 1979, the SEC approved the Company's amended articles of incorporation extending the term of its existence for another fifty years up to February 12, 2030. The Company is a corporation incorporated and domiciled in the Philippines whose shares are publicly traded. The registered office address of the Company is at 7th Floor, Pacific Star Building, Makati Avenue corner Gil Puyat Avenue Extension, Makati City, Philippines.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the Board of Directors (BOD) on February 17, 2012.

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

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

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations based on IFRIC which were adopted as of January 1, 2011. Unless otherwise indicated, the adoption of these changes did not significantly affect the consolidated financial statements.

- Amendment to PAS 24, *Related Party Disclosures*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

*Improvements to PFRS Issued in 2010*
The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of these amendments did not significantly impact the financial position or performance of the Group.

- PFRS 7, *Financial Instruments: Disclosures*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put quantitative information in context.

- PAS 1, *Presentation of Financial Statements*, clarifies that an entity may present an analysis of each component of other comprehensive income, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 34, *Interim Financial Reporting*, provides guidance to illustrate how to apply disclosure principles of PAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between levels of fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment is applied retrospectively.

The following interpretations and amendments to PAS and interpretations did not have any significant impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendment to PFRS 3, *Business Combinations - Measurement Options Available for Non-Controlling Interest*
- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2011
The Group will adopt the standards and interpretations enumerated below when these become effective. The Group continues to assess the impact of the following new and amended accounting standards and interpretations. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

*Effective in 2012*
- Amendment to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and will have no impact on the Group's financial position or performance.

- Amendment to PAS 12, *Income Taxes - Deferred Taxes: Recovery of Underlying Assets*, introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. The amendments also introduce the requirements that deferred tax on non-depreciable assets measured using the revaluation model on property, plant and equipment should always be measured on a sale basis.

*Effective in 2013*

- Amendments to PAS 1, *Presentation of Financial Statements*, improve how we present components of other comprehensive income. The new requirements are effective for annual periods beginning on or after July 1, 2012.

- Amendment to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

- PFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard defines control when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. PFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation - Special Purpose Entities* and PAS 27. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements in PAS 27. Earlier application is permitted.

- PAS 27, *Separate Financial Statements* (as revised in 2011), as a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PFRS 11, *Joint Arrangements*, supersedes PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* This standard describes the accounting for joint arrangements with joint control. Further, proportionate consolidation is not permitted for joint ventures under the new definition of a joint venture. Earlier application is permitted.

- PAS 28, *Investment in Associates and Joint Ventures* (as revised in 2011), as a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

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

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;

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

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

- PFRS 12, *Disclosures of Interests in Other Entities*, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Earlier application is permitted.

- PFRS 13, *Fair Value Measurement*, establishes new guidance on fair value measurement and disclosures. Earlier application is permitted.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

*Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective in 2015*

- PFRS 9, *Financial Instruments*, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39. The approach in this new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

  The Group decided not to early adopt PFRS 9 for its 2011 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2011 do not reflect the impact of the said standard.

  The Group shall conduct another impact evaluation in early 2012 using the consolidated financial statements for the year ended December 31, 2011. Given the amendments on PFRS 9, *Financial Instruments*, the Group at present, does not plan to early adopt in 2012 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group`s decision whether to early adopt PFRS 9 for its 2012 financial reporting will be disclosed in its consolidated financial statements as of and for the period ending March 31, 2012. Should the Group decide to early adopt the said standard for its 2012 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2012 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group`s impact evaluation.

The Group`s AFS investments, receivables, notes payable, accounts payable and accrued expenses, dividends payable and long-term debt may be affected by the adoption of this standard.

*Effectivity date to be determined*

- Philippine Interpretation IFRIC 15, *Agreements 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. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

## 3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

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

| | Nature of Business | Percentage of Ownership | |
|---|---|---|---|
| | | **2011** | 2010 |
| A. Soriano Air Corporation | Services/Rental | **100** | 100 |
| Pamalican Island Holdings, Inc. (PIHI) | Holding | **62** | 62 |
| Island Aviation, Inc. (IAI, Notes 18 and 29) | 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 | |
|---|---|---|---|
| NurseTogether, LLC (NT) (Note 6) | Online Community Management | **94** | 94 |
| Anscor Property Holdings, Inc. (APHI, Notes 12 and 14) | Real Estate Holding | **100** | 100 |
| Makatwiran Holdings, Inc. (Makatwiran, Note 12) | Real Estate Holding | **100** | 100 |
| Makisig Holdings, Inc. (Makisig, Note 12) | Real Estate Holding | **100** | 100 |
| Malikhain Holdings, Inc. (Malikhain, Note 12) | Real Estate Holding | **100** | 100 |
| Akapulko Holdings, Inc. (Akapulko, Note 12) | Real Estate Holding | **100** | 100 |
| Sutton Place Holdings, Inc. (Sutton) | Holding | **100** | 100 |
| Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc. or IQMAN, Notes 16 and 29) | Manpower Services | **93** | 93 |
| IQ Healthcare Professional Connection, LLC (IQHPC, Notes 15 and 29) | Manpower Services | **93** | 93 |
| Seven Seas Resorts and Leisure, Inc. (SSRLI, Note 12) | Villa Project Development | **62** | 47 |
| Pamalican Resort, Inc. (PRI, Note 12) | Resort Operations | **62** | – |

On January 4, 2010, the Philippine 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. (CGI).

On February 28, 2011, the Group acquired an additional 15.51% shares in SSRLI, increasing its ownership from 46.79% to 62.30%. This resulted to the acquisition by the Group of the power to govern the financial and operating policies of SSRLI, with due consideration to the terms and conditions of the management agreement with Amanresorts (see Notes 6 and 29).

On May 5, 2011, PRI, a wholly-owned subsidiary of SSRLI, was incorporated and is mainly involved in resort operations (see Note 12).

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 is based in the United States of America (USA).

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

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

Noncontrolling interests represents a portion of profit or loss and net assets of subsidiaries not held by the Group, directly or indirectly, and are presented separately in the consolidated statement of income and within the equity section in the consolidated balance sheet and consolidated statement of changes in equity, separately from Company's equity. Total comprehensive income is attributed to the portion held by the Group and to the noncontrolling interests even if this results in the noncontrolling interests having a deficit balance.

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

*Basis of consolidation prior to January 1, 2010*
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the noncontrolling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the noncontrolling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between noncontrolling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 have not been restated.

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

<u>Investments in Associates</u>
Associates are 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 and are initially recognized at cost.

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.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the assets transferred. 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 Group determines at the end of each reporting period whether there is any evidence that the investments in associates are impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investments and their recoverable amount.

The following are the Group's associates:

| | Nature of Business | Percentage of Ownership 2011 | 2010 |
|---|---|---|---|
| Vesper Industrial and Development Corporation (Vesper) | Real Estate Holding | **–** | 60 |
| 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 12 and 29) | Holding | **40** | 40 |
| Minuet Realty Corporation (Minuet) | Landholding | **60** | 60 |
| Phelps Dodge Philippines Energy Products Corporation (PDP Energy, Notes 12 and 29) | Wire Manufacturing | **40** | 40 |
| PD Energy International Corporation (PDEIC) | Wire Manufacturing | **40** | 40 |
| Vicinetum Holdings, Inc. (VHI, Note 12) | Holding | **27** | 27 |
| Columbus Technologies, Inc. | Holding | **27** | 27 |
| Multi-media Telephony, Inc. (MTI, Note 12) | Broadband Services | **27** | 27 |

Vesper and Minuet have been excluded in the consolidated financial statements as special voting requirements adopted by their respective shareholders manifested that the Company's 60% holdings in Vesper and Minuet are not sufficient to carry major business decisions. On December 2, 2011, a deed of assignment was executed for the sale of the Company's 60% holdings in Vesper. Gain recognized from the sale amounted to ₱16.7 million recorded under gain on sale of long-term investments.

Business Combinations and Goodwill

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

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

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

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

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

*Business combinations prior to January 1, 2010*
In comparison to the above-mentioned requirements, the following differences applied:

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

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

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

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

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

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

Financial Instruments

*Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date. Derivatives are recognized on trade date basis.

*Initial recognition of financial instruments*

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

*Determination of fair value*

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

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

*Derivatives recorded at FVPL*

The Group enters into derivative contracts such as currency forwards. These derivative financial instruments are initially recorded at fair value and are subsequently remeasured at fair value at each reporting date. 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. There are no outstanding freestanding derivative contract as of December 31, 2011 and 2010.

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 among others.

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, 2011 and 2010, 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, 2011 and 2010, the Group has designated as FVPL all investments in bonds that have callable and other features, managed/hedged funds, and derivatives amounting to ₱883.5 million and ₱817.7 million, respectively. No financial liability at FVPL is outstanding as of December 31, 2011 and 2010 (see Notes 8 and 28).

(b) Loans and receivables

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in the consolidated statements of income. The losses arising from impairment of such loans and receivables are recognized as "Recoveries (valuation allowances) - net" 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, 2011 and 2010, the Group has loans and receivables amounting to ₱877.5 million and ₱2,418.6 million, respectively (see Note 28).

(c) AFS investments

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

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

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

As of December 31, 2011 and 2010, the Group's AFS investments amounted to ₱8,093.8 million and ₱6,213.5 million, respectively (see Notes 11 and 28).

(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, 2011 and 2010, total other financial liabilities amounted to ₱584.1 million and ₱351.0 million, respectively (see Note 28).

Derecognition of Financial Assets and Financial Liabilities

*Financial assets*

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

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Financial liabilities*

A financial liability is removed from the consolidated balance sheets when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification will result into the removal of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

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

*Assets carried at amortized cost*

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

For individually significant financial assets, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statements of income. Interest income, if any, continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to "Recoveries (valuation allowances) - net" 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 and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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 a subsidiary is recognized under the completed contract method. Under this method, revenue is recognized only when the villa clusters have been constructed, turned over to, and accepted by the buyer.

*Cost of Real Estate Sold*

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

*Rendering of Services*

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

Revenue on nurse placements is 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.

Revenue from rooms is recognized based on actual occupancy. Other ancillary services are recognized when the related services are rendered and/or facilities/amenities are used.

*Costs of Services Rendered*
All direct nurse costs incurred in deployment of nurses are deferred and included in "Other noncurrent assets" in the consolidated balance sheets, until the nurses' arrival and employment in the U.S. hospitals. Upon the nurses' arrival and employment in the U.S. hospitals, deferred costs are reversed to "Costs of services rendered".

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

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

*Dividends*
Dividend income is recognized when the shareholders' right to receive the payment is established.

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

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

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

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Cost of aircraft spare parts and supplies is determined at purchase price using the first-in, first-out method while NRV is the estimated current replacement cost of such spare parts and supplies.

Cost of food and beverage inventories and operating supplies is determined using the moving average method. NRV of food and beverage inventories is the estimated selling price in the ordinary course of business, less the estimated cost of preparation and the estimated cost necessary to make the sale. NRV of operating supplies is the estimated current replacement cost.

Residential units held for sale include those costs incurred for the development and improvement of the properties. Its NRV was based on the available net selling price of similar residential units sold during the year.

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

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

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

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

| Category | Number of Years |
|---|---|
| Buildings and improvements | 10 - 30 |
| Land improvements | 25 |
| Leasehold improvements* | 5 - 20 |
| Machinery and equipment | 5 - 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.

Construction in progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time the relevant assets are completed and put into operational use.

Property Development in Progress

Property development in progress includes the acquisition costs of raw lots and development costs and expenses incurred.

Property development in progress is carried at the lower of cost incurred and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

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 | 25 |
| Buildings | 20 - 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 noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately from the consolidated statements of income.

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

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

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

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.

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.

*The 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.

*The 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 23). 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 relate to the same taxable entity and the same taxation authority.

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.

Related Party Relationships and Transactions
Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

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

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 5.

4. **Significant Accounting Judgments, Estimates and Assumptions**

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

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

<u>Judgments</u>
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 Company's functional currency was determined to be the Peso. It is the currency of the primary economic environment in which the Company operates.

*Classification of financial instruments*
The Group classifies a financial instrument, or its component parts, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet (see Note 28).

*Operating Lease Commitments - The 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 - The 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.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation and uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment losses on loans and receivables*
The Group reviews its loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the consolidated statements of income. In particular,

judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For the advances to related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and their current credit status, are considered to ascertain the amount of reserves that will be recognized. These reserves are re-evaluated and adjusted as additional information is received.

Allowance for doubtful accounts as of December 31, 2011 and 2010 amounted to ₱605.3 million and ₱604.2 million, respectively. Receivables and advances, net of valuation allowance, amounted to ₱339.1 million and ₱233.3 million as of December 31, 2011 and 2010, respectively (see Notes 9 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 ₱839.3 million and ₱544.7 million as of December 31, 2011 and 2010, respectively (see Note 11).

*Impairment of AFS equity investments*
The Group recognizes impairment losses on AFS equity investments when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In determining whether the decline in value is significant, the Group considers historical volatility of share price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the share price has been depressed (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 ₱7,490.3 million and ₱5,594.1 million as of December 31, 2011 and 2010, respectively (see Note 11).

*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, 2011 and 2010, allowance for decline in value of investments amounted to ₱112.3 million and ₱176.1 million, respectively. The carrying amounts of the investments, net of valuation allowance, amounted to ₱721.2 million and ₱939.9 million as of December 31, 2011 and 2010, respectively (see Note 12).

*Estimation of allowance for inventory and impairment losses*
The Group estimates the allowance for inventory obsolescence and impairment losses related to inventories based on specifically identified inventory items. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for inventory and impairment losses would increase recorded expenses and decrease current assets. As of December 31, 2011 and 2010, allowance for inventory losses and obsolescence amounted to ₱4.3 million and ₱1.3 million, respectively. The carrying amount of the inventories, net of valuation allowance, amounted to ₱83.2 million and ₱15.9 million as of December 31, 2011 and 2010, respectively (see Note 10).

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

As of December 31, 2011 and 2010, the aggregate net book value of property and equipment and investment properties amounted to ₱1,123.2 million and ₱403.7 million, respectively (see Notes 13 and 14).

*Impairment of non-financial assets*
*(a) Property and equipment and investment properties*

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

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

As of December 31, 2011 and 2010, the aggregate impairment loss on property and equipment amounted to nil and ₱3.3 million, respectively (see Note 13).

*(b) Goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value-in-use" of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Considering the U.S. crisis and the unemployment rate, the Group recognized an impairment provision of ₱100.0 million since December 31, 2009 on its investment in Cirrus. As of December 31, 2011 and 2010, goodwill recognized for this investment amounted to ₱505.3 million and ₱510.9 million, respectively (see Note 6).

Resulting goodwill from the step acquisition of SSRLI amounting to ₱99.3 million will be tested for impairment in the next financial year (see Note 6).

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

On December 10, 2010, as part of the purchase price allocation for its acquisition of NT, the Group identified an element of contingent consideration with a fair value of ₱14.6 million which is classified under "Accounts payable and accrued expenses" in the 2010 consolidated balance sheet. In May 2011, Cirrus and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to ₱5.8 million. The Group recognized an impairment loss for goodwill for the same amount.

*Recognition of deferred income tax assets*
The Group reviews the carrying amounts of the deferred income tax assets at each end of reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. As of December 31, 2011 and 2010, the Group recognized deferred income tax assets amounting to ₱22.0 million and ₱34.6 million, respectively (see Note 24).

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

The expected rates of return on plan assets ranging from 5% to 10% 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 23 for the details of assumptions used in the calculation.

| | *In Million Pesos* | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Net benefit expense | **₱13.7** | ₱35.6 | ₱4.3 |
| Pension liability | **43.3** | 23.3 | 12.4 |
| Pension asset | | | 16.8 |

*Provisions and contingencies*
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in the preceding notes and in Note 30.

## 5. Segment Information

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

Holding company segment pertains to the operations of the Company.

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

Resort operations segment pertains to the Company`s subsidiary providing hotel and resort accommodation, relaxation and entertainment, among others (see Note 3).

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

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

The following tables present the financial information of the business segments as of and for the years ended December 31, 2011, 2010 and 2009 (in thousands).

| | Before Eliminations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | US | Philippines | | | | | | |
| | Nurse/PT Staffing Company | Holding Company (Parent) | Resort Operations (Note 6) | Other Operations | Investments in Associates | Total | Eliminations | Consolidated |
| **As of and for the year ended December 31, 2011** | | | | | | | | |
| **Revenues, excluding interest income** | **₱998,257** | **₱647,091** | **₱412,375** | **₱187,547** | **₱–** | **₱2,245,270** | **(₱283,854)** | **₱1,961,416** |
| **Interest income** | **–** | **115,974** | **427** | **3,803** | **–** | **120,204** | **–** | **120,204** |
| **Investment gains** | **–** | **726,088** | **–** | **120** | **–** | **726,208** | **–** | **726,208** |

(Forward)

| | Before Eliminations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | US | Philippines | | | | | | |
| | Nurse/PT Staffing Company | Holding Company (Parent) | Resort Operations (Note 6) | Other Operations | Investments in Associates | Total | Eliminations | Consolidated |
| **Interest expense** | **₱931** | **₱1,215** | **₱4,534** | **₱2,412** | **₱–** | **₱9,092** | **₱–** | **₱9,092** |
| **Income tax expense** | | **19,965** | **4,738** | **6,241** | | **30,944** | | **30,944** |
| **Net income (loss)** | **(2,381)** | **1,307,510** | **5,050** | **(137,090)** | **93,030** | **1,266,119** | **(269,843)** | **996,276** |
| **Total assets** | **1,332,048** | **11,900,903** | **1,018,288** | **316,536** | | **14,567,775** | **(2,017,715)** | **12,550,060** |
| **Investments and advances** | **–** | **3,047,439** | **–** | **–** | **–** | **3,047,439** | **(2,322,206)** | **725,233** |
| **Property and equipment** | **6,573** | **39,870** | **611,033** | **125,387** | **–** | **782,863** | **123,905** | **906,768** |
| **Total liabilities** | **1,186,630** | **244,643** | **362,843** | **292,924** | **–** | **2,087,040** | **(1,146,505)** | **940,535** |
| **Depreciation and amortization** | **6,173** | **8,916** | **58,796** | **31,345** | **–** | **105,230** | **–** | **105,230** |
| **Other non-cash expenses** | | **(34,791)** | | **532** | | **(34,259)** | | **(34,259)** |
| **Cash flows from (used in):** | | | | | | | | |
| **Operating activities** | **(43,630)** | **493,400** | **95,995** | **(277,358)** | **–** | **268,407** | **(2,408)** | **265,999** |
| **Investing activities** | **(2,950)** | **(1,581,350)** | **(219,257)** | **278,896** | **–** | **(1,524,661)** | **(37,489)** | **(1,562,150)** |
| **Financing activities** | **32,380** | **(654,665)** | **118,977** | **9,387** | **–** | **(493,921)** | **155,354** | **(338,567)** |

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

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

6. **Business Combinations**

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

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

| | Fair Value Recognized on Acquisition (in millions) |
|---|---|
| Cash | ₱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 |

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

The fair value of the contingent consideration at the acquisition date using the discount rate of 5% amounted to $332,868 or ₱14.6 million. In May 2011, Cirrus and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to ₱5.8 million (included under "Accounts payable and accrued expenses", see Note 17). The Group recognized an impairment loss for goodwill for the same amount in 2011.

The purchase price was initially allocated to assets acquired and liabilities assumed based on a provisional assessment of fair values as of the date of acquisition. In 2011, the fair value of accounts receivable was determined to be ₱0.1 million lower than the previous amount of ₱0.3 million. This increased goodwill by ₱0.1 million.

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

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

d. On February 28, 2011, the Company acquired additional 15.51% shares in SSRLI which increased the Company's ownership from 46.79% to 62.30%.

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

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

| | Fair Value Recognized on Acquisition (in millions) |
|---|---|
| Cash | ₱96.2 |
| Receivables - net | 76.6 |
| Property and equipment | 470.9 |
| Other assets | 46.8 |
| Total assets | 690.5 |
| Accounts payable and accrued expenses | 93.4 |
| Other liabilities | 137.8 |
| Net assets | 459.3 |
| Goodwill arising from the acquisition | 99.3 |
| Total consideration | ₱558.6 |

The total cost of the combination was ₱558.6 million broken down as follows (in millions):

| | |
|---|---|
| Cash consideration | ₱255.9 |
| Fair value of 46.79% investment | 302.7 |
| Total consideration | ₱558.6 |

From the date of acquisition, Cirrus LLC, MDI Medical and NT have contributed losses amounting to ₱5.7 million, ₱43.4 million and ₱58.3 million to the Group's consolidated income for 2011, 2010 and 2009, respectively (excluding expenses of Cirrus).

The goodwill of ₱577.9 million, before exchange differences amounting to ₱33.0 million as of December 31, 2010, comprises the value of the acquired companies` customer and staff base and existing market share in the healthcare staffing industry. There are no specific values assigned to the customer and staff base. These are not separate and quantifiable and therefore, do not meet the criteria for recognition as an intangible asset under PAS 38, *Intangible Assets*. The goodwill from Cirrus was reduced by ₱5.5 million due to foreign exchange differences in 2011. Also, the goodwill was reduced by ₱0.1 million and ₱1.7 million collections from the previous debtors of Cirrus in 2011 and 2009, respectively.

In 2011, the Group recognized goodwill amounting to ₱99.3 million arising from the acquisition of additional shares in SSRLI.

Impairment Testing of Goodwill

a. The recoverable amount of the investments in Cirrus LLC and MDI Medical has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a ten year period. The pre-tax discount rate applied to cash flow projections is 11% in 2011 and 2010. In 2011, the cash flows beyond the ten-year period are extrapolated using a growth rate that is consistent with the expected average growth rate for the industry.

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

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

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

   *Growth rate*
   Growth rate assumptions for the ten year cash flow projections are supported by the different initiatives of Cirrus and MDI which started in 2011.

*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 ₱201.4 million. The implications of the key assumptions to the recoverable amount are discussed below:

- Growth rate assumptions
  Management has used the average industry growth rate for the forecast. Although the current economic downturn is impacting the temporary healthcare staffing industry, the long-term growth of the healthcare staffing industry is underpinned by the increasing shortage of qualified healthcare professionals, notably registered nurses, and the growing demand fueled by an aging population.

- Terminal value
  Management has used the most recent healthcare staffing transaction price earnings multiple in determining the terminal value.

The significant economic downturn in the U.S. could adversely affect the average terminal value for similar sale of assets in the same industry in future years. Accordingly, management had set up an impairment loss of ₱100.0 million as of December 31, 2011 and 2010.

b. Goodwill from the Company`s investment in IQMAN, through Sutton, amounting to ₱37.0 million, was fully impaired as of December 31, 2011 and 2010. The Company, through Sutton, assessed that there will be delays in the recovery of the investment cost in IQMAN because IQMAN`s operations has been restricted due to the delayed processing of EB-3 immigrant visas for nurses destined for employment in the U.S.

## 7. Cash and Cash Equivalents

| | 2011 | 2010 |
|---|---|---|
| Cash on hand and with banks | **₱286,949,264** | ₱242,394,492 |
| Short-term investments | **255,477,418** | 1,945,729,097 |
| | **₱542,426,682** | ₱2,188,123,589 |

Cash with banks earn interest at the respective bank deposit rates ranging from 0.25% to 0.50% and 0.25% to 0.725% in 2011 and 2010, respectively (see Note 22). Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group.

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

| | 2011 | 2010 |
|---|---|---|
| Bonds | **₱665,837,528** | ₱542,716,767 |
| Funds and equities | **192,097,120** | 204,790,484 |
| Others | **25,521,364** | 70,149,420 |
| | **₱883,456,012** | ₱817,656,671 |

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

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

| | Unrealized valuation gains (losses) in market values as of December 31 | | Loss on decrease in market value of FVPL investments |
|---|---|---|---|
| | **2011** | 2010 | in 2011 |
| Bonds | **(₱20.8)** | (₱13.7) | (₱7.1) |
| Funds and equities | **(5.1)** | (8.6) | 3.5 |
| Others | **1.4** | 3.5 | (2.1) |
| Total | **(₱24.5)** | (₱18.8) | (5.7) |
| Add realized loss on sale of FVPL investments | | | (1.5) |
| Net loss on decrease in market value of FVPL investments | | | (₱7.2) |

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

| | Unrealized valuation gains (losses) in market values as of December 31 | | Gain on increase in market value of FVPL investments |
|---|---|---|---|
| | 2009 | 2008 | in 2009 |
| 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 |

In 2011 and 2010, the Group entered into non-deliverable currency forward contracts to manage foreign currency risk. These contracts were all settled during the year and resulted to a realized gain of ₱10.9 million and ₱64.1 million, respectively. There was no outstanding forward transaction as of December 31, 2011 and 2010.

## 9. Receivables

| | 2011 | 2010 |
|---|---|---|
| Trade (Note 29) | **₱282,612,670** | ₱175,813,610 |
| Interest receivable | **23,915,288** | 24,115,479 |
| Tax credits/refunds | **36,398,722** | 24,146,722 |
| Advances to officers and employees | **3,260,130** | 3,983,920 |
| Others | **22,101,246** | 34,504,614 |
| | **368,288,056** | 262,564,345 |
| Less allowance for doubtful accounts | **33,239,440** | 32,116,950 |
| | **₱335,048,616** | ₱230,447,395 |

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

Other receivables in 2011 represent the resort subsidiary`s collectible from the villa owners. In 2010, other receivables pertain to IAI`s insurance receivable for the repair of the aircraft.

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

| | 2011 | 2010 |
|---|---|---|
| At January 1 | **₱32,116,950** | ₱34,874,749 |
| Provision for the year (Note 22) | **3,399,994** | 1,077,971 |
| Recoveries | **(2,277,504)** | (3,835,770) |
| At December 31 | **₱33,239,440** | ₱32,116,950 |

## 10. Inventories

| | 2011 | 2010 |
|---|---|---|
| At cost: | | |
| Food and beverage | **₱19,110,059** | ₱ |
| Aircraft parts in transit | **1,414,407** | 1,006,684 |
| | **20,524,466** | 1,006,684 |
| At net realizable value: | | |
| Operating supplies - net of allowance for inventory obsolescence of ₱2.5 million in 2011 | **43,047,545** | |
| Aircraft spare parts and supplies - net of allowance for inventory losses of ₱1.0 million in 2011 and 2010 | **14,770,517** | 14,618,537 |

(Forward)

| | 2011 | 2010 |
|---|---|---|
| Construction-related materials - net of allowance for inventory obsolescence of ₱0.5 million in 2011 | **₱4,565,598** | ₱ |
| Residential units held for sale - net of allowance for impairment losses of ₱0.3 million in 2011 and 2010 | **284,089** | 284,089 |
| | **₱83,192,215** | ₱15,909,310 |

Aircraft parts in transit are purchased from suppliers abroad under Freight on Board Shipping Point. These items are in the custody of either the Bureau of Customs or freight forwarder as of December 31, 2011 and 2010.

Operating supplies pertain to inventory items used in providing services such as printing, cleaning and office and guest supplies.

Construction-related materials are excess materials and supplies from Phase 2 of the Villa Development Project (the Project). These are held for use in other construction projects and villa operations.

## 11. Available for Sale (AFS) Investments

| | 2011 | 2010 |
|---|---|---|
| Quoted equity shares | **₱6,212,939,840** | ₱4,725,844,025 |
| Unquoted equity shares | **839,348,920** | 544,747,290 |
| Bonds | **603,519,773** | 619,398,470 |
| Funds and equities | **313,730,948** | 229,604,987 |
| Proprietary shares | **124,238,250** | 93,937,800 |
| | **₱8,093,777,731** | ₱6,213,532,572 |

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, 2011 and 2010.

AFS investments in bonds represent foreign currency-denominated bond securities with fixed coupon interest rate per annum ranging from 3.38% to 10.50% in 2011, 3.58% to 11.13% in 2010 and 4.56% to 10.75% in 2009. Maturity dates range from February 1, 2012 to March 1, 2022 in 2011, April 1, 2011 to April 18, 2028 in 2010 and July 9, 2010 to October 25, 2017 in 2009. Effective interest rates range from 5.63% to 11.59%, 5.74% to 12.01% and 4.91% to 10.15% for foreign currency-denominated AFS investments in 2011, 2010 and 2009, respectively.

Investments in bonds, funds and equities` market prices or rates are calculated and/or confirmed by the respective fund managers.

In 2011, 2010 and 2009, gain on sale of AFS investments amounted to ₱676.8 million, ₱2,091.9 million and ₱186.3 million, respectively.

Unquoted equity shares and bonds are carried at cost, subject to impairment.

a. Prople, Inc.

   In December 2007, the Group 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., jointly called 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. In 2011 and 2010, the Company made additional investment in Prople amounting to ₱4.4 million and ₱1.5 million, respectively. These additional investments enabled the Company to maintain its 20% equity share in Prople. As of December 31, 2011 and 2010, the total cost of the investment in Prople amounted to ₱42.2 million and ₱37.8 million, respectively. Investment in Prople is accounted for as AFS because management believes that the Company does not have the ability to exercise significant influence on Prople. Furthermore, the Company does not have any involvement in the operations of Prople. The investment is measured at cost less impairment rather than at fair value as the shares of stock of Prople are not publicly-traded, such that there is no reliable basis of fair value.

b. Enderun College, Inc. (Enderun)

In 2008, the Group entered into a subscription agreement for the acquisition of 16,216,217 new shares of stock equivalent to 20% equity stake in Enderun, a college that offers a full range of bachelor's degree and non-degree courses in the fields of hotel administration, culinary arts and business administration. The total cost of the investment in Enderun amounted to ₱286.2 million. Investment in Enderun is classified as AFS at cost because the Group does not exercise significant influence and its holding in Enderun is not sufficient to carry major business decisions.

c. Alphion Corporation (Alphion)

In March 2009, the Group invested US$900,000 (₱43.7 million) for 387,297 Series E Preference shares of Alphion convertible into 645,485 shares of common stock. 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. In 2011, the Group invested US$1 million (₱42.6 million) for 713,158 Series G preference shares convertible into the same number of common stock and 140,817 Series G warrants convertible into the same number of common stock. As of December 31, 2011 and 2010, the total cost of the investment in Alphion amounted to ₱83.3 million and ₱43.7 million, respectively.

d. ATR Holdings, Inc. (ATR Holdings)

On July 26, 2010, the BOD authorized the Company to purchase 38,830,244 common shares of stock of ATR Kim Eng Financial Corporation (ATRKE) for a total purchase price of ₱115.7 million to be paid as follows:

- Exchange of the Company's 5,000,000 common shares of stock of ATR Holdings which constitute 8.85% of the total outstanding capital of ATR Holdings and with aggregate book value of ₱96.8 million; and,
- Cash consideration for ₱18.7 million.

On November 2, 2010, the Company exchanged its 5,000,000 common shares in ATR Holdings with 41,936,663 shares in ATRKE. The resulting gain from the transaction amounting to ₱27.0 million is included under gain on sale of AFS investments.

On December 14, 2011, the Company sold its 41,936,663 shares in ATR KE to Maybank at ₱4.38 per share. The resulting gain net of taxes, from this transaction amounting to ₱66.5 million is recorded under gain on sale of AFS investments.

e. Predictive Edge Media Holdings, LLC (PEMH)

In October 2011, AI entered into a subscription agreement with PEMH for the acquisition of 1,000,000 Series A preferred units at US$3 per unit, which constitute 10% of the total Series A preferred units outstanding. PEMH is a Delaware limited liability company organized in April 2011 based in Pennsylvania, USA. PEMH is engaged in building a portfolio of early stage social media companies with a goal of creating a safe on-line environment for children between the ages of 9 to 13 ("Tweens"). The total cost of the investment in PEMH amounted to ₱131.5 million as of December 31, 2011.

f. AGP International Holdings, Ltd. - BVI (AGP-BVI)

In December 2011, AI entered into a subscription agreement with AGP-BVI for US$5.0 million Convertible Bridge Notes (the "Notes"), with interest rate of 9% compounded annually. The principal, together with the accrued interest, is payable on the one year anniversary of the issuance of each Note. The Notes is convertible at the option of the holder into: (a) Series B preferred shares at the per share price paid to buy out existing Series A preferred shares (US$0.345/share or the "conversion price"); or (b) the equity security issued by AGP-BVI in its next round of equity financing at the per share price paid in such next round of financing. AGP-BVI is a British Virgin Islands business company formed in 2010 in connection with the acquisition of equity of Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P). AGP-BVI, through its subsidiary and associates, is focused on providing modular engineering and construction and general engineering design services, including, fabrication, assembly and manpower services, particularly in the oil, gas, petrochemical, power generation and mining industries. The total cost of the investment in AGP-BVI amounted to ₱219.2 million as of December 31, 2011.

g. KSA Realty Corporation

In 2011, 2010 and 2009, the Group received cash dividends amounting to ₱28.6 million, ₱5.7 million and ₱22.8 million, respectively.

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

| | **2011** | 2010 |
|---|---|---|
| Beginning balance | **₱2,650,946,926** | ₱656,731,126 |
| Gain recognized directly in equity - net of tax | **560,496,650** | 4,055,483,591 |
| Amount removed from equity and recognized in profit and loss - net of tax | **(715,457,888)** | (2,061,267,791) |
| Ending balance | **₱2,495,985,688** | ₱2,650,946,926 |

In 2011 and 2010, the Group recognized impairment losses, included in the valuation allowances, on its quoted and unquoted equity investments amounting to ₱35.9 million and ₱20.0 million, respectively.

12. **Investments and Advances**

| | 2011 | 2010 |
|---|---|---|
| Investments at equity - net | **₱721,180,157** | ₱939,936,843 |
| Advances - net of allowance for doubtful accounts of ₱572.1 million in 2011 and 2010 | **4,052,656** | 2,816,048 |
| | **₱725,232,813** | ₱942,752,891 |

Investments at equity consist of:

| | 2011 | 2010 |
|---|---|---|
| Acquisition cost: | | |
| Common shares | **₱314,901,284** | ₱412,600,120 |
| Preferred shares | **–** | 90,390,853 |
| | **₱314,901,284** | ₱502,990,973 |
| Accumulated equity in net earnings (losses): | | |
| Balances at beginning of year | **₱613,004,245** | ₱529,779,626 |
| Equity in net earnings for the year | **93,029,847** | 115,224,619 |
| Effect of step acquisition resulting to control (Note 6) | **(141,895,477)** | |
| Dividend received | **(45,600,000)** | (32,000,000) |
| Balances at end of year | **518,538,615** | 613,004,245 |
| Valuation allowance | **(112,259,742)** | (176,058,375) |
| | **₱721,180,157** | ₱939,936,843 |

Significant details of the balance sheets and statements of income of SSRLI and PDP Energy are enumerated below as of December 31 (in millions):

PDP Energy

| | 2011 | 2010 |
|---|---|---|
| Balance Sheets: | | |
| Current assets | **₱2,437.6** | ₱2,116.4 |
| Noncurrent assets | **861.7** | 344.5 |
| Current liabilities | **1,043.2** | 832.8 |
| Noncurrent liabilities | **0.4** | 0.6 |
| Statements of Income: | | |
| Net sales | **6,503.9** | 5,039.4 |
| Net income | **221.8** | 228.0 |

SSRLI

| | 2011* | 2010 |
|---|---|---|
| Balance Sheets: | | |
| Current assets | **₱279.3** | ₱354.8 |
| Noncurrent assets | **1,344.5** | 626.2 |
| Current liabilities | **203.2** | 243.9 |
| Noncurrent liabilities | **359.9** | 102.1 |
| Statements of Income: | | |
| Gross revenues | **516.9** | 487.5 |
| Net income | **24.3** | 52.4 |

* *For purposes of consolidation, only the balances and results of operations of SSRLI starting March 1, 2011 to December 31, 2011, were taken up (see Note 3).*

In addition to those discussed in Note 6, the significant transactions involving the Group`s investments in subsidiaries and associates for 2011, 2010 and 2009 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 June 2011, March 2010 and October 2009, PDIPI (parent company of PDP Energy) declared cash dividends to its stockholders. Cash dividends received by the Company amounted to ₱45.6 million at ₱19.3 per share in 2011, ₱32.0 million at ₱13.6 per share in 2010 and ₱41.6 million at ₱17.6 per share in 2009.

SSRLI and PRI

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 March 2008, the Company received ₱35.8 million from SSRLI representing proceeds from SSRLI`s redemption of the preferred shares held by the Company.

c. In December 2008, SSRLI entered into deeds of sale for 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.

d. On February 18, 2011, the BOD of the Company approved the Company`s acquisition of additional shares from the minority shareholders of SSRLI. The acquisition increased the present ownership of the Company from 46.79% to 62.30% of the total outstanding common and preferred shares of SSRLI. Total acquisition price for the additional shares is $5.89 million (₱255.9 million) cash consideration plus the fair value of the 46.79% investment amounting to ₱302.7 million. Goodwill recognized from the acquisition amounted to ₱99.3 million.

e. On July 1, 2011, PEZA approved SSRLI`s application for transfer of its PEZA registration as an Ecozone Tourism Enterprise to PRI, a wholly owned subsidiary. On the same date, PRI took over the tourism project, ownership and operations of SSRLI. On the same date, PEZA approved PRI`s application for registration as an Ecozone Tourism Enterprise. SSRLI also transferred in the name of PRI all resort-operation-related contracts entered into with related parties and third parties, including its long-term loans with a bank (see Note 18).

f. On December 7, 2011, SSRLI and PRI entered into a Deed of Transfer using SSRLI's balances as of June 30, 2011 for transfer of resort related assets and liabilities of SSRLI amounting to ₱851.4 million and ₱350.9 million, respectively, to PRI, in exchange for 5,000 shares of stock with a par value of ₱100 per share for an issue value of ₱500.5 million. As of December 31, 2011, the stock certificates for the 5,000 shares have not yet been issued.

Advances

Net advances consist of receivables from the following associates:

| | **2011** | 2010 |
|---|---|---|
| AFC | **₱1,500,000** | ₱1,500,000 |
| SSRLI | **–** | 481,651 |
| Others (net of allowance for doubtful accounts of ₱14.6 million in 2011 and ₱16.4 million in 2010) | **2,552,656** | 834,397 |
| | **₱4,052,656** | ₱2,816,048 |

## 13. Property and Equipment

| | **2011** | | | | | |
|---|---|---|---|---|---|---|
| | **Land, Buildings and Improvements** | **Flight and Ground Equipment** | **Furniture, Fixtures and Office Equipment** | **Transportation Equipment** | **Construction in Progress** | **Total** |
| **Cost** | | | | | | |
| January 1 | **₱152,860,004** | **₱219,719,566** | **₱57,261,762** | **₱29,511,633** | **₱–** | **₱459,352,965** |
| Additions | **39,855,755** | **115,231,999** | **14,918,123** | **15,890,837** | **427,699** | **186,324,413** |
| Additions arising from step acquisition resulting to control (Note 6) | **930,382,562** | **181,628,127** | **125,256,428** | **85,388,316** | **2,872,857** | **1,325,528,290** |
| Retirement/disposals | **–** | **(102,517,962)** | **(4,000)** | **(6,889,071)** | **(2,872,857)** | **(112,283,890)** |
| Foreign exchange adjustment | **–** | **–** | **48,568** | **–** | **–** | **48,568** |
| December 31 | **1,123,098,321** | **414,061,730** | **197,480,881** | **123,901,715** | **427,699** | **1,858,970,346** |
| **Accumulated Depreciation and Amortization** | | | | | | |
| January 1 | **103,608,177** | **136,745,442** | **46,735,991** | **25,792,478** | **–** | **312,882,088** |
| Accumulated depreciation and amortization arising from step acquisition resulting to control (Note 6) | **350,955,421** | **137,171,913** | **87,142,307** | **62,227,374** | | **637,497,015** |
| Depreciation and amortization | **37,688,191** | **37,718,103** | **21,612,515** | **7,244,088** | **–** | **104,262,897** |
| Retirement/disposals | **16,890** | **(98,143,887)** | **(2,810)** | **(4,353,130)** | **–** | **(102,482,937)** |
| Foreign exchange adjustment | **(568,228)** | | **611,237** | | | **43,009** |
| December 31 | **491,700,451** | **213,491,571** | **156,099,240** | **90,910,810** | | **952,202,072** |
| **Net Book Value** | **₱631,397,870** | **₱200,570,159** | **₱41,381,641** | **₱32,990,905** | **₱427,699** | **₱906,768,274** |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Buildings and Improvements | Flight and Ground Equipment | Furniture, Fixtures and Office Equipment | Transportation Equipment | Total |
| **Cost** | | | | | |
| January 1 | ₱148,779,904 | ₱270,926,209 | ₱55,120,252 | ₱29,283,165 | ₱504,109,530 |
| Additions | 4,121,053 | 7,364,017 | 3,275,999 | 958,468 | 15,719,537 |
| Reclassifications | | (58,570,660) | | | (58,570,660) |
| Disposals | | | | (730,000) | (730,000) |
| Foreign exchange adjustment | (40,953) | | (1,134,489) | | (1,175,442) |
| December 31 | 152,860,004 | 219,719,566 | 57,261,762 | 29,511,633 | 459,352,965 |

(Forward)

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Buildings and Improvements | Flight and Ground Equipment | Furniture, Fixtures and Office Equipment | Transportation Equipment | Total |
| **Accumulated Depreciation and Amortization** | | | | | |
| January 1 | ₱94,470,666 | ₱139,007,939 | ₱42,723,076 | ₱24,122,375 | ₱300,324,056 |
| Depreciation and amortization | 9,157,433 | 25,255,215 | 4,233,858 | 2,059,438 | 40,705,944 |
| Reclassifications | | (27,517,712) | | | (27,517,712) |
| Disposals | | | | (389,335) | (389,335) |
| Foreign exchange adjustment | (19,922) | | (220,943) | | (240,865) |
| December 31 | 103,608,177 | 136,745,442 | 46,735,991 | 25,792,478 | 312,882,088 |
| **Impairment Loss** | | 3,292,953 | | | 3,292,953 |
| **Net Book Value** | ₱49,251,827 | ₱79,681,171 | ₱10,525,771 | ₱3,719,155 | ₱143,177,924 |

The Spa Complex of SSRLI, with facilities for hairdressing, gym and pilates, plunge pools and massage treatments, fully completed in 2011, with total cost of ₱140.98 million, is included in the additions arising from step acquisition resulting to control in 2011.

Aircraft hull and engine with total carrying value of about ₱43.2 million and ₱21.5 million as of December 31, 2011 and 2010, respectively, are used as collateral for the loan obtained in 2006 (see Note 18).

Land with improvements and structures thereon with carrying and appraised values amounting to ₱32.6 million and ₱1,289.0 million, respectively, are used as collateral for the loan obtained in 2005 by a subsidiary (see Note 18). The last appraisal was dated October 7, 2010.

Additions in 2011 include capitalized major overhaul and repair costs of an aircraft hull and engine paid by insurer and through application of deposits for the maintenance service plan paid in previous years.

Depreciation charged to operations amounted to ₱104.3 million, ₱40.7 million and ₱42.8 million in 2011, 2010 and 2009, respectively.

## 14. Investment Properties

| | 2011 | | |
|---|---|---|---|
| | **Land** | **Buildings** | **Total** |
| **Cost** | | | |
| January 1 | **₱187,946,716** | **₱145,073,170** | **₱333,019,886** |
| Additions arising from step acquisition resulting to control (Note 6) | **28,485,507** | **–** | **28,485,507** |
| Disposals | **–** | **(145,073,170)** | **(145,073,170)** |
| December 31 | **216,432,223** | **–** | **216,432,223** |
| **Accumulated Depreciation** | | | |
| January 1 | **–** | **72,536,584** | **72,536,584** |
| Depreciation for the year | **–** | **967,154** | **967,154** |
| Disposals | **–** | **(73,503,738)** | **(73,503,738)** |
| December 31 | – | – | – |
| **Net Book Value** | **₱216,432,223** | **₱–** | **₱216,432,223** |

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

Investment properties include 874.6 hectares of land in Palawan and Cebu. In 2010, Malikhain and APHI purchased additional land in Poblacion, San Vicente, Palawan amounting to ₱2.2 million. Based on the valuation performed by an independent appraiser as of October and November 2011, the aggregate fair market values of these properties as of December 31, 2011 and 2010 exceeded its cost by ₱265.3 million and ₱263.0 million, respectively. The fair value represents the amount at which assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The estimated recoverable amount of the investment properties were based on available net selling price of similar properties sold during the year.

Additions in 2011 pertain to land held for future development, which includes the cost of raw lots and other incidental costs intended to be used for the prospective villa development of the resort subsidiary, amounting to ₱28.5 million.

On March 1, 2011, the Company sold its unit at the 34th Floor of the Enterprise Center with an area of 1,238.4 square meters at a gain of ₱39.9 million.

## 15. Other Noncurrent Assets

Other noncurrent assets include the following:

a. Fund for villa operations of PRI amounting to ₱47.1 million as of December 31, 2011, which is a restricted cash fund for the villas held as a source of future maintenance requirements and association dues when the need arises as determined by PRI. Interest income on this fund shall accrue to the villa owners. A liability related to the fund was recognized and is included under "Other noncurrent liabilities" in the consolidated balance sheet (see Note 29).

b. A restricted cash fund for future replacement of the resort's generator set and desalination plant amounting to ₱2.7 million as of December 31, 2011 is also recognized under "Other noncurrent liabilities" in the consolidated balance sheet.

c. Property development in progress of SSRLI amounting to ₱11.5 million as of December 31, 2011, which pertains to the development costs incurred on Phase 3 and Phase 4 projects started in 2009 by SSRLI.

d. Deferred nurse costs of IQHPC amounting to ₱33.3 million and ₱29.3 million as of December 31, 2011 and 2010 (see Note 29).

## 16. 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: | **2011** | 2010 |
|---|---|---|
| IAI | **₱65,760,000** | ₱55,238,400 |
| Cirrus | **21,037,229** | 9,155,452 |
| | **₱86,797,229** | ₱64,393,852 |

The loans availed by IAI bears an annual interest rate of 3-month LIBOR + 2% per annum in 2011 and 2010. The note has a maturity of 90 days, with option to extend for another 90 days and was subsequently extended in March, June, September and December 2011.

Cirrus has a \$1.50 million and \$1.45 million line-of-credit as of December 31, 2011 and 2010, respectively, with Fifth Third Bank with interest payable monthly at the bank's prime rate and is secured by accounts receivables. Loans payable availed by Cirrus as of December 31, 2011 and 2010 amounted to \$479,864 and \$208,838, respectively. There is \$1.02 million and \$1.24 million available on this line-of-credit as at December 31, 2011 and 2010, respectively.

In 2011, the Company availed loans from a local bank amounting to ₱230.0 million with terms of 6 to 32 days subject to 4.2% interest rate. The loans were fully settled as at December 31, 2011. The Company's unavailed loan credit line from banks amounted to ₱550.0 million in 2011 and 2010.

Total interest expense recognized in the consolidated statements of income amounted to ₱4.3 million, ₱12.2 million and ₱8.5 million in 2011, 2010 and 2009, respectively (see Note 22).

## 17. Accounts Payable and Accrued Expenses

| | **2011** | 2010 |
|---|---|---|
| Trade payables | **₱193,815,432** | ₱61,184,578 |
| Accrued expenses | **106,529,090** | 98,171,955 |
| Due to affiliates (Note 29) | **5,471,921** | 53,678,220 |
| Other payables (Note 6) | **41,160,152** | 44,405,948 |
| | **₱346,976,595** | ₱257,440,701 |

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 2012.

## 18. Long-term Debt

Long-term debt pertains to the following:

| Long-term debt availed by: | **2011** | 2010 |
|---|---|---|
| PRI | **₱131,520,000** | ₱ |
| IAI | **10,960,000** | 21,920,000 |
| | **142,480,000** | 21,920,000 |
| Less current portion | **23,854,113** | 10,960,000 |
| | **₱118,625,887** | ₱10,960,000 |

Loans 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 loan is payable at maturity in October 2012, with interest payable quarterly at 8.87% per annum. IAI made an agreement with the bank that starting October 2008 until the original maturity date, the principal amount of the loan shall be amortized equally and the bank can demand payment for amount currently due. This loan is collateralized by chattel mortgages on IAI's two aircraft with a carrying value of ₱43.2 million and ₱21.5 million as of December 31, 2011 and 2010, respectively (see Note 13). Current portion of the loans payable is recognized amounting to ₱11.0 million as at December 31, 2011 and 2010.

Loans payable of PRI amounting to US$2.0 million and US$1.0 million were obtained from local banks on November 29, 2005 and December 22, 2011. The $2.0 million loan, which was transferred from SSRLI through an execution of Deed of Assumption of Loan and Mortgage dated June 2, 2011, is subject to Mortgage Trust Indenture (MTI), covering the assets of SSRLI which were also transferred to PRI pursuant to the Deed of Transfer dated December 7, 2011 (see Notes 12 and 13). Both loans have a floating interest rate per quarter equivalent to the average quarterly LIBOR plus 2% spread. The US$2.0 million loan has a maximum term of seven years, including three years grace period while the US$1.0 million loan has a maximum term of five years. Both loans are payable in 17 equal quarterly installments starting October 2012 to 2016. Current portion of loans payable is recognized amounting to ₱12.9 million as at December 31, 2011.

Total interest expense recognized in the consolidated statements of income amounted to ₱4.5 million, ₱1.0 million and ₱2.2 million in 2011, 2010 and 2009, respectively (see Note 22).

## 19. 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, 2011 and 2010 totaled 1,298,682,961 and 1,301,561,907, respectively. The Company's number of equity holders as of December 31, 2011 and 2010 is 11,677 and 11,768, respectively.

The SEC authorized the offering/sale to the public of the Company's 10.0 million and 140.0 million common shares with par value of ₱1.0 each on December 29, 1948 and January 17, 1973, respectively. On August 30, 1996, the SEC authorized the licensing of 910,476,302 common shares at the subscription price of ₱2.50 per share.

In 2011, 2010 and 2009, the Company declared the following cash dividends:

| | **2011** | **2011** | 2010 | 2010 | 2009 |
|---|---|---|---|---|---|
| Cash dividends per share | **₱0.12** | **₱0.12** | ₱0.12 | ₱0.10 | ₱0.06 |
| Month of declaration | **October** | **February** | October | March | April |
| Stockholders of record | **October 26** | **March 7** | November 4 | March 25 | May 8 |
| Total cash dividends | **₱300 million** | **₱300 million** | ₱300 million | ₱250 million | ₱150 million |
| Share of a subsidiary | **₱144.1 million** | **₱143.8 million** | ₱143.8 million | ₱106.0 million | ₱63.4 million |

As of December 31, 2011 and 2010, the Company had dividends payable amounting to ₱146.6 million and ₱134.9 million, respectively. Dividends payable represent mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2011 and 2010 due to problematic addresses of some of the Company's stockholders.

On December 6, 2011, the BOD approved the appropriation of the Company's unrestricted retained earnings amounting to ₱2.1 billion for expansion projects and investments in 2012 onwards in the areas of tourism, business process outsourcing (BPOs), manpower services, education and manufacturing.

The undistributed earnings of subsidiaries and associates amounting to ₱1,046.8 million, ₱1,210.8 million and ₱952.5 million as of December 31, 2011, 2010 and 2009, respectively, which are included in retained earnings, are not available for declaration as dividends until declared by the subsidiaries and associates.

On February 17, 2012, the BOD approved a cash dividend of ₱0.25 per share payable on March 27, 2012 to all stockholders of record as of March 5, 2012.

*Shares held by a subsidiary*
As of December 31, 2011 and 2010, a subsidiary held 1,201,317,039 shares and 1,198,438,093 shares, respectively, of the Company. Cost of shares of the Company purchased by the subsidiary in 2011, 2010 and 2009 amounted to ₱9.6 million, ₱309.8 million and ₱2.8 million, respectively.

## 20. Cost of Services Rendered and Operating Expenses

Cost of services rendered consist of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Salaries, wages and employee benefits (Note 21) | **₱642,009,654** | ₱463,371,068 | ₱604,818,050 |
| Dues and subscriptions | **110,224,808** | 32,781,618 | 18,594,170 |
| Recruitment services | **50,857,350** | 52,083,265 | 67,633,583 |
| Fuel cost | **47,266,914** | 27,321,574 | 18,887,205 |
| Insurance | **45,390,310** | 36,898,414 | 47,446,679 |
| Housing cost | **38,078,229** | 31,857,749 | 50,894,508 |
| Departmental costs - resort operations | **34,323,081** | | |
| Repairs and maintenance | **27,607,077** | 21,854,014 | 24,632,524 |
| Depreciation and amortization (Notes 13 and 14) | **26,289,569** | 24,794,121 | 26,159,563 |
| Materials and supplies - resort operations | **25,073,173** | | |
| Commissions | **10,847,108** | | |
| Transportation and travel | **10,098,213** | 6,554,801 | 7,339,403 |
| Outside services | **2,864,724** | 2,360,656 | 2,664,191 |
| Variable nurse costs (Note 29) | **261,817** | 2,458,871 | 3,067,894 |
| Technical assistance fees (Note 29) | **195,005** | 66,550 | 70,458 |
| Nurse deployment expenses (Note 29) | **–** | | 10,866,860 |
| Others | **37,473,022** | 11,698,799 | 9,621,934 |
| | **₱1,108,860,054** | ₱714,101,500 | ₱892,697,022 |

Operating expenses consist of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Salaries, wages and employee benefits (Note 21) | **₱270,575,923** | ₱225,029,028 | ₱190,667,958 |
| Depreciation and amortization (Notes 13 and 14) | **78,940,482** | 26,785,135 | 27,517,845 |
| Utilities | **57,674,335** | 7,469,905 | 5,957,347 |
| Professional and directors' fees | **56,584,744** | 52,427,831 | 66,980,578 |
| Advertising | **33,735,871** | 11,824,481 | 13,037,999 |
| Commissions | **24,662,075** | 11,311,051 | 12,807,095 |
| Repairs and maintenance | **22,936,022** | 1,874,005 | 2,529,541 |
| Rental (Note 29) | **21,741,161** | 22,350,065 | 21,951,673 |
| Transportation and travel | **20,302,781** | 14,398,146 | 12,349,455 |
| Taxes and licenses | **13,631,787** | 8,648,448 | 8,260,406 |
| Security services | **13,458,964** | 6,124,222 | 5,946,411 |
| Entertainment, amusement and recreation | **9,622,489** | 6,219,240 | 7,727,978 |
| Communications | **9,341,625** | 7,778,406 | 12,329,852 |
| Insurance | **8,981,640** | 6,491,328 | 14,048,135 |
| Association dues | **8,148,181** | 5,760,540 | 3,719,227 |
| Office supplies | **5,083,491** | 3,194,676 | 4,672,396 |
| Meetings and conferences | **2,858,114** | 3,150,116 | 2,187,250 |
| Shipping and delivery expenses | **846,468** | 772,768 | 1,691,390 |
| Others | **32,783,377** | 23,849,875 | 21,747,413 |
| | **₱691,909,530** | ₱445,459,266 | ₱436,129,949 |

In 2011 and 2010, the Company paid bonus to its directors amounting to ₱19.3 million and ₱3.0 million, respectively. The payment made in 2011 was based on higher net income posted in 2010. No directors` bonus was paid in 2009.

## 21. **Personnel Expenses**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Salaries and wages | **₱884,732,736** | ₱642,765,270 | ₱783,708,695 |
| Pension costs (Note 23) | **13,651,840** | 35,654,077 | 4,287,622 |
| Social security premiums, meals and other employees` benefits | **14,201,001** | 9,980,749 | 7,489,691 |
| | **₱912,585,577** | ₱688,400,096 | ₱795,486,008 |

There was no special and nonrecurring bonus declared in 2009. In March and December 2010, the Company declared and paid bonuses to its executive officers amounting to ₱7.0 million and ₱21.5 million, respectively. In March, April and December 2011, the Company also declared and paid bonuses to its executive officers amounting to ₱14.0 million, ₱11.6 million and ₱11.1 million, respectively.

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

Interest income consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Debt instruments (Notes 8 and 11) | **₱91,429,030** | ₱93,835,609 | ₱106,980,373 |
| Cash equivalents (Note 7) | **24,097,379** | 14,550,246 | 8,541,376 |
| Funds and equities | **3,137,167** | 1,821,353 | 4,190,172 |
| Others | **1,540,428** | 1,029,149 | 497,190 |
| | **₱120,204,004** | ₱111,236,357 | ₱120,209,111 |

Interest income on debt instruments is net of bond premium amortization amounting to ₱0.8 million in 2011, ₱3.3 million in 2010 and ₱3.7 million in 2009.

Interest expense consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Notes payable (Note 16) | **₱4,343,570** | ₱12,212,278 | ₱8,470,272 |
| Long-term debt (Note 18) | **4,533,750** | 1,010,895 | 2,221,638 |
| Others | **214,891** | 711,239 | 101,492 |
| | **₱9,092,211** | ₱13,934,412 | ₱10,793,402 |

Valuation allowances consist of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Valuation allowances on: | | | |
| Investments and advances (Note 12) | **₱–** | ₱172,072,396 | ₱ |
| AFS investments (Note 11) | **35,904,485** | 20,000,000 | 83,673,558 |
| Receivables (Note 9) | **3,399,994** | 1,077,971 | 4,925,709 |
| Other current and noncurrent assets | – | 863,689 | 657,213 |
| Recovery of allowances for impairment losses (Notes 9, 10 and 11) | **(73,563,491)** | (8,248,014) | |
| | **(₱34,259,012)** | ₱185,766,042 | ₱89,256,480 |

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

The Group has funded defined benefit pension plans covering substantially all of its officers and employees. The benefits to be received by the officers and employees under the pension plans shall not be less than the minimum mandated retirement benefit plan under Republic Act (RA) No. 7641. On November 30, 2010, the BOD approved the improvement to the Company`s retirement plan which resulted to past service cost. Accordingly, in 2010, the Company recognized as expense the vested benefits and the amortization of the nonvested past service cost totaling ₱26.1 million.

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Retirement benefit expense: | | | |
| Current service cost | **₱12,382,480** | ₱9,898,219 | ₱5,150,909 |
| Interest cost on benefit obligation | **15,106,587** | 10,199,093 | 8,221,741 |
| Amortization of transition liability | **–** | | 135,702 |
| Expected return on plan assets | **(13,949,827)** | (9,662,453) | (8,634,780) |
| Net actuarial gain recognized | **(111,489)** | (898,250) | (585,950) |
| Past service cost - nonvested benefits | **224,089** | 224,089 | |
| Past service cost - vested benefits | **–** | 25,893,379 | |
| Net benefit expense (Note 21) | **₱13,651,840** | ₱35,654,077 | ₱4,287,622 |
| Actual return on plan assets | **₱16,348,665** | ₱29,436,317 | ₱18,065,740 |

Parent Company

Computation of pension liability:

| | **2011** | 2010 |
|---|---|---|
| Defined benefit obligation | **₱208,248,266** | ₱190,665,382 |
| Fair value of plan assets | **190,119,948** | 168,564,969 |
| | **18,128,318** | 22,100,413 |
| Unrecognized net actuarial losses | **(2,273,630)** | (9,195,700) |
| Unrecognized past service cost | **(896,355)** | (1,120,444) |
| Pension liability | **₱14,958,333** | ₱11,784,269 |

Subsidiaries

Computation of pension liability follow:

| | **2011** | 2010 |
|---|---|---|
| Defined benefit obligation | **₱28,109,554** | ₱12,607,228 |
| Fair value of plan assets | **6,379,987** | 1,378,677 |
| | **21,729,567** | 11,228,551 |
| Unrecognized net actuarial gain | **6,609,792** | 3,196,085 |
| | **28,339,359** | 14,424,636 |
| Less reversal of retirement benefit cost of an officer | **–** | (2,865,416) |
| Pension liability | **₱28,339,359** | ₱11,559,220 |

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

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

| | 2011 | 2010 |
|---|---|---|
| Opening defined benefit obligation | **₱203,272,610** | ₱105,801,894 |
| Opening defined benefit obligation of an acquired subsidiary at acquisition date (Note 6) | **15,244,945** | |
| Total opening defined benefit obligation | **218,517,555** | 105,801,894 |
| Interest cost | **15,106,587** | 10,199,093 |
| Current service cost | **12,382,480** | 9,898,219 |
| Past service cost - vested benefits | **–** | 25,893,379 |
| Past service cost - non vested benefits | **–** | 1,344,533 |
| Benefits paid | **(280,217)** | (165,375) |
| Actuarial losses (gains) | **(6,503,169)** | 50,300,867 |
| Reversal of retirement benefit cost of an officer | **(2,865,416)** | |
| Closing defined benefit obligation | **₱236,357,820** | ₱203,272,610 |

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

| | 2011 | 2010 |
|---|---|---|
| Opening fair value of plan assets | **₱169,943,646** | ₱135,285,388 |
| Opening fair value of plan assets of an acquired subsidiary at acquisition date (Note 6) | **2,377,281** | |
| Total opening fair value of plan assets | **172,320,927** | 135,285,388 |
| Expected return | **13,949,827** | 9,662,453 |
| Contributions | **7,830,343** | 5,308,347 |
| Benefits paid | **–** | (165,375) |
| Actuarial gain | **2,398,838** | 19,852,833 |
| Closing fair value of plan assets | **₱196,499,935** | ₱169,943,646 |

The Group expects to make contributions amounting to ₱17.3 million to its defined benefit pension plans in 2012.

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

| | 2011 | 2010 |
|---|---|---|
| Bonds | **62%** | 60% |
| Stocks | **37%** | 36% |
| Others | **1%** | 4% |

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:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | **6%-8%** | 8%-11% |
| Expected rate of return on plan assets | **5%-10%** | 7%-8% |
| Future salary increases | **5%-10%** | 5%-10% |

Amounts for 2011, 2010, 2009, 2008 and 2007 are as follows:

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Defined benefit obligation | **₱236,357,820** | ₱203,272,610 | ₱105,801,894 | ₱84,598,603 | ₱123,230,889 |
| Plan assets | **196,499,935** | 169,943,646 | 135,285,388 | 113,464,303 | 147,469,620 |
| Surplus (deficiency) | **(39,857,885)** | (33,328,964) | 29,483,494 | 28,865,700 | 24,238,731 |
| Experience adjustments on plan liabilities | **6,952,270** | 26,110,757 | 2,786,272 | 11,811,516 | 6,239,288 |
| Experience adjustments on plan assets | **2,898,428** | 19,894,449 | 9,433,597 | 32,898,747 | 509,298 |

24. **Income Taxes**

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Current | **₱12,313,421** | ₱11,152,859 | ₱6,998,848 |
| Deferred | **18,630,200** | 779,678 | (22,160,802) |
| | **₱30,943,621** | ₱11,932,537 | (₱15,161,954) |

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

Parent Company

| | **2011** | 2010 |
|---|---|---|
| Net deferred income tax assets: | | |
| Recognized directly in the consolidated statements of income: | | |
| Deferred income tax assets: | | |
| Unrealized foreign exchange losses | **₱2,849,453** | ₱15,650,973 |
| Pension liability | **4,487,500** | 3,535,281 |
| Allowances for impairment loss | **–** | 1,898,652 |
| | **7,336,953** | 21,084,906 |
| Deferred income tax liabilities on uncollected management fees | **(7,238,709)** | (3,686,971) |
| | **98,244** | 17,397,935 |
| Recognized directly in equity - unrealized valuation gains on AFS investments | **(98,244)** | (17,397,935) |
| | **₱–** | ₱ |

Subsidiaries

| | **2011** | 2010 |
|---|---|---|
| Net deferred income tax liabilities: | | |
| Recognized directly in the consolidated statements of income: | | |
| Deferred income tax assets: | | |
| NOLCO | **₱14,085,792** | ₱5,796,408 |
| Others | **569,262** | 7,751,398 |
| | **14,655,054** | 13,547,806 |

(Forward)

| | 2011 | 2010 |
|---|---|---|
| Deferred income tax liabilities: | | |
| Goodwill amortization | **(₱15,731,765)** | (₱15,106,520) |
| Others | **(5,854,305)** | (6,779,188) |
| | **(21,586,070)** | (21,885,708) |
| | **(6,931,016)** | (8,337,902) |
| Recognized directly in equity - unrealized valuation gains on AFS investments | **828,575** | 110,381 |
| | **(₱6,102,441)** | (₱8,227,521) |

Deferred income tax liability amounting to ₱37.2 million was recognized for the fair value of the land with improvements of an acquired subsidiary (see Note 6).

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:

| | 2011 | 2010 |
|---|---|---|
| Allowances for: | | |
| Doubtful accounts | **₱791,474,784** | ₱793,729,173 |
| Impairment losses | **326,062,348** | 326,062,348 |
| Inventory losses | **3,883,393** | 950,147 |
| Market adjustments on FVPL investments | **25,899,910** | 22,564,993 |
| Market adjustments on AFS investments | **28,879,825** | 28,879,825 |
| NOLCO | **199,477,093** | 258,800,940 |
| MCIT | **8,409,647** | 10,230,445 |
| Accrued pension benefits and others | **28,339,359** | 11,223,991 |

The Company and other subsidiaries domiciled in the Philippines are subjected to the Philippine statutory tax rate of 30% in 2011, 2010 and 2009 while a foreign subsidiary is subject to U.S. federal tax rate of 34% in 2009.

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Provision for income tax at statutory tax rates | **₱322,660,236** | ₱602,279,908 | ₱84,847,062 |
| Additions to (reductions from) income taxes resulting from: | | | |
| Movement in unrecognized deferred income tax assets | **(17,991,664)** | 87,154,764 | 13,454,957 |
| Nondeductible expenses | **557,075** | 5,459,178 | 4,696,804 |
| Nondeductible interest expense | **400,182** | 1,371,524 | 303,761 |
| Nontaxable income | – | (8,584,786) | |
| Interest income already subjected to final tax | **(2,422,175)** | (1,138,220) | (540,955) |

(Forward)

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Equity in net earnings of associates not subject to income tax | **(₱27,908,954)** | (₱34,567,386) | (₱23,474,073) |
| Dividend income not subject to income tax | **(65,702,350)** | (42,237,201) | (29,455,051) |
| Gain on sale of AFS investments, marketable equity securities and other investments subjected to final tax | **(170,723,598)** | (589,586,269) | (65,125,964) |
| Others | **(7,925,131)** | (8,218,975) | 131,505 |
| | **₱30,943,621** | ₱11,932,537 | (₱15,161,954) |

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

NOLCO

The following table summarizes the NOLCO as of December 31, 2011 of the Company and its subsidiaries domiciled in the Philippines:

| Period of Recognition | Availment period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2008 | 2009-2011 | ₱150,170,370 | (₱1,538,818) | (₱148,631,552) | ₱ |
| 2009 | 2010-2012 | 62,121,143 | | | 62,121,143 |
| 2010 | 2011-2013 | 90,146,105 | | – | 90,146,105 |
| 2011 | 2012-2014 | 94,162,485 | | – | 94,162,485 |
| | | ₱396,600,103 | (₱1,538,818) | (₱148,631,552) | ₱246,429,733 |

As of December 31, 2011, a foreign subsidiary has NOLCO for federal and income tax purposes of approximately US$4.6 million (₱201.7 million), portion of which will begin to expire in the year 2027.

MCIT

| Period of Recognition | Availment period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2008 | 2009-2011 | ₱3,715,519 | (₱228,504) | (₱3,487,015) | ₱ |
| 2009 | 2010-2012 | 3,601,794 | | – | 3,601,794 |
| 2010 | 2011-2013 | 3,141,636 | | – | 3,141,636 |
| 2011 | 2012-2014 | 1,498,538 | 167,679 | | 1,666,217 |
| | | ₱11,957,487 | (₱60,825) | (₱3,487,015) | ₱8,409,647 |

## 25. Earnings Per Share - Basic / Diluted

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Net income attributable to equity holdings of the parent | **₱994,506,977** | ₱1,975,357,978 | ₱289,644,550 |
| Weighted average number of shares (Note 19) | **1,350,762,579** | 1,351,589,662 | 1,442,579,922 |
| Earnings per share | **₱0.74** | ₱1.46 | ₱0.20 |

The Company does not have potentially dilutive common stock equivalents.

## 26. Related Party Transactions

In the normal course of business and in addition to those disclosed in Notes 12 and 29, the Group grants/receives interest and noninterest-bearing cash advances to/from its associates and affiliates.

*Compensation of the Group's key management personnel* (in millions):

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Short-term employee benefits (Note 21) | **₱110.4** | ₱80.6 | ₱43.6 |
| Post-employment benefits | **4.4** | 4.4 | 4.4 |
| Total compensation of key management personnel | **₱114.8** | ₱85.0 | ₱48.0 |

## 27. 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 Group's other financial instruments include accounts payable and dividends payable and amounts due to affiliates, which arose directly from operations.

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. These 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. The Group does not have a customer that accounts for more than 10% of the consolidated revenue.

*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 for each class of financial assets before the effects of collateral, credit enhancements and other credit risk mitigation techniques:

| | **2011** | 2010 |
|---|---|---|
| Cash in banks | **₱286,748,264** | ₱242,193,492 |
| Short-term investments | **255,477,418** | 1,945,729,097 |
| FVPL investments - bonds | **665,837,528** | 542,716,767 |
| AFS investments - bonds | **603,519,773** | 619,398,470 |
| Loans and receivables: | | |
| Trade | **282,612,670** | 175,813,610 |
| Interest receivable | **23,915,288** | 24,115,479 |
| Advances to officers and employees | **3,260,130** | 3,983,920 |
| Others | **22,101,246** | 34,504,614 |
| | **331,889,334** | 238,417,623 |
| Less allowance for doubtful accounts | **33,239,440** | 32,116,950 |
| | **298,649,894** | 206,300,673 |
| | **₱2,110,232,877** | ₱3,556,338,499 |

The Group has no collateral held as security nor credit enhancements as of December 31, 2011 and 2010.

*Credit quality per class of financial asset*
For the Group's financial assets, 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** | | | | |
|---|---|---|---|---|---|
| **2011** | **High Grade** | **Standard Grade** | **Substandard Grade** | **Past Due or Impaired** | **Total** |
| Cash in banks | **₱286,748,264** | **₱** | **₱** | **₱** | **₱286,748,264** |
| Short-term investments | **255,477,418** | | | | **255,477,418** |
| FVPL investments - Bonds | **23,250,106** | **639,847,422** | **2,740,000** | | **665,837,528** |
| AFS investments - Bonds | **204,733,457** | **398,786,316** | **–** | **–** | **603,519,773** |
| Receivables: | | | | | |
| Trade | **53,492,920** | **169,707,907** | **17,469,554** | **41,942,289** | **282,612,670** |
| Interest receivable | | **23,915,288** | | | **23,915,288** |
| Advances to officers and employees | | **3,260,130** | | | **3,260,130** |
| Others | **12,210,515** | **2,578,791** | **1,904,645** | **5,407,295** | **22,101,246** |
| | **₱835,912,680** | **₱1,238,095,854** | **₱22,114,199** | **₱47,349,584** | **₱2,143,472,317** |

| 2010 | Financial Assets that are Neither Past Due nor Impaired High Grade | Standard Grade | Substandard Grade | Past Due or Impaired | Total |
|---|---|---|---|---|---|
| Cash in banks | ₱242,193,492 | ₱ | ₱ | ₱ | ₱242,193,492 |
| Short-term investments | 1,945,729,097 | – | – | | 1,945,729,097 |
| FVPL investments - | | | | | |
| Bonds | 11,223,925 | 512,214,641 | 17,086,201 | 2,192,000 | 542,716,767 |
| AFS investments - | | | | | |
| Bonds | 90,177,495 | 529,220,975 | – | | 619,398,470 |
| Receivables: | | | | | |
| Trade | | 111,595,293 | 13,764,327 | 50,453,990 | 175,813,610 |
| Interest receivable | | 24,115,479 | – | | 24,115,479 |
| Advances to officers and employees | | 3,983,920 | – | | 3,983,920 |
| Others | 20,529,717 | 8,174,631 | 3,271,697 | 2,528,569 | 34,504,614 |
| | ₱2,309,853,726 | ₱1,189,304,939 | ₱34,122,225 | ₱55,174,559 | ₱3,588,455,449 |

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, 2011** | **Financial Assets that are Past Due but Not Impaired** **Less than 30 days** | **31 to 60 days** | **61 to 90 days** | **More than 91 days** | **Total** |
|---|---|---|---|---|---|
| Trade | **₱2,004,700** | **₱6,847,342** | **₱1,140,414** | **₱2,455,614** | **₱12,448,070** |
| Others | **410,414** | **525,131** | **259,510** | **467,019** | **1,662,074** |
| | **₱2,415,114** | **₱7,372,473** | **₱1,399,924** | **₱2,922,633** | **₱14,110,144** |

| December 31, 2010 | Financial Assets that are Past Due but Not Impaired Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| Trade | ₱10,878,296 | ₱2,995,821 | ₱3,519,446 | ₱1,954,905 | ₱19,348,468 |
| Others | 338,453 | 360,478 | 150,637 | 667,573 | 1,517,141 |
| | ₱11,216,749 | ₱3,356,299 | ₱3,670,083 | ₱2,622,478 | ₱20,865,609 |

*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 tables below summarize the maturity profile of the Group`s financial liabilities at December 31 based on undiscounted contractual payments.

| **December 31, 2011** | **Within 6 months** | **6 to 12 months** | **1 to 5 years** | **Total** |
|---|---|---|---|---|
| Notes payable | **₱86,797,229** | **₱–** | **₱–** | **₱86,797,229** |
| Accounts payable and accrued expenses* | **208,166,495** | **–** | **–** | **208,166,495** |
| Long-term debt | **–** | **23,854,113** | **118,625,887** | **142,480,000** |
| Dividends payable | **146,644,057** | **–** | **–** | **146,644,057** |
| Interest payable | **2,325,768** | **1,913,799** | **2,863,218** | **7,102,785** |
| | **₱443,933,549** | **₱25,767,912** | **₱121,489,105** | **₱591,190,566** |

**Excluding other nonfinancial liabilities amounting to ₱138.8 million.*

| December 31, 2010 | Within 6 months | 6 to 12 months | 1 to 5 years | Total |
|---|---|---|---|---|
| Notes payable | ₱64,393,852 | ₱ | ₱ | ₱64,393,852 |
| Accounts payable and accrued expenses* | 129,844,651 | | | 129,844,651 |
| Long-term debt | | 10,960,000 | 10,960,000 | 21,920,000 |
| Dividends payable | 134,856,337 | | | 134,856,337 |
| Interest payable | 1,208,397 | 1,497,910 | 1,759,723 | 4,466,030 |
| | ₱330,303,237 | ₱12,457,910 | ₱12,719,723 | ₱355,480,870 |

**Excluding other nonfinancial liabilities amounting to ₱127.6 million.*

The Group`s total financial liabilities due to be settled within one year include notes payable that management considers as working capital. Accounts payable and accrued expenses and dividends payable are expected to be settled using cash to be generated from operations and drawing from existing lines of credits or liquidity reserves.

*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:

| **2011** | **Change in interest rates (in bps)** | **Effect on income before tax - Increase (decrease)** |
|---|---|---|
| Floating debt investments | **+150** | **₱427,440** |
| | **-150** | **(427,440)** |

| 2010 | Change in interest rates (in bps) | Effect on income before tax - Increase (decrease) |
|---|---|---|
| Floating debt investments | +150 | ₱1,500,889 |
| | -150 | (1,500,889) |

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, 2011 and 2010. 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)** | |
|---|---|---|---|
| **2011** | **Change in relative average yield** | **Effect on income before tax** | **Effect on equity** |
| AFS investments | **+0.90% to + 45.38%** | **₱** | **₱82,253,091** |
| | **-0.90% to – 45.38%** | | **(70,779,901)** |
| FVPL investments | **+0.00% to + 32.91%** | **165,896,501** | |
| | **-0.00% to – 32.91%** | **(151,070,552)** | |

| | | Increase (Decrease) | |
|---|---|---|---|
| 2010 | Change in relative average yield | Effect on income before tax | Effect on equity |
| AFS investments | +0.23% to + 86.78% | ₱ | ₱6,591,344 |
| | -0.23% to 86.78% | | (6,030,483) |
| FVPL investments | +2.70% to + 21.76% | 1,511,724 | |
| | -2.70% to 21.76% | (1,474,444) | |

The annual standard deviation of the changes in the bonds' historical yield ranges from 0.00% to 45.38% and 0.23% to 86.78% in 2011 and 2010, respectively. With 99% confidence level, the returns could range between 0.00% to 825.67% and 0.32% to 602.89% of the average yield in 2011 and 2010, respectively.

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)** | |
|---|---|---|---|
| **2011** | **Change in PSEi average returns** | **Effect on income before tax** | **Effect on equity** |
| AFS investments | **+71.96%** | **₱–** | **₱2,901,666,327** |
| | **-71.96%** | **–** | **(2,901,666,327)** |

| | | Increase (Decrease) | |
|---|---|---|---|
| 2010 | Change in PSEi average returns | Effect on income before tax | Effect on equity |
| AFS investments | +65.46% | ₱ | ₱2,393,972,674 |
| | -65.46% | | (2,393,972,674) |

The annual standard deviation of the PSEi is approximately 30.89% and 28.14%, and with 99% confidence level, the returns could be +/- 71.96% and +/- 65.46% from the average returns in 2011 and 2010, respectively. There are no outstanding stock investments listed in PSE that are classified as FVPL as of December 31, 2011 and 2010.

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)** | |
|---|---|---|---|
| **2011** | **Change in relative average return** | **Effect on income before tax** | **Effect on equity** |
| Mutual funds | **+0.54% to +60.35%** | **₱4,555,893** | **₱60,231,545** |
| | **-0.54% to -60.35%** | **(4,555,893)** | **(60,231,545)** |

| | | Increase (Decrease) | |
|---|---|---|---|
| 2010 | Change in relative average return | Effect on income before tax | Effect on equity |
| Mutual funds | +0.69% to +51.21% | ₱20,427,864 | ₱44,888,415 |
| | -0.69% to -51.21% | (20,427,864) | (44,888,415) |

The annual standard deviation of the yield of related indices ranges from 0.54% to 60.35% and 0.69% to 51.21% in 2011 and 2010, respectively. With 99% confidence level, the returns could range between 1.25% to 140.39% and 1.60% to 119.14% from the average returns in 2011 and 2010, respectively.

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, 2011 and 2010.

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)** | |
|---|---|---|---|
| **2011** | **Change in currency rate** | **Effect on income before tax** | **Effect on equity** |
| US dollar | **+5.61%** | **₱5,254,624** | **₱1,752,126** |
| | **-5.61%** | **(5,254,624)** | **(1,752,126)** |
| Euro | **+3.66%** | **–** | **96,762** |
| | **-3.66%** | **–** | **(96,762)** |

| | | Increase (Decrease) | |
|---|---|---|---|
| 2010 | Change in currency rate | Effect on income before tax | Effect on equity |
| US dollar | +6.563% | ₱6,299,327 | ₱5,308,434 |
| | -6.563% | (6,299,327) | (5,308,434) |
| Euro | +5.733% | 6,297,958 | 20,129 |
| | -5.733% | (6,297,958) | (20,129) |

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, 2011 and 2010.

b. Cirrus' and CGI'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.

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

CGI 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.

## 28. **Financial Instruments**

Categorization of Financial Instruments

| **December 31, 2011** | **Loans and Receivables** | **Financial Assets at FVPL** | **AFS Investments** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | **₱542,426,682** | **₱** | **₱** | **₱542,426,682** |
| FVPL investments | | **883,456,012** | | **883,456,012** |
| AFS investments | | | **8,093,777,731** | **8,093,777,731** |
| Receivables | **335,048,616** | | | **335,048,616** |
| | **₱877,475,298** | **₱883,456,012** | **₱8,093,777,731** | **₱9,854,709,041** |

| December 31, 2010 | Loans and Receivables | Financial Assets at FVPL | AFS Investments | Total |
|---|---|---|---|---|
| Cash and cash equivalents | ₱2,188,123,589 | ₱ | ₱ | ₱2,188,123,589 |
| FVPL investments | | 817,656,671 | | 817,656,671 |
| AFS investments | | | 6,213,532,572 | 6,213,532,572 |
| Receivables | 230,447,395 | | | 230,447,395 |
| | ₱2,418,570,984 | ₱817,656,671 | ₱6,213,532,572 | ₱9,449,760,227 |

| Other Financial Liabilities | **2011** | 2010 |
|---|---|---|
| Notes payable | **₱86,797,229** | ₱64,393,852 |
| Accounts payable and accrued expenses* | **208,166,495** | 129,844,651 |
| Long-term debt, including current portion | **142,480,000** | 21,920,000 |
| Dividends payable | **146,644,057** | 134,856,337 |
| | **₱584,087,781** | ₱351,014,840 |

**Excluding other nonfinancial liabilities amounting to ₱138.8 million and ₱127.6 million in 2011 and 2010, respectively.*

*Fair Values of Financial Assets and Liabilities*

The carrying amounts of cash and cash equivalents, receivables, notes payable, dividends 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, 2011, all of the Group`s assets measured at fair value are quoted and are classified as Level 1.

| | 2011 | 2010 |
|---|---|---|
| FVPL investments: | | |
| Bonds | **₱665,837,528** | ₱542,716,767 |
| Funds and equities | **192,097,120** | 204,790,484 |
| Others | **25,521,364** | 70,149,420 |
| AFS investments: | | |
| Bonds | **603,519,773** | 619,398,470 |
| Quoted equity shares | **6,212,939,840** | 4,725,844,025 |
| Funds and equities | **313,730,948** | 229,604,987 |
| Proprietary shares | **124,238,250** | 93,937,800 |
| | **₱8,137,884,823** | ₱6,486,441,953 |

For the year ended December 31, 2011, there were no transfers from Level 1, Level 2 and Level 3 fair value measurements.

## 29. Contracts and Agreements

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 and the related investment property was sold to a third party on March 1, 2011 (see Note 14).

Total rent income recognized in 2011, 2010 and 2009 amounted to ₱0.3 million, ₱0.4 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, CGI'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, 2011, IQHPC has outstanding Service Agreements with different U.S. hospitals and one with a staffing agency. Service income recognized in 2011, 2010 and 2009 amounted to ₱14.3 million and ₱17.2 million and ₱21.5 million, respectively.

c. As of December 31, 2011 and 2010, IQHPC has an outstanding commission agreement with an independent consulting firm.

d. CGI (formerly called 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%. Upon its maturity on July 31, 2010, the lease was renewed for a two-year term ending July 31, 2012.

The future minimum rentals payable under the non-cancellable operating lease within one year from the balance sheet date amounted to ₱1.4 million and ₱1.2 million as of December 31, 2011 and 2010, respectively.

Rent expense in 2011, 2010 and 2009 amounted to ₱2.4 million, ₱2.3 million and ₱2.4 million, respectively.

e. In May 2010, CGI entered into a sublease agreement with a third party covering its office space. The sublease has a term of one year ending April 30, 2011, renewable upon mutual agreement of both parties. Upon its maturity on April 30, 2011, the same was renewed for a term ending January 31, 2012. Future minimum sublease payments expected to be received as of December 31, 2011 and 2010 amounted to ₱0.1 million and ₱0.2 million, respectively. Rent income from the sublease agreement for the period ended December 31, 2011 and 2010 amounted to ₱0.8 million and ₱0.5 million, respectively.

f. In December 2011 and 2010, advances to CGI amounting to ₱20.9 million and ₱18.7 million were assigned to Sutton in exchange for its 2,609 common shares and 1,240 preferred shares, respectively.

Cirrus

a. Cirrus Holdings USA, LLC and Cirrus Allied, LLC have various staffing contracts with their U.S. clients concerning certain rates and conditions, among others. Service income amounted to ₱998.3 million, ₱711.6 million and ₱917.0 million in 2011, 2010 and 2009, respectively.

   Cirrus has entered into a third party non-cancellable 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, 2011 and 2010, associated with these agreements with terms of one year or more are as follows:

| | **2011** | 2010 |
|---|---|---|
| Within one year | **₱7,329,127** | ₱8,753,094 |
| After one year but not more than five years | **25,651,880** | 34,154,078 |
| | **₱32,981,007** | ₱42,907,172 |

   Rent expense in 2011, 2010 and 2009 amounted to ₱9.8 million, ₱10.1 million and ₱9.8 million, respectively.

b. As discussed in Note 6, on December 10, 2010, Cirrus acquired NT, a company maintaining web domains for nurses and physical therapist, and agreed to pay a maximum total consideration amounting to $1.06 million for the net assets of NT as of purchase date. Of the amount, $0.51 million will be paid by Cirrus provided certain revenue and earnings target are met. To facilitate the transaction, the Company made advances to AI in the amount of $840,000 (₱37.09 million).

ASAC

ASAC enters into a lease agreement for ground handling equipment in the conduct of its operations. The lease agreement is in force for a period of not more than one year unless all parties formally extend the said term. Rent expense charged to operations amounted to ₱0.3 million in 2011 and 2010 and ₱0.1 million in 2009.

IAI

a. On August 23, 2006, IAI entered into a Maintenance Service Plan (MSP) with Honeywell effective for five years for the latter to service 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 engine`s actual operating hours or the minimum operating hours, subject to annual escalation. The engine shall be shipped to the United States to undergo repairs and maintenance as necessary, by a Honeywell authorized service center.

b. IAI conducts its operations from leased facilities which include the aircraft hangar and the administrative office. The lease agreement is for a period of two years commencing on September 1, 2009 and is subsequently renewed for another two years upon its termination in 2011. The renewed lease agreement will terminate in August 2013.

   The same shall be renewable upon mutual agreement if either party receives no notice of termination. Rent expense recognized in operations amounted to ₱2.1 million in 2011 and 2010.

   Future minimum annual rentals payable under this lease are as follows:

| | **2011** | 2010 |
|---|---|---|
| Not later than one year | **₱2,142,852** | ₱1,428,568 |
| Later than one year but not later than 5 years | **1,428,568** | |
| | **₱3,571,420** | ₱1,428,568 |

c. On October 28, 2011, IAI`s advances from PRI amounting to ₱19.4 million as of December 31, 2010 were transferred to PIHI. Subsequent to the execution of the agreement, PIHI converted the advances into additional equity in IAI. PIHI subscribed to 5,000 common shares with a par value of ₱100 per share or a total par value of ₱500,000 at an issue price of ₱3,877.3 per share.

SSRLI and PRI

a. Since 1995, the Company charges SSRLI a monthly fee amounting to US$4,000 or its Peso equivalent for the Company`s general, administrative, treasury, tax and legal services rendered to SSRLI. In addition, the Company also made advances to SSRLI for the latter`s operating expenses. Due from SSRLI amounted to ₱0.5 million as of December 31, 2010 (see Note 12).

b. SSRLI executed an Operating and Management Agreement (OMA) with Amanresorts Management, B.V. (the Operator of Amanresorts), a company based in Amsterdam, the Netherlands, 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. 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. Total fees related to these agreements amounted to ₱23.4 million and ₱25.0 million in 2011 and 2010, respectively.

   As of December 31, 2011, all existing agreements with Amanresorts were already transferred under the name of PRI as a result of the transfer of resort operations (see Note 12).

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 duration of no less than two years and was renewed in February 2008.

   As a result of the transfer of resort operations from SSRLI to PRI (see Note 12), the latest renewal of the air service agreement was made between PRI and IAI covering a two-year period from July 1, 2011 to June 30, 2013. The duration of the contract may be extended upon such terms and conditions as may be mutually agreed by both parties.

d. The latest renewal of the lease agreement between SSRLI and IAI for the Guest Lounge and Purchasing Office covers the two-year period from September 2009 to August 2011. As a result of the transfer of resort operations (see Note 12), the lease agreement was renewed by IAI and PRI on September 2011 for a period of two years. The agreement provides that PRI is not allowed to sublease any part of the premises or facilities that it leases. Rent relating to the lease amounted to ₱1.5 million in 2011, ₱1.6 million in 2010 and ₱1.3 million in 2009.

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. As of December 31, 2011, the consultancy contract is still in effect but at a reduced fee.

f. On July 1, 2011, PRI entered into management agreements with the villa owning companies wherein PRI shall provide general maintenance and accounting and administrative services for the villas. PRI shall also be responsible for the marketing and promotion of the villas. In return for these services, PRI shall be entitled to 50% of the net villa rental proceeds. PRI shall also receive reimbursements of costs, with 15% handling fees (except for utilities), incurred in providing services to the villa guests.

   As part of the agreement, PRI will also maintain a fund which shall be used for future maintenance requirements of the villas. As of December 31, 2011, the restricted fund amounted to ₱47.1 million, which is included under "Other noncurrent assets" and "Other noncurrent liabilities" in the consolidated balance sheets (see Note 15).

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 ₱27.0 million and ₱13.8 million as of December 31, 2011 and 2010, respectively (see Note 12). Management fees amounted to ₱34.6 million, ₱34.0 million and ₱25.4 million in 2011, 2010 and 2009, 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 ₱34.6 million, ₱34.0 million and ₱25.4 million in 2011, 2010 and 2009, respectively. These are included in "Management fee" in the Group's consolidated statements of income.

30. **Other Matters**

a. ASAC is a founding member of the Federation of Aviation Organizations of the Philippines (FEDAVOR) since 1986. In 2005, FEDAVOR won a Supreme Court case against MIAA involving its imposition of higher rates for rental and other services without a public hearing. ASAC accrued its share in FEDAVOR's legal expenses in 2006. In 2009, MIAA filed and subsequently won their motion for reconsideration with the Court of Appeals ruling that all refunds have to be coursed through the Commission on Audit. As of December 31, 2011, the refund process has remained pending. Also, ASAC is planning to enter into a new lease contract with MIAA, with IAI as the lessor and ASAC as the sublessor.

b. ASAC is a defendant in labor lawsuits and claims. As of December 31, 2011 and 2010, management has recognized provisions for losses amounting to ₱5.7 million that may be incurred from these lawsuits.

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

**INDEPENDENT AUDITORS' REPORT**
**ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
A. Soriano Corporation
7th Floor, Pacific Star Building
Makati Avenue corner Gil Puyat Avenue Extension
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of A. Soriano Corporation and Subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A and have issued our report thereon dated February 17, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
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June 1, 2009, Valid until May 31, 2012
PTR No. 3174595, January 2, 2012, Makati City

February 17, 2012

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS (Note 1)**
**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| Name of issuing Entity and association of each issue | Number of shares or Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet | Value Based on Market Quotations at end of reporting period | Income received & Accrued (Note 2) |
|---|---|---|---|---|
| **FVPL INVESTMENTS** | | | | |
| **BONDS** | **Face Amount** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| ATR-FXTN 10-45 5.875% 310711-PHP | - | 26,914,444 | 26,914,444 | 903,458 |
| BPI(ASF)-Petron Cor 7.00% 111017-PHP | PHP 8,000,000 | 7,898,400 | 7,898,400 | 462,320 |
| BPI(ASF)-RCBC 2018-13-PHP | PHP 6,000,000 | 5,923,800 | 5,923,800 | 89,000 |
| BPI-EDC 2021 6.5% 012021-USD | $ 500,000 | 22,704,453 | 22,704,453 | 378,490 |
| BPI-NatPow 0% 11/12-Peso | 5,500,000 | 5,406,500 | 5,406,500 | 304,989 |
| BPI-RCBC 5.6% 2018-13-Peso | PHP 20,000,000 | 19,824,000 | 19,824,000 | 452,366 |
| BPI-RTB10-2N 5.9% 030321-PHP | PHP 14,000,000 | 16,046,800 | 16,046,800 | 1,859,849 |
| BS-Banco de Galicia 8.75% 040518-USD | $ 250,000 | 9,220,252 | 9,220,252 | (1,904,148) |
| BS-Bhira Investments 8.5% 270471-USD | $ 200,000 | 8,241,360 | 8,241,360 | (811,600) |
| BS-Braskem Fin Ltd 7.375% 311249 Perp-US | $ 250,000 | 10,932,600 | 10,932,600 | 43,926 |
| BS-Bumi Capital PTE 12% 101116-USD | $ 250,000 | 11,072,073 | 11,072,073 | (56,204) |
| BS-Centrais Electricas 10.5% 030616-USD | $ 200,000 | 8,774,130 | 8,774,130 | (116) |
| BS-Central China Real Estate 12.25% 20101 | $ 200,000 | 7,592,283 | 7,592,283 | (833,308) |
| BS-Cosan Overseas 8.25% 151149 Perp-US | $ 200,000 | 8,781,152 | 8,781,152 | 118,313 |
| BS-Credit Suisse(Claudius) 7.875% 121249-US | $ 200,000 | 8,636,480 | 8,636,480 | 361,128 |
| BS-CSN Islands XII 7% 231249 Perp-USD | $ 200,000 | 8,417,280 | 8,417,280 | (102,739) |
| BS-Energy Development 6.5% 200121-USD | $ 300,000 | 13,515,968 | 13,515,968 | 1,124,506 |
| BS-FMG Res Aug 2006 7% 011115-USD | $ 250,000 | 10,699,328 | 10,699,328 | 57,020 |
| BS-ICICI Bank Ltd 6.375% 300422-USD | $ 250,000 | 9,644,800 | 9,644,800 | (515,331) |
| BS-Indo Energy Finance 7% 070518-USD | $ 200,000 | 8,782,903 | 8,782,903 | 78,875 |
| BS-Instit Costa De Electric 6.95% 101121-US | $ 200,000 | 8,923,433 | 8,923,433 | (141,186) |
| BS-Lukoil Int'l Fin 6.125% 091120-USD | $ 200,000 | 8,602,298 | 8,602,298 | (225,458) |
| BS-Mafrig Holding Europe 8.375% 090518-US | $ 200,000 | 6,425,956 | 6,425,956 | (1,648,212) |
| BS-Marfrig Overseas Ltd 9.5% 040520-USD | $ 250,000 | 8,137,800 | 8,137,800 | (2,012,770) |
| BS-Odebrecht Finance Ltd 7.5% 150949-USD | $ 500,000 | 21,405,478 | 21,405,478 | (57,187) |
| BS-PHBS Ltd (Cheung Kong) 6.625% 290949 | $ 200,000 | 7,847,360 | 7,847,360 | 157,445 |
| BS-Royal Capital 8.375% 310549-USD | $ 500,000 | 22,139,261 | 22,139,261 | 1,371,078 |
| BS-RSHB Capital SA 6% 030621-USD | $ 300,000 | 11,508,000 | 11,508,000 | (166,726) |
| BS-Sigma Capital(LIPPO) 9% 300415-USD | $ 300,000 | 13,086,240 | 13,086,240 | 314,509 |
| BS-Stats Chippac Ltd 5.375% 310316-USD | $ 250,000 | 10,864,030 | 10,864,030 | 393,693 |
| BS-TAM Capital 3 Inc 8.375% 030621-USD | $ 200,000 | 8,861,833 | 8,861,833 | 261,575 |
| EDCPM | - | 9,074,880 | 9,074,880 | (75,519) |
| IA-Inversiones Y Representa 8.5% 020217-US | 250,000 | 10,521,600 | 10,521,600 | 592,613 |
| IA-Lessiron Comm Mirax 9.45% 200311-USD | 250,000 | 2,740,000 | 2,740,000 | 1,096,000 |
| IA-Sidetur Finance BV 10% 200416-USD | 500,000 | 13,809,600 | 13,809,600 | 279,234 |
| IP-Citic Resources Finance 6.75% 150514-US | $ 200,000 | 8,948,621 | 8,948,621 | 1,008,546 |
| IP-First Gen Corp(FGEN) 2.5% 110213-USD | $ 1,000,000 | 53,813,600 | 53,813,600 | 2,946,029 |
| IP-FXTN 25-8 (NET) 6.5% 12/16/35-PHP | 21,000,000 | 25,336,500 | 25,336,500 | 3,991,386 |
| IP-JG Summit 8%, 01/18/13-USD | $ 1,000,000 | 45,545,376 | 45,545,376 | 2,263,835 |
| IP-NET FXTN7-48 1.27.16 5.6%-PHP | 17,500,000 | 18,980,500 | 18,980,500 | 1,239,273 |
| IP-PCOR 7.00% 11/10/17-PHP | 23,000,000 | 22,567,600 | 22,567,600 | (97,166) |
| IP-SMIC 2013 6.75%-USD | $ 500,000 | 23,044,496 | 23,044,496 | 887,515 |
| IP-URC 2012 8.25% 12/10 Put-USD | $ 1,000,000 | 43,896,992 | 43,896,992 | 999,926 |
| MS-Bakrie Telecom PTE Ltd 11.5% 070515-U | $ 100,000 | 2,654,789 | 2,654,789 | (1,670,483) |
| MS-Chinatrust Commercial Bank-Pref-USD | $ 100,000 | 3,879,840 | 3,879,840 | (382,169) |
| MS-Melco Crown International Ltd 3.75% 09 | Australian $ 750,000 | 5,034,850 | 5,034,850 | (77,969) |
| MS-Noble Group Ltd 8.5% 300513-USD | $ 100,000 | 4,453,216 | 4,453,216 | 42,456 |
| MS-Oversea-Chinese Banking Ltd VRN 1511 | $ 100,000 | 4,234,067 | 4,234,067 | (19,988) |
| MS-PHBS Ltd 6.625% Eclear Perpetual-USD | $ 100,000 | 3,970,589 | 3,970,589 | 170,163 |
| MS-Rabobank Nederland Tranche 1 VRN Per | $ 100,000 | 4,340,598 | 4,340,598 | 306,480 |
| MS-Resona PFD Global Secs Perp-USD | $ 50,000 | 2,159,120 | 2,159,120 | 368,676 |
| | | **665,837,528** | **665,837,528** | **14,126,394** |

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS (Note 1)**
**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| Name of issuing Entity and association of each issue | Number of shares or Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet | Value Based on Market Quotations at end of reporting period | Income received & Accrued (Note 2) |
|---|---|---|---|---|
| **FUNDS AND EQUITIES** | **No. of Units** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| BPAM(ASF)-SDA BSP NET-Peso | - | 11,374,943 | 11,374,943 | 178,056 |
| BPI(ASF)-Peso Bond Fund-Peso | 54,290 | 11,418,273 | 11,418,273 | 378,032 |
| BPI-SSA BPI NET-USD | - | 38,251,402 | 38,251,402 | 84,859 |
| BS-Alliance Bank JSC-Spon GDR (Pref)-USD | 3,843 | 9,105 | 9,105 | (690,733) |
| BS-Alliance Bank JSC-Spon GDR-USD | 6,923 | 30,109 | 30,109 | (245,977) |
| BS-Blackrock Global Funds-Latin America-US | 1,274 | 4,276,209 | 4,276,209 | (151,631) |
| BS-China Mobile Limited(941)-HKD | 13,000 | 5,576,138 | 5,576,138 | 106,525 |
| BS-Citigroup Inc-USD | 2,380 | 2,792,117 | 2,792,117 | (2,172,121) |
| BS-FTIF Templeton Global; Bond A Dist-USD | 13,048 | 10,759,791 | 10,759,791 | (317,490) |
| BS-HSBC Holdings PLC-HKD | 10,460 | 3,487,643 | 3,487,643 | (1,051,710) |
| BS-Pimco Capital Securities Fund-USD | 51,760 | 21,829,232 | 21,829,232 | (309,968) |
| BS-USD Mutual Funds(Lyxor Winton Cap)-US | 1,701 | 8,848,557 | 8,848,557 | (50,963) |
| IA-General Electric Co.-USD | 1,950 | 1,544,768 | 1,544,768 | 172,056 |
| IP-BSP SDA/SSA SBC-Peso | - | 55,719,000 | 55,719,000 | 977,698 |
| MS-AIA (HOK Lsting)-HKD | HK$ 40,000 | 5,481,761 | 5,481,761 | 567,328 |
| MS-China Life Insurance Co. Ltd. | HK$ 20,000 | 2,170,099 | 2,170,099 | 1,364,763 |
| MS-Exxon Mobil Corp Com Stk-USD | $ 1,000 | 3,715,878 | 3,715,878 | 566,079 |
| MS-Hutchison Port Holdings Trust-USD | $ 100,000 | 2,718,080 | 2,718,080 | (545,179) |
| MS-Singapore Tech Eng Ltd-SGD | SGD 23,000 | 2,094,015 | 2,094,015 | (126,386) |
| | | **192,097,120** | **192,097,120** | **(1,266,762)** |
| **OTHERS** | **No. of Units/Face Amount** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| BPI(ASF)-fgen Pref 8% 7.25.18-PHP | 50,000 | 5,000,000 | 5,000,000 | - |
| IASF-Ayala Corp-Pref-Peso | 10,000 | 5,510,000 | 5,510,000 | 766,966 |
| IASF-BPI NET-Peso | PHP 11,600,000 | 11,136,440 | 11,136,440 | 534,277 |
| Pictet-PF Lux-Water-P Cap-Euro | - | 3,874,923 | 3,874,923 | (53,213) |
| | | **25,521,363** | **25,521,363** | **1,248,030** |
| **TOTAL - FVPL INVESTMENTS** | | **883,456,012** | **883,456,012** | **14,107,662** |
| **AFS INVESTMENTS** | | | | |
| **QUOTED EQUITY SHARES** | **No. of Shares** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| Aboitiz Equity Ventures | 26,450,600 | 1,061,991,590 | 1,061,991,590 | 37,213,898 |
| Aboitiz Power Corporation | 44,584,000 | 1,333,061,600 | 1,333,061,600 | 48,603,720 |
| Alliance Global Group Inc. | 7,969,692 | 82,406,615 | 82,406,615 | 4,099,176 |
| Atlas Consolidated Mining & Dev't Corp | 2,466,000 | 41,527,440 | 41,527,440 | - |
| Ayala Land, Inc. "B" | 975,000 | 14,781,000 | 14,781,000 | 59,974 |
| Banco de Oro Unibank, Inc. | 400,290 | 23,617,110 | 23,617,110 | 450,000 |
| Cebu Air, Inc. | 1,295,390 | 83,941,272 | 83,941,272 | 4,525,950 |
| Digitel | 30,000,000 | 48,000,000 | 48,000,000 | - |
| DFFN, Inc. | 4,494,900 | 26,519,910 | 26,519,910 | - |
| DMCI Holdings | 3,540,706 | 146,231,158 | 146,231,158 | 663,700 |
| First Gen Corporation | 2,985,900 | 43,653,858 | 43,653,858 | - |
| First Phil. Holdings Corp. | 2,869,570 | 176,478,555 | 176,478,555 | 363,630 |
| Jollibee | 872,330 | 78,902,249 | 78,902,249 | 730,423 |
| I C T S I | 30,370,250 | 1,609,623,250 | 1,609,623,250 | 13,517,450 |
| iPeople, Inc. | 48,643,800 | 214,032,720 | 214,032,720 | 14,096,802 |
| Leisure & Resorts World Corporation | 4,230,000 | 38,450,700 | 38,450,700 | - |
| Manila Water Company, Inc. | 1,308,100 | 25,377,140 | 25,377,140 | 746,228 |
| Metro Pacific Investment Corp | 39,993,948 | 128,077,850 | 128,077,850 | 385,570 |
| Philex Mining Corporation | 1,505,000 | 31,379,250 | 31,379,250 | 454,000 |

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS (Note 1)**
**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| Name of issuing Entity and association of each issue | Number of shares or Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet | Value Based on Market Quotations at end of reporting period | Income received & Accrued (Note 2) |
|---|---|---|---|---|
| Philex Petroleum Corporation | 250,000 | 1,755,000 | 1,755,000 | 2,150,000 |
| Energy Dev't (EDC) Corporation | 51,279,550 | 322,548,370 | 322,548,370 | 6,033,240 |
| R C B C | 4,072,400 | 122,579,240 | 122,579,240 | 392,000 |
| Robinson Land Corporation | 5,590,091 | 63,168,028 | 63,168,028 | 95,868 |
| Semirara Mining Corporation | 528,880 | 117,094,032 | 117,094,032 | - |
| SM Development Corporation | 16,028,946 | 108,996,833 | 108,996,833 | 2,040,870 |
| Southeast Asia Cement | 36,596,000 | 58,553,600 | 58,553,600 | 1,018,950 |
| Swift Foods-Pref. | 246,623 | 232,713 | 232,713 | 10,752 |
| Universal Robina | 4,056,310 | 194,702,879 | 194,702,879 | 9,875,250 |
| Export and Industry Bank | - | 886,080 | 886,080 | - |
| PLDT | - | 59,700 | 59,700 | - |
| ACMDC | - | 14,310,098 | 14,310,098 | - |
| | | **6,212,939,840** | **6,212,939,840** | **147,527,451** |
| **UNQUOTED EQUITY SHARES** | **No. of Units/Face Amount** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| Central Azuc dela Carlot | 271 | 780 | 780 | - |
| Enderun Colleges, Inc. | 16,216,217 | 286,200,000 | 286,200,000 | - |
| Alphion | 1,100,455 | 83,296,000 | 83,296,000 | - |
| AG & P | $ 5,000,000 | 219,200,000 | 219,200,000 | - |
| P.E. Media | 1,000,000 | 131,520,000 | 131,520,000 | - |
| Direct with Hotel | - | 32,567,289 | 32,567,289 | - |
| Tech Venture | - | 54,801,622 | 54,801,622 | - |
| K S A Realty Inc | - | 6,937,546 | 6,937,546 | 28,559,093 |
| Manila Peninsula Hotels,Inc. | 265,000 | 2,444,945 | 2,444,945 | - |
| Medical Doctors, Inc. | 790 | 79,000 | 79,000 | - |
| PLDT Co - Pref | 1,200 | 22,838 | 22,838 | - |
| PROPLE | - | 22,246,400 | 22,246,400 | - |
| Realty Investment Inc | 120,000 | 32,500 | 32,500 | - |
| | | **839,348,920** | **839,348,920** | **28,559,093** |
| **BONDS** | **Face Amount** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| BPI-BDO 3.875% 220416-USD | $ 1,000,000 | 42,748,384 | 42,748,384 | 1,701,049 |
| BPI-Hutchison Whampoa 7.625% 040919-US | $ 400,000 | 21,025,664 | 21,025,664 | 69,502 |
| BS-Alfa Mtn Issuance Ltd 8% 180315-USD | $ 400,000 | 17,579,840 | 17,579,840 | 1,020,110 |
| BS-Alliance Bank JSC 10.5 250317-USD | $ 156,865 | 5,243,683 | 5,243,683 | 713,363 |
| BS-Alliance Bank JSC 5.8% 250320-USD | $ 247 | 487,282 | 487,282 | 194,136 |
| BS-Asian Development Bk 9.25% 300413-BR | BRL 330,000 | 7,756,226 | 7,756,226 | 142,660 |
| BS-Banco Do Brazil 5.875% 260122-USD | $ 200,000 | 8,761,424 | 8,761,424 | 259,758 |
| BS-Banco Votorantim 7.375% 210120-USD | $ 250,000 | 11,699,800 | 11,699,800 | 764,130 |
| BS-Bank of America 5.875% 050121-USD | $ 250,000 | 10,212,638 | 10,212,638 | 557,654 |
| BS-Braskem SA 7% 070520-USD | $ 200,000 | 9,381,760 | 9,381,760 | 605,592 |
| BS-European Bank Recon & Dev 9.75% 2801 | BRL 330,000 | 7,848,971 | 7,848,971 | 169,008 |
| BS-European Inv't Bank 10% 100913-TRY | TRY 400,000 | 9,268,973 | 9,268,973 | 741,949 |
| BS-FPT Finance Ltd 6.375% 280920-USD | $ 250,000 | 11,179,200 | 11,179,200 | 689,308 |
| BS-Genting Hongkong 3.95% 300614-CNY | CNY 1,500,000 | 10,163,351 | 10,163,351 | 198,672 |
| BS-Global Logistic Properties 3.375% 110516 | CNY 1,500,000 | 10,142,503 | 10,142,503 | 161,834 |
| BS-PAN American Energy 7.875% 070521-U | $ 155,000 | 6,931,104 | 6,931,104 | 535,169 |
| BS-Pertamina PT 5.25% 230521-USD | $ 200,000 | 8,987,200 | 8,987,200 | 118,149 |
| BS-Rushydro Finance 7.875% 281015-RUB | RUB 7,000,000 | 8,992,886 | 8,992,886 | 787,710 |
| BS-Telemar Noret Leste SA 5.5% 231020-US | $ 175,000 | 7,576,100 | 7,576,100 | 416,218 |
| BS-TNK-BP Finance 7.875% 130318-USD | $ 200,000 | 9,381,760 | 9,381,760 | 153,536 |
| BS-VEB Finance 6.902% 090720-USD | $ 250,000 | 11,234,000 | 11,234,000 | 704,487 |
| BS-Vedanta Resources PLC 8.25% 070621- | $ 250,000 | 8,548,800 | 8,548,800 | 501,434 |
| BS-Vimpelcom Holdings 7.5043% 010322 | $ 500,000 | 18,467,600 | 18,467,600 | 599,434 |

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS (Note 1)**
**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| Name of issuing Entity and association of each issue | Number of shares or Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet | Value Based on Market Quotations at end of reporting period | Income received & Accrued (Note 2) |
|---|---|---|---|---|
| BS-VTB Capital SA 6.551% 131020 | $ 200,000 | 8,241,920 | 8,241,920 | 562,535 |
| IA-CAIUA Srvicos Elec(REDE) 11.125% 0204 | - | (1,534,899) | (1,534,899) | 1,072,005 |
| IA-Export-import Bank Korea 8.3% 150314-ID | IDR 2,150,000,000 | 10,243,632 | 10,243,632 | 363,357 |
| IA-Lai Fung Holdings 9.125% 040414-USD | $ 250,000 | 9,480,400 | 9,480,400 | 966,931 |
| IA-MHP SA 10.25% 290415-USD | $ 200,000 | 7,825,440 | 7,825,440 | 930,446 |
| IA-Province of Buenos Aires 9.375%, 140918 | $ 250,000 | 8,110,400 | 8,110,400 | 3,361,919 |
| IA-SM Investment Corp 6% 220914-USD | $ 250,000 | 11,398,400 | 11,398,400 | 640,473 |
| ING-MetroBank | - | 9,310,739 | 9,310,739 | - |
| ING-PLDT | - | 13,779,350 | 13,779,350 | - |
| ING-URC | - | 6,584,549 | 6,584,549 | - |
| IPAlliance Global Group 6.5% 180817-USD | $ 500,000 | 22,619,248 | 22,619,248 | 482,676 |
| IP-EIB Korea2015 5.875% 140115-USD | $ 100,000 | 4,708,854 | 4,708,854 | 257,515 |
| IP-Hanaro Telecom Inc. 12, 7%, 02/01/12-US | $ 200,000 | 8,796,058 | 8,796,058 | 619,052 |
| IP-ICTSI 7.375% 031120-USD | $ 700,000 | 33,186,003 | 33,186,003 | 2,147,157 |
| IP-Korea 5.75% 04/16/2014-USD | $ 500,000 | 23,691,136 | 23,691,136 | 1,235,500 |
| IP-Korea Gas Corp 6% 150714 | $ 100,000 | 4,706,224 | 4,706,224 | 257,189 |
| IP-Korea Nat'l Housing(Kornha) 100914-USD | $ 100,000 | 4,583,472 | 4,583,472 | 212,274 |
| IP-KRW Hydro 6.25% 061714-USD | $ 100,000 | 4,716,746 | 4,716,746 | 276,312 |
| IP-PLDT 2017 8.35%-USD | $ 100,000 | 5,202,054 | 5,202,054 | 317,980 |
| IP-RCBC 6.25% 02/09/15-USD | $ 350,000 | 15,640,139 | 15,640,139 | 462,057 |
| IP-San Miguel Global Power 7% 012816-USD | $ 600,000 | 26,895,840 | 26,895,840 | 1,690,292 |
| IP-Shinhan Bank 6% 062912-USD | $ 300,000 | 13,372,954 | 13,372,954 | 779,637 |
| IP-SK Energy Co Ltd 7% 190613-USD | $ 300,000 | 13,949,011 | 13,949,011 | 896,197 |
| IP-SMIC 5.5% 131017-USD | $ 528,000 | 23,191,500 | 23,191,500 | 837,907 |
| IP-Ukrexim Bank(Eximuk) 6.8%, 10/04/12-US | $ 400,000 | 17,009,920 | 17,009,920 | 1,178,117 |
| IP-Woori Bank2015 7% 020215 | $ 100,000 | 4,787,766 | 4,787,766 | 292,727 |
| MS-Burgan Bank 7.875% 290920-USD | $ 200,000 | 9,436,998 | 9,436,998 | 226,021 |
| MS-Franshion Development Ltd 6.75% 15042 | $ 200,000 | 6,926,720 | 6,926,720 | 239,872 |
| MS-Galaxy Entertainment Grp Ltd 4.625% 1 | CNY 650,000 | 4,406,377 | 4,406,377 | 70,350 |
| MS-Zhongsheng 4.75% 210414-CNY | CNY 750,000 | 4,289,129 | 4,289,129 | 148,660 |
| MS-Zijin Int'l Finance Co. 4.25% 300616-USD | | 4,344,544 | 4,344,544 | 5,668 |
| | | **603,519,773** | **603,519,773** | **32,335,691** |
| **FUNDS AND EQUITIES** | **No. of Units** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| ATR-Indo Phil. Resources-AUD | | 11,438,858 | 11,438,858 | 122,617 |
| BPI-ING Reasearch Adv-USD | 7,362 | 77,808,223 | 77,808,223 | - |
| BS-Aberdeen Global-Asian Smaller-USD | 5,350 | 9,583,822 | 9,583,822 | |
| BS-BGF Emerging Europe Fund A2-EUR | 1,828 | 8,124,716 | 8,124,716 | - |
| BS-PIMCO GIS Global Multi Asset-USD | 18,713 | 10,467,785 | 10,467,785 | - |
| BS-RBS (Hutchison Whampoa) 190911-HKD | 14,000 | 5,146,639 | 5,146,639 | - |
| BS-Schroder Int'l Selection Fund-USD | 12,060 | 9,960,755 | 9,960,755 | 476,376 |
| IA-Ascendas India Dev'e Trust-SGD | 300,000 | 3,863,047 | 3,863,047 | - |
| IA-General Electric Co.-USD | 5,350 | (725,327) | (725,327) | - |
| IA-ING Real Estate China Opp (MF)-USD | - | 44,434,393 | 44,434,393 | - |
| ING Asia PAC HD EQ | - | 22,577,076 | 22,577,076 | - |
| IP-ING (L) Invest Info Tech-USD | 552 | 16,450,951 | 16,450,951 | - |
| IP-ING Invest Euro HD-USD | 7,000 | 21,395,674 | 21,395,674 | - |
| MS-Ascott Residence Trust SIN Listing-SGD | 35,000 | 1,172,743 | 1,172,743 | 53,368 |
| MS-BGF World Mining Fund A2-USD | 2,317 | 6,280,415 | 6,280,415 | - |
| MS-Blackrock Global Funds World Energy F | 3,674 | 3,710,778 | 3,710,778 | - |
| MS-Capcom Trust (SIN Listing)-SGD | 29,000 | 1,030,592 | 1,030,592 | 69,907 |
| MS-Energy Select Sector SPDR-USD | 1,450 | 4,394,456 | 4,394,456 | 47,022 |
| MS-Fundlogic Global Sol-Asia Target Eq Fun | 2,377 | 10,735,816 | 10,735,816 | - |
| MS-Ipath Dow Jones-AIG Commodity Index- | 2,050 | 3,796,193 | 3,796,193 | - |

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS (Note 1)**
**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| Name of issuing Entity and association of each issue | Number of shares or Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet | Value Based on Market Quotations at end of reporting period | Income received & Accrued (Note 2) |
|---|---|---|---|---|
| MS-Market Vectors Gold Miners-USD | 1,000 | 2,254,691 | 2,254,691 | 4,603 |
| MS-Morgan Stanley VRN 4Y Eclear 040815- | 150,000 | 6,211,703 | 6,211,703 | 175,107 |
| MS-MS Emerging Markets Domestic Fund | 8,163 | 5,063,803 | 5,063,803 | 293,243 |
| MS-MS Sicav Emerging Markets A ACC-USD | 2,800 | 4,001,715 | 4,001,715 | - |
| MS-Neptune Orient Lines Ltd. CS Bull ELN)- | 55,991 | 2,122,442 | 2,122,442 | 4 |
| MS-Select Global Convertible Bond-USD | 4,920 | 7,169,629 | 7,169,629 | - |
| MS-SPDR Gold Trust-USD | 1,200 | 7,995,890 | 7,995,890 | - |
| MS-Standard & Poor's Dep Receipts Trust- | 500 | 2,748,768 | 2,748,768 | - |
| MS-Suntec Reit (SIN Listing)-SGD | 27,000 | 977,794 | 977,794 | 64,237 |
| MS-Wilmar Int'l Ltd-SGD | 15,000 | 2,538,405 | 2,538,405 | 27,586 |
| Rohatyn Global (class B & S2) | - | 998,503 | 998,503 | - |
| | | **313,730,948** | **313,730,948** | **1,334,070** |
| **PROPRIETARY SHARES** | **No. of Shares** | **Amount in PHP** | **Amount in PHP** | **Amount in PHP** |
| Canlubang Golf & Country Club | 2 | 760,000 | 760,000 | - |
| Celebrity Sports Plaza | 1 | 100,000 | 100,000 | - |
| Fuego Development Corporation | 1 | 803,250 | 803,250 | - |
| Manila Golf & Country Club | 3 | 108,000,000 | 108,000,000 | - |
| Manila Polo Club | 1 | 7,000,000 | 7,000,000 | - |
| Matabungkay Beach Resort | 1 | 15,000 | 15,000 | - |
| Metropolitan Club | 1 | 150,000 | 150,000 | - |
| Orchard Golf & Country Club | 1 | 100,000 | 100,000 | - |
| Ridge Country Club | 1 | 10,000 | 10,000 | - |
| Sta Elena Properties'A' | 3 | 7,200,000 | 7,200,000 | - |
| Valle Verde Country Club | 1 | 100,000 | 100,000 | - |
| | | **124,238,250** | **124,238,250** | **-** |
| **TOTAL - AFS INVESTMENTS** | | **8,093,777,731** | **8,093,777,731** | **209,756,305** |
| **GRAND TOTAL - FINANCIAL ASSETS** | | **8,977,233,743** | **8,977,233,743** | **223,863,967** |

Note 1 This account consists of investments that are designated as at AFS, FVPL and held-for-trading investments.

Note 2 This column includes interest income, dividends and unrealized gain/loss in market value of FVPL investments charged to income in 2011.

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES AND RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| Name and Designation of Debtor | Balance at beginning of period | Additions | Amounts Collected | Current | Not Current | Balance at end of period |
|---|---|---|---|---|---|---|
| **ADVANCES TO OFFICERS AND EMPLOYEES** | | | | | | |
| NAVARRA, Sammy | 167,121 | 6,351,043 | 5,705,099 | 813,065 | - | 813,065 |
| LAZCO, Lorenz | 204,041 | 216,642 | 204,041 | 216,642 | - | 216,642 |
| CASTRO, Joshua | 352,866 | 9,016 | 145,692 | 148,000 | 68,190 | 216,190 |
| HIPOS, Annabellee G. | 237,340 | 49,573 | 98,923 | 187,990 | - | 187,990 |
| MALVAR, Genever | 238,049 | 485,126 | 545,499 | 177,676 | - | 177,676 |
| PENARANDA, Dinagen | 145,826 | 34,459 | 47,022 | 133,263 | - | 133,263 |
| MARTINEZ, Milagros | 137,411 | 779,739 | 813,230 | 103,920 | - | 103,920 |
| DEMONTEVERDE, Anna | 32,295 | 547,683 | 489,115 | 90,863 | - | 90,863 |
| BUHION, Salome M. | 101,500 | 185,962 | 212,250 | 75,212 | - | 75,212 |
| CABOTAGE, Mia | 52,549 | 66,520 | 46,402 | 72,667 | - | 72,667 |
| SYJUCO, Michael Glenn | 70,000 | 170,000 | 175,000 | 65,000 | - | 65,000 |
| SANTOS, Claudine N. | 21,614 | 187,252 | 167,556 | 41,310 | - | 41,310 |
| ARANNA, Jenny | 56,000 | 65,100 | 83,100 | 38,000 | - | 38,000 |
| MILLER, Alan | 25,354 | 321,605 | 309,105 | 37,854 | - | 37,854 |
| PENULLAR, Benigno | 63,093 | 160,964 | 187,745 | 36,312 | - | 36,312 |
| ACHARON, Flordeliza | 50,500 | 29,998 | 47,224 | 33,274 | - | 33,274 |
| MALACASTE, Jay | 28,000 | 210,962 | 206,618 | 32,344 | - | 32,344 |
| MARTELINO, Deanna | 492 | 30,000 | 492 | 30,000 | - | 30,000 |
| LOCSIN, Ma. Rosario | 14,646 | 287,673 | 273,910 | 28,409 | - | 28,409 |
| SANCHEZ, Ramcy | 30,333 | 66,022 | 68,733 | 27,622 | - | 27,622 |
| ALMARIO, Elsie P. | (2,760) | 85,333 | 55,573 | 27,000 | - | 27,000 |
| CAYOBIT, Jose | 25,000 | 245 | - | 25,245 | - | 25,245 |
| MONSONES, Kelvin | 23,795 | - | 6 | 23,789 | - | 23,789 |
| VARIOUS (below P20,000) | 1,908,855 | 1,444,971 | 2,627,343 | 726,483 | - | 726,483 |
| | 3,983,920 | 11,785,888 | 12,509,678 | 3,191,940 | 68,190 | 3,260,130 |
| **OTHER RECEIVABLES** | | | | | | |
| IBAZETA, Jose (included in other receivables) Note 1 | 2,132,204 | 551,742 | 580,000 | 551,742 | 1,552,204 | 2,103,946 |
| | 2,132,204 | 551,742 | 580,000 | 551,742 | 1,552,204 | 2,103,946 |

Note 1 - Subsequently paid on April 4, 2012.

**A. SORIANO CORPORATION AND SUBSIDIARIES**

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

**(Amounts in PHP)**

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | | Amount Collected | Current | Non Current | Balance at End of Period | Transactions | | Terms | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Subsidiaries | Advances | | | | | Nature | Amount | Interest Rate | Payment Terms | Others |
| **A. SORIANO CORPORATION RECEIVABLES FROM ITS SUBSIDIARIES** | | | | | | | | | | | | |
| Anscor Property Holdings Inc | 120,460 | - | 16,090,725 | 14,798,348 | 1,412,838 | - | 1,412,838 | working capital | 16,090,725 | | non-interest bearing | |
| Seven Seas Resorts & Leisure Inc. | - | 136,515 | - | - | 136,515 | - | 136,515 | working capital | 136,515 | | non-interest bearing | |
| Pamalican Resorts Inc. | - | 599,515 | | | 599,515 | - | 599,515 | management fee | 1,542,437 | | non-interest bearing | management fee amounting to $4,000/month |
| A. Soriano Air Corp | 4,002,181 | - | - | - | - | 4,002,181 | 4,002,181 | working capital | - | 7% per annum | Until June 15, 2016 | |
| A. Soriano Aviation Inc. | (79,862) | - | 1,236 | - | 1,236 | (79,862) | (78,626) | working capital | 1,236 | | non-interest bearing | |
| Sutton Place Holdings | 314,839 | - | 700 | - | 700 | 314,839 | 315,539 | working capital | 700 | | non-interest bearing | |
| Anscor International | 577,430,012 | | 479,366,201 | | 479,366,201 | 577,430,012 | 1,056,796,213 | working capital & investments | 479,366,201 | | non-interest bearing | |
| | **581,787,630** | **736,030** | **495,458,862** | **14,798,348** | **481,517,005** | **581,667,170** | **1,063,184,175** | | | | | |
| **A. SORIANO CORPORATION PAYABLES TO ITS SUBSIDIARIES** | | | | | | | | | | | | |
| Anscor Property Holdings Inc | 535,645 | - | - | 535,645 | - | - | - | working capital | - | | non-interest bearing | |
| Anscor Consolidated Corp. | 65,917,505 | - | 287,941,914 | 353,859,419 | - | - | - | dividend payment & other charges | 287,941,914 | | non-interest bearing | |
| | **66,453,150** | **-** | **287,941,914** | **354,395,064** | **-** | **-** | **-** | | | | | |
| **RECEIVABLES BETWEEN SUBSIDIARIES** | | | | | | | | | | | | |
| **A. SORIANO AIR CORP. (Conso)** | | | | | | | | | | | | |
| Pamalican Resort Inc. (ASAC direct receivables) | - | 568,099 | - | - | - | 568,099 | 568,099 | working capital | 568,099 | | non-interest bearing | |
| Pamalican Resort Inc. (IAI direct receivables) | - | 5,359,838 | - | - | - | 5,359,838 | 5,359,838 | rental & air service agreement | 14,145,399 | | non-interest bearing | Fixed round trip rate per passenger; IAI operating costs will be covered |
| Seven Seas Resorts & Leisure Inc. (Pamalican Island Holdings direct receivables) | - | 668,418 | - | - | - | 668,418 | 668,418 | working capital | 668,418 | | non-interest bearing | |
| | - | 6,596,355 | - | - | - | 6,596,355 | 6,596,355 | | | | | |
| **ANSCOR CONSOLIDATED CORPORATION** | | | | | | | | | | | | |
| A. Soriano Corporation | 65,917,505 | - | 287,941,914 | 353,859,419 | - | - | - | dividend payment & other charges | 287,941,914 | | non-interest bearing | |
| Seven Seas Resorts & Leisure Inc. | - | 700,379 | - | - | - | 700,379 | 700,379 | working capital | 700,379 | | non-interest bearing | |
| | 65,917,505 | 700,379 | 287,941,914 | 353,859,419 | - | 700,379 | 700,379 | | | | | |
| **SEVEN SEAS RESORTS & LEISURE INC. (Conso)** | | | | | | | | | | | | |
| A. Soriano Air Corp. (A. Soriano Air - Conso) | - | 185,238 | - | - | - | 185,238 | 185,238 | working capital | 185,238 | | | |
| Island Aviation Inc. (direct receivable of SSRLI) | - | 56,137,521 | - | - | - | 56,137,521 | 56,137,521 | working capital | 56,137,521 | 5% per annum | installments starting March 31, 2013 | |
| Pamalican Island Holdings, Inc. (direct receivable of PRI) | - | 19,438,110 | - | - | - | 19,438,110 | 19,438,110 | working capital | 19,438,110 | | non-interest bearing | |
| | - | 75,760,869 | - | - | - | 75,760,869 | 75,760,869 | | | | | |
| **ANSCOR PROPERTY HOLDINGS INC. (Conso)** | | | | | | | | | | | | |
| A. Soriano Corporation | 535,645 | - | | 535,645 | - | - | - | working capital | - | | non-interest bearing | |
| A. Soriano Air Corp. | 284,676 | - | - | - | - | 284,676 | 284,676 | working capital | - | | non-interest bearing | |
| Seven Seas Resorts & Leisure Inc. | - | 482,921 | - | - | - | 482,921 | 482,921 | consultancy fees | 482,921 | | non-interest bearing | |
| | 820,321 | 482,921 | - | 535,645 | - | 767,597 | 767,597 | | | | | |
| **Sutton Place Holdings Inc. (Conso)** | | | | | | | | | | | | |
| Anscor International | 2,222,079 | - | - | 824,849 | - | 1,397,230 | 1,397,230 | working capital | - | | non-interest bearing | |
| | 2,222,079 | - | - | 824,849 | - | 1,397,230 | 1,397,230 | | | | | |
| | **68,959,905** | **83,540,524** | **287,941,914** | **355,219,913** | **-** | **85,222,430** | **85,222,430** | | | | | |

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE**
**ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| | | Additions | | | | | | Transactions | | Terms | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name and Designation of Debtor | Balance at Beginning of Period | Subsidiaries | Advances | Amount Collected | Current | Non Current | Balance at End of Period | Nature | Amount | Interest Rate | Payment Terms | Others |
| **PAYABLES BETWEEN SUBSIDIARIES** | | | | | | | | | | | | |
| **A. SORIANO AIR CORP. (Conso)** | | | | | | | | | | | | |
| A. Soriano Corporation | 4,002,181 | - | - | - | - | 4,002,181 | 4,002,181 | working capital | - | 7% per annum | Until June 15, 2016 | |
| Anscor Property Holdings Inc | 284,676 | - | - | - | - | 284,676 | 284,676 | working capital | - | | non-interest bearing | |
| Seven Seas Resorts & Leisure Inc. | - | 185,238 | - | - | - | 185,238 | 185,238 | working capital | 185,238 | | non-interest bearing | |
| Seven Seas Resorts & Leisure Inc. (direct payable of IAI) | - | 56,137,521 | - | - | - | 56,137,521 | 56,137,521 | working capital | 56,137,521 | 5% per annum | installments starting March 31, 2013 | |
| Seven Seas Resorts & Leisure Inc. (Direct payable of PIHI) | - | 19,438,110 | - | - | - | 19,438,110 | 19,438,110 | working capital | 19,438,110 | | non-interest bearing | |
| | 4,286,857 | 75,760,869 | - | - | - | 80,047,726 | 80,047,726 | | | | | |
| **SEVEN SEAS RESORTS & LEISURE INC. (Conso)** | | | | | | | | | | | | |
| A. Soriano Air Corp. (A. Soriano Air - Conso) | - | 568,099 | - | - | - | 568,099 | 568,099 | working capital | 568,099 | | non-interest bearing | |
| Island Aviation Inc. (A. Soriano Air - Conso) | - | 5,359,838 | - | - | - | 5,359,838 | 5,359,838 | rental & air service agreement | 14,145,399 | | non-interest bearing | Fixed round trip rate per passenger; IAI operating costs will be covered |
| Pamalican Island Holdings, Inc. (A. Soriano Air - Conso) | - | 668,418 | - | - | - | 668,418 | 668,418 | working capital | 668,418 | | non-interest bearing | |
| Anscor Property Holdings Inc | - | 482,921 | - | - | - | 482,921 | 482,921 | consultancy fees | 482,921 | | non-interest bearing | Certain fee agrred by the two parties |
| Anscor Consolidated Corp. | - | 700,379 | - | - | - | 700,379 | 700,379 | working capital | 700,379 | | non-interest bearing | |
| | - | 7,779,655 | - | - | - | 7,779,655 | 7,779,655 | | | | | |
| **ANSCOR PROPERTY HOLDINGS INC. (Conso)** | | | | | | | | | | | | |
| A. Soriano Corporation | 120,460 | - | 16,090,725 | 14,798,348 | 1,412,838 | - | 1,412,838 | working capital | 16,090,725 | | non-interest bearing | |
| | 120,460 | - | 16,090,725 | 14,798,348 | 1,412,838 | - | 1,412,838 | | | | | |
| **Ancsor International (Conso)** | | | | | | | | | | | | |
| Cirrus Global (Sutton Place - Conso) | 2,222,079 | - | - | 824,849 | - | 1,397,230 | 1,397,230 | working capital | - | | non-interest bearing | |
| A. Soriano Corporation | 577,430,012 | - | 479,366,201 | - | 479,366,201 | 577,430,012 | 1,056,796,213 | working capital | 479,366,201 | | non-interest bearing | |
| | 579,652,091 | - | 479,366,201 | 824,849 | 479,366,201 | 578,827,242 | 1,058,193,443 | | | | | |
| | **584,059,408** | **83,540,524** | **495,456,926** | **15,623,197** | **480,779,039** | **666,654,623** | **1,147,433,662** | | | | | |

**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**

**FOR THE YEAR ENDED DECEMBER 31, 2011**
**(Amounts in PHP)**

| Description | Beginning Balance | Additions at cost | Deductions: Charged to cost & expenses | Deductions: Charged to other accounts | Other Changes: Additions | Other Changes: Deductions | Ending Balance |
|---|---|---|---|---|---|---|---|
| **PREPAYMENTS AND OTHER CURRENT ASSETS** | | | | | | | |
| Deposits | 42,587,716 | - | - | 15,612,986 | 8,457,702 Note 1 | - | 35,432,432 |
| Prepaid insurance and others | 18,242,371 | - | 2,640,043 | - | 7,470,814 Note 1 | - | 23,073,142 |
| Input VAT | 9,970,990 | - | - | 5,422,732 | - | - | 4,548,258 |
| | 70,801,077 | - | 2,640,043 | 21,035,718 | 15,928,516 | - | 63,053,832 |
| Valuation allowance | (4,521,063) | - | - | - | - | - | (4,521,063) |
| | 66,280,014 | - | 2,640,043 | 21,035,718 | 15,928,516 | - | 58,532,769 |
| **GOODWILL** | | | | | | | |
| Seven Seas Resorts and Leisure Inc. (Note 1) | - | 99,330,987 | - | - | - | - | 99,330,987 |
| Cirrus Medical Staffing, LLC (Note 2) | 510,905,060 | - | - | 5,637,976 | - | - | 505,267,084 |
| | 510,905,060 | 99,330,987 | - | 5,637,976 | - | - | 604,598,071 |
| **OTHER NONCURRENT ASSETS** | | | | | | | |
| Deferred nurse cost | 29,331,158 | 3,958,386 | - | - | - | - | 33,289,544 |
| Fund for villa operations | - | - | - | - | 47,063,533 Note 1 | - | 47,063,533 |
| Restricted cash fund | - | - | - | - | 2,746,177 Note 1 | - | 2,746,177 |
| Property development in progress | - | - | - | - | 11,501,740 Note 1 | - | 11,501,740 |
| Software | 4,310,802 | - | 3,188,863 | - | - | - | 1,121,939 |
| Deposits | 1,740,226 | 395,200 | - | - | - | - | 2,135,426 |
| Housing credits | 2,588,000 | - | - | - | - | - | 2,588,000 |
| Others | 3,063,595 | - | 57,880 | - | - | 2,858,080 * | 147,635 |
| Total | 41,033,781 | 4,353,586 | 3,246,743 | - | 61,311,450 | 2,858,080 | 100,593,994 |

* These are assets of subsidiaries picked up in the line by line consolidation.

Note 1 - On February 28, 2011, the Company acquired additional 15.51% shares in Seven Seas Resorts & Leisure, Inc. (SSRLI) which increased the Company's ownership from 46.79% to 62.30%. SSRLI balances as of December 31, 2011 was included in the consolidation. The Group recognized goodwill amounting to P99.3 million, arising from the acquisition of additional shares in SSRLI.

Note 2 - Goodwill from Cirrus was reduced by P5.6 million due to foreign exchange differences in 2011.

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE E - LONG-TERM DEBT**
**AS OF DECEMBER 31, 2011**
**(Amounts in PHP)**

| Title of issue and Type of Obligation | Amount Authorized by Indenture | Amount Shown under caption "Current portion of long-term debt" in related balance sheet | Amount Shown under caption "Long-term debt - net of current portion" in related balance sheet |
|---|---|---|---|
| Loan obtained by IAI: | | | |
| Union Bank of the Philippines (Note 1) | 10,960,000 | 10,960,000 | - |
| Loan obtained by PRI: | | | |
| Bank of the Philippine Islands (Note 2) | 131,520,000 | 12,894,113 | 118,625,887 |
| Total | 142,480,000 | 23,854,113 | 118,625,887 |

Note 1 - Loans 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 loan is payable at maturity in October 2012, with interest payable quarterly at 8.87% per annum. IAI made an agreement with the bank that starting October 2008 until the original maturity date, the principal amount of the loan shall be amortized equally and the bank can demand payment for amount currently due. This loan is collateralized by chattel mortgages on IAI's two aircraft with a carrying value of P43.2 million and P21.5 million as of December 31, 2011 and 2010, respectively. Current portion of the loans payable is recognized amounting to P11.0 million as at December 31, 2011 and 2010.

Note 2 - Loans payable of PRI amounting to US$2.0 million and US$1.0 million were obtained from local banks on November 29, 2005 and December 22, 2011. The $2.0 million loan, which was transferred from SSRLI through an execution of Deed of Assumption of Loan and Mortgage dated June 2, 2011, is subject to Mortgage Trust Indenture (MTI), covering the assets of SSRLI which were also transferred to PRI pursuant to the Deed of Transfer dated December 7, 2011 . Both loans have a floating interest rate per quarter equivalent to the average quarterly LIBOR plus 2% spread. The US$2.0 million loan has a maximum term of seven years, including three years grace period while the US$1.0 million loan has a maximum term of five years. Both loans are payable in 17 equal quarterly installments starting October 2012 to 2016. Current portion of loans payable is recognized amounting to P12.9 million as at December 31, 2011.

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES**
**(LONG-TERM LOANS FROM RELATED COMPANIES)**
**DECEMBER 31, 2011 AND 2010**
**(Amounts in PHP)**

| PARTICULARS | Balance at beginning of period | Balance at end of period |
|---|---|---|
| ***(PRESENTED UNDER INVESTMENTS AND ADVANCES ACCOUNT)*** | | |
| **AFFILIATED - INVESTMENT RELATED** | | |
| Newco, Inc. (Note 2) | 15,262,717 | **15,262,717** |
| | 15,262,717 | **15,262,717** |
| **Due From:** | | |
| Multi-media Telephony, Inc. (MTI) (Note 1 and 2) | 564,761,343 | **564,761,343** |
| Newco, Inc. (Note 2) | 14,058,504 | **12,283,787** |
| AFC | 1,500,000 | **1,500,000** |
| Seven Seas Resort & Leisure, Inc./Amanpulo Resort (Note 3) | 481,651 | **-** |
| Others | 834,397 | **2,552,656** |
| | 581,635,895 | **581,097,786** |
| **DIVIDENDS** | - | **-** |
| **Less Allowance for Doubtful Accts.** | 594,082,564 | **592,307,847** |
| **RECEIVABLE - NET** | **2,816,048** | **4,052,656** |

Note 1 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.

Note 2 Fully provided with allowance for doubtful accounts as of December 31, 2011.

Note 3 On February 28, 2011, the company acquired additional 15.51% shares in SSRLI which increased the Company's ownership from 46.79% to 62.30%. Intercompany receivables and payables were eliminated for purposes of consolidation.

**A. SORIANO CORPORATION AND SUBSIDIARIES**

**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**

**DECEMBER 31, 2011**

**(Amounts in PHP)**

| Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by the Company for which this Statement is Filed | Nature of Guarantee |
|---|---|---|---|---|
| N A | NA | NA | NA | NA |

**A. SORIANO CORPORATION AND SUBSIDIARIES**
**SCHEDULE H - CAPITAL STOCK**
**AS OF DECEMBER 31, 2011**

| Title of Issue | Number of Shares Authorized | Number of Shares issued & Outstanding | Number of shares Reserved for Options,Warrants Conversions & Other Rights | Number of shares Held by | | |
|---|---|---|---|---|---|---|
| | | | | related parties | Directors, Officers & employees | Others |
| Common Stock | 3,464,310,958 | 2,500,000,000 | NA | | | |
| Treasury shares | | - | | | | |
| No. of shares issued (no. of shares outstanding - legal) | | 2,500,000,000 | | 1,201,317,039 | 85,964,887 | 1,212,718,074 |
| No. of shares held by a subsidiary (Anscor Consolidated Corporation) | | (1,201,317,039) * | | | | |
| No. of shares outstanding | | 1,298,682,961 | | | | |

***** As of December 31, 2011, the cost of shares of the Company purchased by the subsidiary in 2011 totaled P1.8 billion. For the year 2011, P9.6million was the cost of shares purchased by the subsidiary.

## A. SORIANO CORPORATION AND SUBSIDIARIES
## ANNEX A – FINANCIAL INDICATORS

**Significant financial indicators of the Group are the following:**

| | | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| 1. | Book Value Per Share (Note 1) | **8.69** | 8.28 | 5.17 |
| 2. | Current Ratio (Note 2) | **3.14** | 7.04 | 2.23 |
| 3. | Interest Rate Coverage Ratio (Note 3) | **115.48** | 144.34 | 26.54 |
| 4. | Debt to Equity Ratio (Note 4) | **0.08** | 0.06 | 0.12 |
| 5. | Asset to Equity Ratio (Note 5) | **1.11** | 1.06 | 1.12 |
| 6. | Profit Ratio (Net Income Attributable to Equity Holdings of the Parent/Total Revenues) | **35.4%** | 56.4% | 16.7% |
| 7. | Return on Equity (Net Income/Equity Attributable to Equity Holdings of the Parent) | **8.8%** | 18.3% | 3.8% |

Note 1 – Equity Attributable to Equity Holdings of the Parent/Outstanding Shares
Note 2 – Current Assets/Current Liabilities
Note 3 – EBIT (earnings before interest and taxes)/ total interest expense
Note 4 – Total Liabilities/Equity Attributable to Equity Holdings of the Parent
Note 5 – Total Assets/Equity Attributable to Equity Holdings of the Parent

**The key financial indicators of our major subsidiaries, are the following:**

***Cirrus Group***

1. Submission to lock ratio (Operating statistic to evaluate recruitment)
2. Nurse/therapist retention ratio (Operating statistic to evaluate retention of nurse and therapist in the pool for staffing business.

In Thousand Pesos

| | 2011 | 2010 |
|---|---|---|
| 3. Service income | **1,005,133** | 730,011 |
| 4. Cost of services rendered | **822,106** | 596,058 |
| 5. Income (losses) before interest, taxes, depreciation and amortization | **4,361** | (24,955) |

***Seven Seas Group***

In Thousand Pesos

| | 2011 | 2010 |
|---|---|---|
| 1. Occupancy rate | **48.0%** | 47.7% |
| 2. Hotel revenue | **516,925** | 487,529 |
| 3. Gross operating profit (GOP) | **143,172** | 149,544 |
| 4. GOP ratio | **27.7%** | 30.7% |
| 5. Net Income before tax | **32,634** | 72,392 |

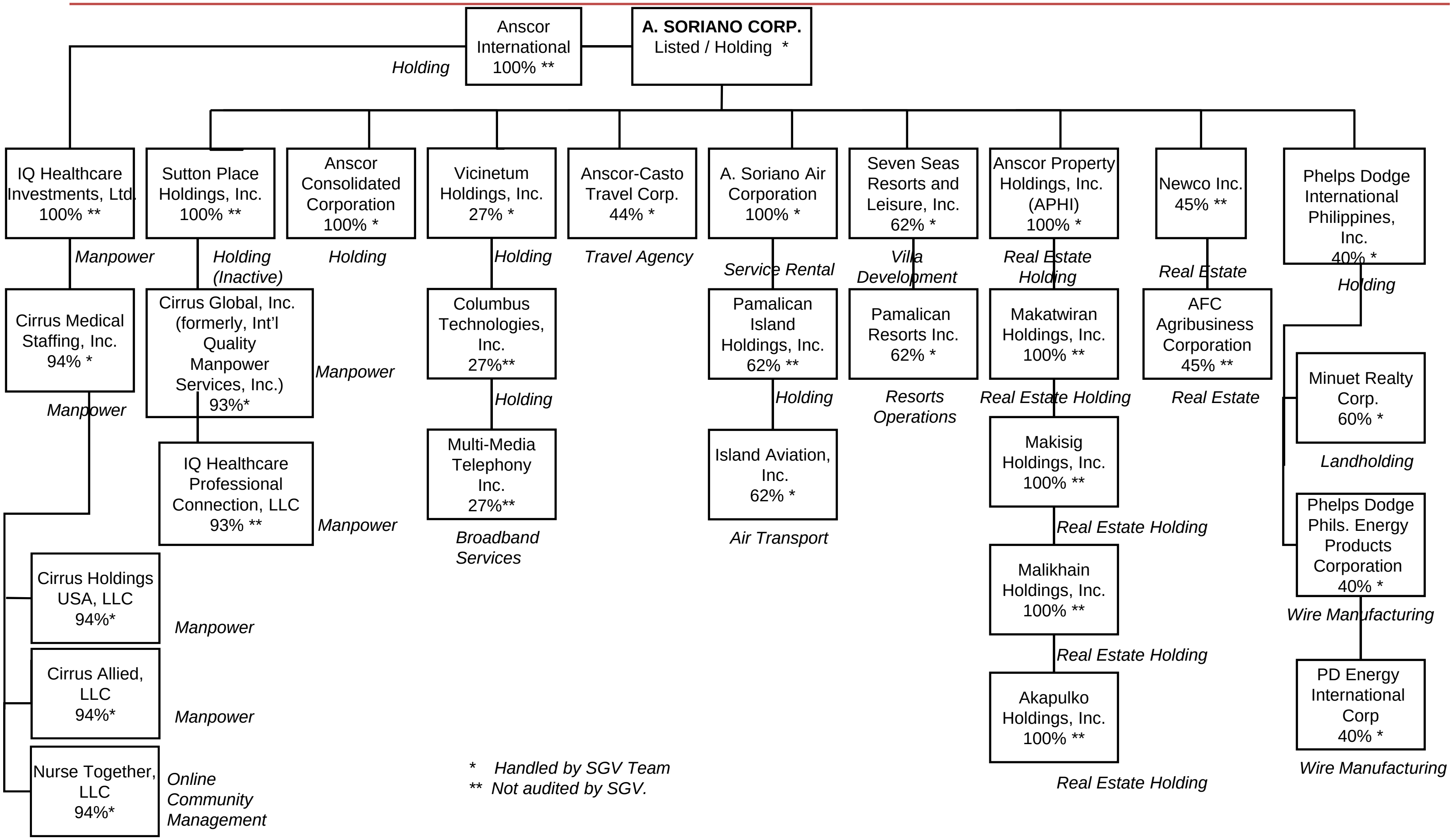
Occupancy rate is based on actual room nights sold over available room nights on a 12-month period. Hotel revenues include rooms, food and beverage and other ancillary services. GOP is total revenues less direct costs and GOP ratio is GOP over total hotel revenues.

## A. SORIANO CORPORATION (PARENT COMPANY)

### ANNEX B - Reconciliation of Retained Earnings Available for Dividend Declaration

| | | | | |
|---|---|---|---|---|
| **Unappropriated Retained Earnings, as adjusted to available for dividend distribution, January 1, 2011** | | | ₱ | **4,300,610,805** |
| Add: Net income actually earned/realized during the period | | | | |
| Net income during the period closed to Retained Earnings | | 1,307,509,607 | | |
| Less: Non-actual/unrealized income | | | | |
| Fair value adjustments - unrealized gain (M2M gain) | | - | | |
| Add: Non-actual losses | | | | |
| Fair value adjustments -2010 unrealized gain realized in 2011 (M2M gain) | 42,511,880 | | | |
| Deferred income tax recognized directly to income statement | 15,024,906 | 57,536,786 | | |
| **Net income actually earned/realized during the period** | | | | **1,365,046,393** |
| Add (Less): | | | | |
| **Dividends declared during the period** | | | | **(600,000,000)** |
| **Appropriation of retained earnings during the period** | | | | **(2,100,000,000)** |
| **TOTAL RETAINED EARNINGS, December 31, 2011, AVAILABLE FOR DIVIDEND DECLARATION** | | | ₱ | **2,965,657,198** |

# A. SORIANO CORPORATION - Group Structure



## A. SORIANO CORPORATION AND SUBSIDIARIES

**ANNEX D**

**List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as of December 31, 2011**

| PFRSs and PIC Q&As | Adopted/Not adopted/Not applicable |
|---|---|
| PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* | Adopted |
| PFRS 2, *Share-based Payment* | Adopted/Not applicable |
| PFRS 3, *Business Combinations* | Adopted |
| PFRS 4, *Insurance Contracts* | Not applicable |
| PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* | Adopted |
| PFRS 6, *Exploration for and Evaluation of Mineral Resources* | Not applicable |
| PFRS 7, *Financial Instruments: Disclosures* | Adopted |
| PFRS 8, *Operating Segments* | Adopted |
| PAS 1, *Presentation of Financial Statements* | Adopted |
| PAS 2, *Inventories* | Adopted |
| PAS 7, *Statement of Cash Flows* | Adopted |
| PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* | Adopted |
| PAS 10, *Events after the Reporting Period* | Adopted |
| PAS 11, *Construction Contracts* | Adopted |
| PAS 12, *Income Taxes* | Adopted |
| PAS 16, *Property, Plant and Equipment* | Adopted |
| PAS 17, *Leases* | Adopted |
| PAS 18, *Revenue* | Adopted |
| PAS 19, *Employee Benefits* | Adopted |
| PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* | Adopted/Not applicable |
| PAS 21, *The Effects of Changes in Foreign Exchange Rates* | Adopted |
| PAS 23, *Borrowing Costs* | Adopted |
| PAS 24, *Related Party Disclosures* | Adopted |
| PAS 26, *Accounting and Reporting by Retirement Benefit Plans* | Not applicable |
| PAS 27, *Consolidated and Separate Financial Statements* | Adopted |
| PAS 28, *Investments in Associates* | Adopted |
| PAS 29, *Financial Reporting in Hyperinflationary* | Not applicable |

| PFRSs and PIC Q&As | Adopted/Not adopted/Not applicable |
|---|---|
| *Economies* | |
| PAS 31, *Interests in Joint Ventures* | Adopted |
| PAS 32, *Financial Instruments: Presentation* | Adopted |
| PAS 33, *Earnings per Share* | Adopted |
| PAS 34, *Interim Financial Reporting* | Adopted |
| PAS 36, *Impairment of Assets* | Adopted |
| PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* | Adopted |
| PAS 38, *Intangible Assets* | Adopted |
| PAS 39, *Financial Instruments: Recognition and Measurement* | Adopted |
| PAS 40, *Investment Property* | Adopted |
| PAS 41, *Agriculture* | Not applicable |
| Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities* | Adopted/Not applicable |
| Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments* | Not applicable |
| Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease* | Adopted |
| Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* | Adopted/Not applicable |
| Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | Not applicable |
| Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | Not applicable |
| Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives* | Adopted |
| Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment* | Adopted |
| Philippine Interpretation IFRIC–12, *Service Concession Arrangements* | Adopted/Not applicable |
| Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes* | Adopted/Not applicable |
| Philippine Interpretation IFRIC–14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* | Adopted |

| PFRSs and PIC Q&As | Adopted/Not adopted/Not applicable |
|---|---|
| Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation* | Adopted/Not applicable |
| Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners* | Adopted/Not applicable |
| Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers* | Adopted/Not applicable |
| Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments* | Adopted |
| Philippine Interpretation SIC–7, *Introduction of the Euro* | Not applicable |
| Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities* | Adopted/Not applicable |
| Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities* | Adopted/Not applicable |
| Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers* | Adopted/Not applicable |
| Philippine Interpretation SIC–15, *Operating Leases – Incentives* | Adopted |
| Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* | Adopted |
| Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders* | Adopted |
| Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* | Adopted |
| Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures* | Adopted/Not applicable |
| Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services* | Adopted/Not applicable |
| Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs* | Adopted/Not applicable |
| PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts | Adopted |
| PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements | Adopted |
| PIC Q&A No. 2007-03: PAS 40.27 – Valuation of bank real and other properties acquired (ROPA) | Not applicable |
| PIC Q&A No. 2008-01 (Revised): PAS 19.78 – | Adopted |

| PFRSs and PIC Q&As | Adopted/Not adopted/Not applicable |
|---|---|
| Rate used in discounting post-employment benefit obligations | |
| PIC Q&A No. 2008-02: PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20 | Adopted/Not applicable |
| PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern | Not applicable |
| PIC Q&A No. 2010-01: PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines | Adopted |
| PIC Q&A No. 2010-02: PAS 1R.16 – Basis of preparation of financial statements | Adopted |
| PIC Q&A No. 2011-01: PAS 1.10(f) – Requirements for a Third Statement of Financial Position | Adopted |

REPUBLIC OF THE PHILIPPINES
**SECURITIES AND EXCHANGE COMMISSION**
SEC Building EDSA, Greenhills
City of Mandaluyong Metro Manila

Company Reg. No. PW-02

**CERTIFICATE OF FILING
OF
AMENDED BY-LAWS**

**KNOW ALL PERSONS BY THESE PRESENTS:**

**THIS IS TO CERTIFY** that the Amended By-Laws of

## A. SORIANO CORPORATION

copy annexed, adopted on March 06, 2007 by majority vote of the Board of Directors and on April 16, 2007 by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock, and certified under oath by the Corporate Secretary and majority of the said Board was approved by the Commission on this date pursuant to the provisions of Section 48 of the Corporation Code of the Philippines Batas Pambansa Blg. 68, approved on May 1, 1980, and copies thereof are filed with the Commission.

**IN WITNESS WHEREOF**, I have hereunto set my hand and caused the seal of this Commission to be affixed at Mandaluyong City, Metro Manila, Philippines, this 25th day of May, Two Thousand Seven.

BENITO A. CATARAN
Director
Company Registration and Monitoring Department

# AMENDED BY-LAWS
# OF
# A. SORIANO CORPORATION

## ARTICLE I

## CAPITAL STOCK AND SHARES

Section 1. Each stockholder shall be entitled to one or more shares of the Corporation registered in its Stock Books in the name of the person who has subscribed thereto. Certificates of Stock shall be issued in numerical order from the Stock Certificates Book and shall be signed by the Chairman of the Board and Chief Executive Officer or by the President and Chief Operating Officer, and countersigned by the Secretary and sealed with its corporate seal; Provided, that in lieu of the original signatures of the Chairman of the Board and Chief Executive Officer, or the President and Chief Operating Officer, and of the Secretary there may be substituted a facsimile of said signatures, in which case a certificate must bear the original and genuine signature of the Assistant Secretary or of an authorized representative of the Corporation's stock transfer agent and shall be sealed with the corporate seal. The certificates of stock shall be numbered in the order in which they are issued. On the stub of each certificate issued shall be recorded the data relative to each certificate.

Section 2. The certificates of stock may be transferred, sold, ceded or pledged by written endorsement on the back of the certificate and delivery thereof to the assignee, but the Corporation shall continue to honor the ownership of such certificate of the person in whose name it was issued, until such certificate is surrendered to the Secretary for cancellation and in lieu thereof a new certificate is issued in the name of the assignee.

The Corporation will refuse to record on its book the transfer of, and will not issue or sell, any shares of its capital stock or interest thereon, to persons who are not citizens of the Philippines, if, as a result of such issuance, sale or transfer, the total number of shares of capital stock owned on record or beneficially, as may be known to the Corporation, by non-Philippine citizens, will exceed FORTY PERCENT (40%) of the number of outstanding shares of capital stock and this restriction shall be indicated in all stock certificates.

Section 3. All certificates presented for transfer to the Secretary must be stamped "CANCELLED" on the face thereof together with the date of cancellation, and must be immediately attached to the corresponding stub in the stock book.

Section 4. New certificates of stock in lieu of those which have been lost or destroyed may be issued provided the owner of said certificates of stock, or his legal representative, shall file an affidavit, in triplicate, setting forth the circumstances under which said certificates have been lost or destroyed, the number of shares represented bv each certificate and the numbers of the certificates. The petitioner shall also submit such other information and evidence which he may deem convenient and necessary.

After verifying the affidavit and other information and evidence of the applicant with the books of the corporation, said corporation shall publish a notice of said loss in a newspaper of general circulation in the Philippines published in Manila, once a week for three consecutive weeks, at the expense of the petitioner. The notice shall state the name of the corporation, the name of the registered owner, the number of the certificates, and the number of shares represented by each certificate. After the expiration of one year from the date of the last publication, if no claim has been presented to said corporation regarding said certificates of stock, the right to make such claim shall be barred and said corporation shall cancel in its books the certificates of stock which have been lost or destroyed, issuing in lieu thereof new certificates of stock. If the registered owner files a bond satisfactory to the Board of Directors, running for a period of one year to indemnify the corporation during said period, of any loss or damages which it may incur for the issuance of the new certificates, the new certificates may be issued even before the expiration of the one-year period provided herein. Provided, however, that if a claim has been presented to the corporation or, if an action is pending in Court, regarding the ownership of said certificates of stock, the issuance of the new certificates of stock in lieu thereof shall be suspended until final adjudication by the Court regarding the ownership of the said certificates.

Section 5 The stock and transfer books of the corporation shall be closed for transfer at least twenty (20) days next preceding the Annual Meeting of Stockholders.

## ARTICLE II

## FUNDS OF THE CORPORATION

The funds of the Corporation shall be deposited in its name in such banks or credit institutions designated by the Board of Directors, with the exception of a small amount to be determined by the Board, which amount can be placed in the safe box of the Corporation.

## ARTICLE III

## MEETINGS

Section 1. The annual meeting of stockholders, legally constituted, represent the entire stockholdings and any resolutions adopted at such meetings are binding upon all stockholders present or absent.

Section 2. The meetings of stockholders shall be ordinary or extraordinary and held in the principal offices of the Corporation or in such place as may be designated by the Board within Metro Manila. Unless a different date and time preferably in April is fixed by the Board of Directors and only upon due notice, the annual meeting of stockholders shall be held at 10:00 o'clock in the morning on the THIRD WEDNESDAY OF OPRIL OF EACH YEAR, if not a legal holiday, and if a legal holiday, then on the day following. The special meeting of stockholders may be held at any time whenever so called by the Board of Directors or the Chairman and Chief Executive Officer.

Section 3. Notices of ordinary stockholders meeting shall be sent to stockholders or record at least fifteen (15) business days prior to the scheduled annual stockholders meeting. Notices for special meetings shall be mailed and deposited in any post office in Metro Manila addressed to each stockholder at his/her address registered in the Stock and Transfer Books of the Corporation at least fifteen (15) business days prior to the date of the meeting. The notice shall state the business to be discussed at the meeting and any other matters not stated therein shall not be touched upon. *(As amended by the Board on February 15, 2000; by the Stockholders on April 19, 2000.)*

Section 4. The meetings of stockholders, ordinary and extraordinary, duly called, shall be constituted and the minutes recorded, provided that more than one-half of the outstanding stock must be present or represented except in cases in which the Corporation Law requires a higher majority. If no quorum is constituted, the meeting shall be adjourned until the requisite number of stockholders shall be present. When the meeting of stockholders is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting. *(As amended by the Board on February 15, 2000; by the Stockholders on April 19, 2000.)*

Section 5. For the election of Directors it shall be necessary that one-half plus one of all shares subscribed be present or represented.

Section 6. Any stockholder with the right to vote may be represented by proxy at any stockholders' meeting, ordinary or extraordinary. The proxies shall be in writing and signed, with no other formality required. The proxies for the ordinary meetings shall be filed with the Corporate Secretary not less than ten (10) working days prior to the date of such meeting, otherwise the proxies will be invalid. *(As amended by the Board on February 15, 2000; by the Stockholders on April 19, 2000.)*

The Board of Directors shall set the date for validation of proxies which shall not be less than five (5) days prior to the scheduled annual stockholders meeting.

Section 7. Each share of stock, provided each share is fully paid for, is entitled to one vote in the name of the person recorded in the Stock Book of the Corporation.

Section 8. The election of directors must be made in accordance with law and every stockholder entitled to vote such number of shares for as many persons as there are directors or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit;

provided, that the total number of votes cast by him shall not exceed the number of shares owned by him.

Section 9. In the annual meeting of stockholders, a board of SEVEN (7) directors shall be elected who will hold their offices for the ensuing term and until their successors are duly elected and qualified. *(As amended by the Board on February 15, 2000; by the Stockholders on April 19, 2000 and as further amended by the Board of Directors on March 6, 2007 and by the Stockholders on April 16, 2007 .)*

## ARTICLE IV

## BOARD OF DIRECTORS

Section 1. The corporate powers, business and property of the Corporation shall be exercised, conducted and controlled by the Board of SEVEN (7) Directors who shall be elected annually by the stockholders for a term of one (1) year and shall serve until the election and acceptance of their qualified successors. *(As amended by the Board on February 15, 2000; by the Stockholders on April 19, 2000 and as further amended by the Board of Directors on March 6, 2007 and by the Stockholders on April 16, 2007 .)*

Without prejudice to the general powers hereinabove conferred, the Board of Directors shall have the following express powers:

a. From time to time to make and change rules and regulations not consistent with the by-laws for the management of the Company's business and affairs;

b. To purchase or otherwise acquire for the Company, rights or privileges which the Company is authorized to acquire at such price and on such terms and conditions and for such consideration as it shall from time to time see fit;

c. To pay for any property or rights acquired by the Company or to discharge obligations of the Company either wholly or partly in money or in stock, bond, debentures or other securities of the Company;

d. To borrow money for the Company and for such purpose to create, make and issue mortgages, bonds, deeds of trust and negotiable instruments or securities, secured by mortgage or pledge of property belonging to the Company; provided that, as hereinafter provided, the proper officers of the Company shall have these powers, unless expressly limited by the Board of Directors;

e. To prosecute, maintain, defend, compromise or abandon any law suit in which the Corporation or its officers are either Plaintiffs or Defendants in connection with the business of the Corporation, and likewise, to grant installments for the payments or settlement of whatsoever debts are payable to the Corporation;

f. To delegate, from time to time, any of the powers of the Board in the course of the current business or businesses of the Company to any standing or special committee or to any officer or agent and to appoint any persons to be agents of the Company with such powers (including the power to sub-delegate), and upon such terms, as may be deemed fit; and

g. To dissolve doubts as to the meaning of these by-laws and supply the omissions thereof, and giving an account to the General Meeting of the same.

Section 2. No persons shall be elected director unless he has at lest twenty thousand shares of the capital stock of the Corporation registered in his name.

Section 3. In addition to the right of the Board of Directors to make nominations for the election of directors, nominations for the election of directors may be made by any shareholder entitled to vote for the election of directors if that shareholder complies with all of the following provisions:

a. Nominations shall be received by the Chairman of the Board of Directors (which nominations may be sent to such Chairman in care of the Secretary of the Corporation), on March 1 of every year or at such earlier or later date as the Board of Directors may fix.

b. Each nomination under the preceding paragraph shall set forth (i) the name, age, business address and, if known, residence address of each nominee, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee, and (iv) the interests and positions held by each nominee in other corporation. In addition, the shareholder making such nomination shall promptly provide any other information reasonably requested by the Corporation.

c. The Board, by a majority vote unless a greater majority is required under these By-Laws, may, in its discretion, determine and declare that a nomination was not made in accordance with the foregoing procedures, and/or that a nominee is disqualified for election as Director and if the Board should so determine, the defective nomination and the nomination of a disqualified person shall be disregarded.

Section 4. A director shall be qualified to hold office only upon pledging the twenty thousand shares registered in his name to the Corporation to answer for his conduct. If any vacancy shall occur among the directors by death, resignation or otherwise, the remaining directors, by affirmative vote of a majority thereof, may elect a successor to hold office for the unexpired portion of the term of the director whose place shall be vacant and until the election of the new board of directors.

Section 5. Regular meetings of the Board of Directors shall be held once every quarter of the year in the office of the Corporation on such dates and at such times as the Chairman of the Board and Chief Executive Officer, or in his absence, the President and Chief Operating Officer may determine. Special meetings of the Board and Chief Executive Officer, or in his absence, of the President and Chief Operating Officer, or upon the request of a majority of the directors.

Section 6. Notice of the regular or special meetings of the Board shall be communicated by the Secretary to each director, verbally or in writing at his residence or usual place of business at least twenty-four (24) hours before the meeting.

Section 7. A majority of the entire membership of the Board shall constitute a quorum for the transaction of any business, and the decision of a majority of the quorum duly assembled as a Board shall be valid as a corporate act.

A written resolution signed by all the directors shall be binding and valid as if the same had been taken up by the Board in a meeting duly called.

## ARTICLE V

## EXECUTIVE COMMITTEE

The Board of Directors shall create an Executive Committee composed of five (5) members. The Executive Committee shall meet regularly at such times and places to be determined by a majority vote thereof. Unless otherwise provided for by the Board of Directors, the Executive Committee shall be composed of the Chairman and Chief Executive Officer, the Vice Chairman, the President and Chief Operating Officer, and two (2) officers or directors of the Company to be appointed by the Chairman. The Chairman and Chief Executive Officer of the Company shall act as Chairman of the Executive Committee.

The Executive Committee may act by majority vote of all of its members, on matters within the competence of the Board, except as specifically limited by law or by the Board of Directors. *(As amended by the Board on 2-15-00; by the stockholders on 4-19-00)*

All actions of the Executive Committee shall be reported to the Board of Directors at its meeting next succeeding such action, and shall be subject to revision or alteration by the Board, provided that no rights of third parties arising out of acts approved by the Executive Committee and within its scope of authority shall be affected by such revision or alteration.

Regular minutes of the proceedings of the Committee shall be kept in a book provided for that purpose. Vacancies in the Committee may be filled by the Board of Directors, provided that the parties agree to vote their shares, instruct their directors (to the extent permitted by law), or otherwise exercise their rights as stockholders so as to elect a person nominated by the party that nominated the member whose death, resignation or removal from office caused the vacancy.

Three (3) out of the five (5) members of the Executive Committee shall be necessary to constitute a quorum, and in every case the affirmative vote of the three members shall be necessary for the passage of any resolution. The Executive Committee may act by the written resolution of a quorum thereof, although not formally convened. It shall fix its own rules of procedure and shall meet as provided by such resolution or by resolution of the Board, and shall also meet at the call of its Chairman.

The Board of Directors shall fix the compensation of the members of the Executive Committee.

## ARTICLE VI

## OFFICERS

Section 1. The officers of the Corporation shall consist of a Chairman of the Board, who shall be the Chief Executive Officer, a Vice Chairman of the Board, a President, who shall be the Chief Operating Officer, an Executive Vice President, one or more Vice Presidents, a Treasurer and an Assistant Treasurer, a Secretary and an Assistant Secretary and such other officers as may, from time to time, be chosen and appointed by the Board of Directors.

Section 2. The Chairman of the Board and Chief Executive Officer of the Corporation shall have the following powers and duties:

a. To preside at the meetings of the Board of Directors and of the Stockholders;

b. To carry out the resolutions of the Board of Directors;

c. To initiate and develop corporate objectives and policies and formulate long range projects, plans and programs for the approval of the Board of Directors;

d. To have general supervision and administration of the affairs of the Corporation;

e. To represent the Corporation at all functions and proceedings and, unless otherwise directed by the Board , to attend and/or vote, (in person or by proxy) at any meeting of shareholders of corporations in which the Corporation may hold stock and at any such meeting, to exercise any and all the rights and powers incident to the ownership of such stock which the owner thereof might possess or exercise if present. *(As amended by the Board on 2-15-00; by the stockholders on 4-19-00)*

f. To execute on behalf of the Corporation all contracts, agreements and other instruments affecting the interests of the Corporation which required the approval of the Board of Directors, except as otherwise directed by the Board of

Directors;

g. To make reports to the Directors and Stockholders;

h. To sign certificates of stock; and

i. To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

Section 3. The Vice Chairman shall exercise the functions of the Chairman and Chief Executive Officer as specified in the next preceding section of this Article VI in the event of absence or temporary disability of the Chairman of the Board and Chief Executive Officer, and shall perform such other functions as the Board of Directors or the Chairman and Chief Executive Officer may from time to time entrust or delegate to him. *(As amended by the Board on 2-15-00; by the Stockholders on 4-19-00)*

Section 4. The President and Chief Operating Officer shall exercise the following functions:

a. To ensure that the administration and operational policies of the Corporation are carried out under the direction and control of the Chairman of the Board and Chief Executive Officer;

b. To supervise and direct the day-to-day business affairs of the Corporation;

c. To recommend to the Chairman of the Board and Chief Executive Officer specific projects for the attainment of corporate objectives and policies;

d. Subject to guidelines prescribed by law or by the Chairman of the Board and Chief Executive Officer, to appoint, remove, suspend or discipline employees of the Corporation, prescribe their duties, determine their salaries;

e. To oversee the preparation of the budgets and the statements of accounts of the Corporation;

f. To prepare such statements and reports of the Corporation as may be required by law;

g. To exercise such powers and perform such duties as the Chairman of the Board and Chief Executive Officer may from time to time assign to him;

h. Unless otherwise directed by the Board of Directors or by the Chairman of the Board and Chief Executive Officer, to exercise the latter's functions as specified in the next preceding section of this Article VI in the event of absence or temporary disability of the Chairman of the Board and Chief Executive Officer and the Vice Chairman of the Board.

Section 5. The Executive Vice President – In the absence or disability of the President and Chief Operating Officer, the Executive Vice President shall act in his place, exercise his powers and perform his duties pursuant to these By-Laws. The Executive Vice President shall also exercise such powers and perform such duties as the Chairman of the Board and Chief Executive Officer or the President and Chief Operating Officer may assign.

Section 6. The Vice Presidents shall have such powers and shall perform such duties as may from time to time be assigned to them by the Chairman of the Board and Chief Executive Officer or by the President and Chief Operating Officer. *(As amended by the Board on 2-15-00; by the Stockholders on 4-19-00)*

Section 7. The Secretary shall issue notices of all meetings; shall keep their minutes; shall have charge of the seal and the corporate books; shall sign with the Chairman of the Board and Chief Executive Officer or with the President and Chief Operating Officer the certificates of stock and such other instruments as may require such signature; shall act as the inspector at the election of directors and other voting by stockholders, and as such, determine the number of shares of stock outstanding and entitled to vote, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote; and shall make such reports and perform such other duties as are incident to his office or are properly required of him by the Board of Directors. The Secretary may assign the exercise or performance of his duty to act as election inspector and all duties related thereto, including the tabulation of votes and the proper conduct of the election or vote, to any other person or persons, subject always to his supervision and control. *(As amended by the Board on 2-15-00; by the Stockholders on 4-19-00)*

Section 8. In the absence of the Secretary, the Assistant Secretary shall act in his place and perform his duties. The Assistant Secretary shall also perform such other duties as may, from time to time, be assigned by the President and Chief Operating Officer.

Section 9. The Treasurer shall have the custody of all moneys, securities and values of the Corporation which come into his possession, and shall keep regular books of account. He shall deposit said moneys, securities and values of the Corporation in such banking institutions, as may be designated from time to time by the Board of Directors, subject to withdrawal therefrom only upon the checks or other written demands of the Corporation which have been signed by such officer or officers, or person or persons as the Board of Directors may from time to time direct.

Section 10. Assistant Treasurer – In the absence of the Treasurer, the Assistant Treasurer shall act in his place and perform his duties. The Assistant Treasurer shall also perform such other duties as may from time to time be assigned to him by the President and

Chief Operating Officer.

## ARTICLE VII

## INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Corporation shall indemnify every director, officer or member of the Board, his heirs, executors and administrators against all costs and expenses reasonably incurred by such person in connection with any civil, criminal, administrative or investigative action, suit or proceeding to which he may be, or is, made a party by reason of his being or having been a director, officer or member of the Board of the Corporation, except in relation to matters as to which he shall be finally adjudged in such action, suit or proceeding to be liable for negligence or misconduct.

In the event of a settlement or compromise, indemnification shall be provided only in connection with such matters covered by the settlement as to which the Corporation is advised by counsel that the person to be indemnified did not commit such a breach of duty.

The costs and expenses incurred in defending the aforementioned action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit, or proceeding as authorized in the manner provided for in the preceding paragraph upon receipt of an undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation as authorized in this Article.

## ARTICLE VIII

## AUDIT OF BOOKS

Section 1. In any ordinary meeting of stockholders to be held, a firm of Certified Public Accountants shall be appointed by the stockholders to examine the books of accounts of the Corporation, until said appointment has been revoked in another ordinary meeting of stockholders.

Section 2. The duties of the Auditor shall be to examine the books of ac counts of the Corporation when he may deem convenient. Such audits shall be made at least once every year and he shall issue his report on the annual balance sheets, which report shall be published together with the balance sheets. To this effect, the Auditor shall be allowed free access at any time to any and all books, documents and files of the Corporation concerning the status of the treasury.

Section 3. A copy of the audited financial statements of the Corporation shall be deposited in the offices of the Corporation at least fifteen (15) business days prior to the date of the annual meeting and shall be at the deposit of the shareholders for approval. *As amended by the Board on 2-15-00; by the Stockholders on 4-19-00)*

Section 4. The Board of Directors from time to time shall determine the remuneration of the Auditors; however, this power may be delegated to a Vice President or an Assistant Vice President.

Section 5. The fiscal year of the Corporation shall begin the first day of January and shall end on the last day of December of each year. *(As amended by the Board on 2-15-00; by the Stockholders on 4-19-00)*

## ARTICLE IX

## DISTRIBUTABLE FUNDS AND DISSOLUTION OF THE CORPORATION

Section 1. The Board of Directors may declare, from time to time, as partial dividends to the holder of stock, whichsoever funds of the Corporation the Board may deem not necessary for the carrying out of the purposes of the Corporation.

Section 2. The remuneration of the Board of Directors cannot be increased in the future without the approval, through a resolution, by the stockholders representing at lest a majority of the capital stock.

Section 3. Upon the expiration of the term of this Corporation if no agreement has been made regarding its extension, or, in case of dissolution, for any reason, the Board of Directors may perform the functions of liquidator and the applicable part of these by-laws shall continue in force and effect for the purpose and for the duration of such liquidation.

## ARTICLE X

## MISCELLANEOUS AND TRANSITORY PROVISIONS

Section 1. The Corporate Seal of the Corporation shall be circular in form and inscribed on its margin the name of the Corporation and the words “Makati, Rizal, Philippines” and within the circle, the words “Incorporated 1930”; and said seal shall, for the present, be adopted as seal of the Corporation.

Section 2. These By-Laws may be repealed, amended or revised at any special meeting of the Board of Directors called for the purpose when two-thirds of the members are present. Such amendments, revisions, repeals are to be presented to the stockholders for ratification at the Annual Stockholders’ Meeting immediately following such special meeting of the Board of Directors. Acts done by the Board pursuant to such amendments, repeals or revisions shall, unless and until expressly further amended or repealed by the stockholders, be deemed valid and shall bind the Corporation to all intents and purposes.

Section 3. These By-Laws shall be effective from this date, February 5, 1930, on which they were approved.

## STOCKHOLDERS' CERTIFICATE

The undersigned stockholders of "Sorox y Cia", representing more than two-thirds (2/3) of the capital stock issued by the Corporation, for these presents, certify that the foregoing By-Laws and Regulations of the Corporation was adopted by unanimous vote of all stockholders at the Special Meeting of Stockholders held on February 5, 1930 called for this purpose.

IN WITNESS WHEREOF, we have signed these presents this 5th day of February 1930, setting forth opposite our names the corresponding shares owned by each of the undersigned:

| | |
|---|---|
| (SGD.) A. SORIANO | 185 Shares |
| (MARGARITA ROXAS VDA. DE SORIANO)<br>p.p. (SGD.) A. SORIANO | 10 Shares |
| (SGD.) FRANCISCO ORTIGAS | 1 Share |
| (SGD.) JOHN R. SCHULTZ | 1 Share |
| (SGD.) BENITO RAZON | 1 Share |
| (SGD.) C. A. SOMBRAL | 1 Share |

## DIRECTORS' CERTIFICATE

Manila, February 5, 1930

We the undersigned, a majority of the members of the Board of Directors of "Sorox y Cia", do hereby certify that the preceding typewritten pages constitute the By-Laws of the Corporation, as adopted by unanimous vote of all stockholders present, represented by more than two-thirds (2/3) of the total subscribed and paid-up capital stock of the Corporation in the Annual Meeting of Stockholders held on February 5, 1930 and called for that purpose.

SGD.) A. SORIANO

(SGD.) FRANCISCO ORTIGAS

(SGD.) JOHN R. SCHULTZ

(SGD.) BENITO RAZON

ATTEST:

(SGD.) BENITO RAZON
Secretary

# A. SORIANO CORPORATION

## INFORMATION STATEMENT

*Wednesday, 11 April 2012, 10:00 A.M.*
*Rigodon Ballroom, Manila Peninsula Hotel*
*Ayala Avenue corner Makati Avenue*
*1226 Makati City, Philippines*

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 20-IS**
**INFORMATION STATEMENT PURSUANT TO SECTION 20**
**OF THE SECURITIES REGULATION CODE**

| | | | |
|---|---|---|---|
| 1. | Check the appropriate box:<br>/ / Preliminary Information Statement | | **/ X / Definitive Information Statement** |
| 2. | Name of the registrant as specified in its charter | : | **A. SORIANO CORPORATION** |
| 3. | Province, or country or other jurisdiction of Incorporation organization | : | **Makati City, Philippines** |
| 4. | SEC Identification Number | : | **PW - 02** |
| 5. | BIR Tax Identification Code | : | **000-103-216-000** |
| 6. | Address of principal office | : | **7th Floor Pacific Star Building**<br>**Makati Avenue corner Gil Puyat Ext.**<br>**1209 Makati City, Philippines** |
| 7. | Registrant's telephone number, including area code | : | **(632) 819-02-51 to 70** |
| 8. | Date, Time and Place of the meeting | : | **11 April 2012, Wednesday at 10:00 A.M.**<br>**Rigodon Ballroom**<br>**Manila Peninsula Hotel**<br>**Ayala Avenue corner Makati Avenue**<br>**1226 Makati City, Philippines** |
| 9. | Approximate date on which the Information Statement is first to be sent or given to security holders | : | **On or before 16 March 2012** |
| 10. | In case of Proxy Solicitations<br>Name of Person Filing the Statement/Solicitor | : | **Atty. Lorna Patajo-Kapunan,**<br>**Corporate Secretary** |
| | Address | : | **7th Floor Pacific Star Bldg.,**<br>**Makati Avenue**<br>**corner Gil Puyat Avenue,**<br>**1209 Makati City, Philippines** |
| | Telephone Nos. | : | **(632) 819-0251 to 70** |

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount to debt is applicable only to corporate registrants):

| | | |
|---|---|---|
| Title of Each Class | : | **Common Shares** |
| Number of shares of Common Stock Outstanding or Amount of Debt Outstanding | : | **2,500,000,000** |

| | | | |
|---|---|---|---|
| 12. | Are any or all of registrant's securities listed on the Philippine Stock Exchange? | : | **Yes** |
| | If so, disclose name of the Exchange | : | **Philippine Stock Exchange** |

# INFORMATION STATEMENT

## GENERAL INFORMATION

### Date, Time and Place of Meeting of Security Holders

| | | |
|---|---|---|
| Date | : | Wednesday, 11 April 2012 |
| Time | : | 10:00 A.M. |
| Place | : | Rigodon Ballroom<br>Manila Peninsula Hotel<br>Ayala Avenue corner Makati Avenue<br>1226 Makati City, Philippines |
| Principal Office | : | 7th Floor Pacific Star Bldg.<br>Makati Avenue corner Gil Puyat Avenue Ext.<br>1209 Makati City, Philippines |

This information statement and the enclosed proxy form will be mailed to stockholders entitled to notice of and to vote at the Annual Meeting on or about 16 March 2012.

### Voting, Revocability, Validation, Submission Deadline and Authentication of Proxies

When proxies are properly dated, executed and returned on or before 23 March 2012, the shares they represent will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, the shares will be voted FOR the election of the nominees for directorship whose names appear in the proxy form and FOR the approval of all matters the stockholders' approval of which is sought in the meeting. A stockholder giving a proxy has the power to revoke it at any time prior to its exercise by voting in person at the Annual Meeting, by giving written notice to the Corporate Secretary prior to the Annual Meeting or by giving a subsequent proxy which must be received by the office of the Corporate Secretary not later than 23 March 2012.

Each share of common stock outstanding as of record date will be entitled to one vote on all matters. The candidates for election as directors at the Annual Meeting who receive the highest number of affirmative votes will be elected. The appointment of the independent auditors for the Company for the current year as well as other items presented to the Stockholders during the Annual Meeting will require the affirmative vote of a majority of the votes cast on the matter. Pursuant to Article III, Section 6 of the By-Laws of the Corporation, written proxy shall be filed with the Corporate Secretary not less than ten (10) working days prior to the date of such meeting or not later than 23 March 2012.

Pursuant to the provisions of the By-Laws, the Board of Directors has set the date of validation of proxies on 30 March 2012. For this purpose, the Corporate Secretary shall act as the inspector at the election of directors and other voting by stockholders.

Under SEC Memo Circular No. 5 Series of 1996, all proxies executed abroad must be duly authenticated by the Philippine Embassy or Consular Office.

# SOLICITATION INFORMATION

## Person Making the Solicitation

The solicitation of proxies in the form accompanying this statement is made in behalf of Management through Atty. Lorna Patajo-Kapunan and the proxy given will be voted in accordance with the authority contained therein. The solicitation of proxies in the accompanying form will be primarily by mail. However, personal solicitation may be made by officers, directors and regular employees of the Company whose number is not expected to exceed fifteen (15) and who will receive no additional compensation therefor. The Company will bear the cost, amounting to P1.2 million, of preparing and mailing the annual reports, information statement and other materials furnished to the stockholders in connection with proxy solicitation.

None of the Directors has informed the Company of any intention to oppose an action intended to be taken by the Company.

## Dissenter's Right of Appraisal

There are no corporate matters or action that will trigger the exercise by the stockholders of their Right of Appraisal under the Corporation Code. However, if at any time after the information statement has been sent out, an action which may give rise to the Right of Appraisal is proposed at the meeting, any stockholder who wishes to exercise such right and who voted against the proposed action must make a written demand within thirty (30) days after the meeting.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made. Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; and Provided, further, that upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

## Interest of Certain Persons in Opposition to Matters to be Acted Upon

No Director or Executive Officer, nominated for re-election as Director, or his Associate has, at any time, any substantial interest, direct or indirect, by security holdings or otherwise, on any of the matters to be acted upon in the meeting, other than the approval of the Annual Report, election to office and ratification of acts of Management.

# CONTROL AND COMPENSATION INFORMATION

## Voting Securities and Principal Holders Thereof

Only stockholders of record on the books of the Company at the close of business on 09 March 2012 will be entitled to vote at the Annual Meeting. Presence in person or by proxy of a majority of the shares of common stock outstanding on the record date is required for a quorum.

There are 2,500,000,000 shares of common stocks outstanding and issued as of 09 March 2012. All the issued shares are entitled to vote on a one (1) share - one (1) vote basis. The Company has only one class of shares.

Pursuant to the Corporation Code and as provided under Article III, Section 8 of the By-Laws, every stockholder is entitled to vote such number of shares for as many person as there are directors or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. Provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected. The proxy being solicited includes the authority to cumulate votes.

Except as indicated in section (a) below on Security Ownership of Certain Record and Beneficial Owners, there are no other persons holding 5% or more of the common stock of the Company.

The Company does not own any other equity securities beneficially owned by its directors and other nominees.

## Change in Control

No change in control of the Company occurred since the beginning of the last fiscal year. Management is not aware of any arrangement which may result in a change in control of the Company.

a. Security Ownership of Certain Record and Beneficial Owners

As of 29 February 2012, the following are the Security Ownership of Certain Record and Beneficial Owners of the Company:

| Title of Class | Name/Address of Record Owner & Relationship w/ Issuer | Name of Beneficial Ownership & Relationship with Record Owner | Citizenship | Number of Shares | Percentage Held |
|---|---|---|---|---|---|
| Common | Anscor Consolidated Corporation<br>7th Flr. Pacific Star Bldg., Makati Avenue<br>Makati City<br>(Subsidiary) | Anscor Consolidated Corporation<br>(Subsidiary) | Filipino | 1,201,317.039* | 48.053% |
| Common | PCD Nominee Corp. (Non-Filipino)<br>37th Flr. The Enterprise Center, Inc.<br>Ayala Avenue corner Paseo de Roxas,<br>Makati City<br>(Depository Account) | PCD Nominee Corp. (Non-Filipino)<br>(Depository Account) | Non-Filipino | 505,656,814 | 20.226% |
| Common | A-Z Asia Limited Philippines, Inc.<br>Barrio Mabacan<br>Calauan, Laguna<br>(Stockholder) | A-Z Asia Limited Philippines, Inc.<br>(Stockholder) | Filipino | 176,646,329 | 7.066% |
| Common | PCD Nominee Corp. (Filipino)<br>37th Flr. The Enterprise Center, Inc.<br>Ayala Avenue corner Paseo de Roxas,<br>Makati City<br>(Depository Account) | PCD Nominee Corp. (Filipino)<br>(Depository Account) | Filipino | 163,991,517 | 6.560% |

* Includes 299,144,736 shares lodged with PCD Nominee Corp. (Filipino)

Anscor Consolidated Corporation is wholly owned by A. Soriano Corporation, the registrant Company, represented by Mr. Ernest K. Cuyegkeng as Treasurer.

PCD Nominee Corporation, a wholly owned subsidiary of Philippine Central Depository, Inc. ("PCD"), is the registered owner of the shares in the books of the Company's transfer agent in the Philippines. The beneficial owners of such shares are PCD's participants, who hold the shares on their behalf or in behalf of their clients of which ATR Kim-Eng Securities, Inc., represented by Nilaida Enriquez, is the sole owner of more than 5%, specifically 26.786%, the bulk of which or 19.158% is owned by Deerhaven, LLC, a company registered in Delaware, USA. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines.

A-Z Asia Limited Philippines, Inc. is a holding company incorporated in the Philippines in 25 April 2003 represented by Mr. Raul Balaquiao as its Corporate Secretary.

Other than the above, there are no Stockholders owning more than 5% of the Company's outstanding shares of stock.

The Company is not aware of any material pending legal proceedings to which the Company or any of its subsidiaries is a party.

**b. Securities Ownership of Certain Beneficial Owners and Management**

As of 29 February 2012, the following are the security ownership of the Directors and Officers of the Company:

| Title of Class | Name of Beneficial Owner | Amount and Nature Of Beneficial Ownership | | Citizenship | Percentage |
|---|---|---|---|---|---|
| Common | Andres Soriano III | 50,490,265 | Direct/Indirect | American | 2.020% |
| Common | Eduardo J. Soriano | 29,035,737 | Direct/Indirect | Filipino | 1.161% |
| Common | Ernest K. Cuyegkeng | 20,000 | Direct | Filipino | 0.001% |
| Common | John L. Gokongwei, Jr. | 345,934 | Direct/Indirect | Filipino | 0.014% |
| Common | Oscar J. Hilado | 6,020,000 | Direct/Indirect | Filipino | 0.241% |
| Common | Jose C. Ibazeta | 32,951 | Direct | Filipino | 0.001% |
| Common | Roberto R. Romulo | 20,000 | Direct | Filipino | 0.001% |
| | Total | 85,964,887 | | | 3.437% |

Narcisa M. Villaflor, Atty. Lorna Patajo-Kapunan and Joshua L. Castro do not own shares of the Company.

c. Voting Trust Agreement

The Company does not have any voting trust agreement with any stockholder.

## Directors and Executive Officers

Pursuant to the Corporation's By-Laws, in addition to the right of the Board of Directors to make nominations for the election of Directors including independent Directors, nominations for Directors including independent Directors may be made by any shareholder entitled to vote for the election of Directors.

Nominations shall be received by the Chairman of the Board of Directors (which nominations may be sent through the Corporate Secretary), on the 1st of March of every year or at such earlier or later date as the Board of Directors may fix.

Each nomination under the preceding paragraph shall set forth the name, age, business address and, if known, residence address of each nominee, the principal occupation or employment of each such nominee, the number of shares of stock of the Corporation which are beneficially owned by each such nominee, and the interests and positions held by each nominee in other corporations. In addition, the shareholder making such nomination shall promptly provide any other information reasonably requested by the Corporation.

The Board, by a majority vote unless a greater majority is required under these By-Laws, may, in its discretion, determine and declare that a nomination was not made in accordance with the foregoing procedures, and/or that a nominee is disqualified for election as Director and if the Board should so determine, the defective nomination and the nomination of the disqualified person shall be disregarded.

Mr. Eduardo J. Soriano, the Vice Chairman and Treasurer, nominated all the nominees for Directors including independent Directors contained in the information statement. Mr. Soriano is not related to any of the independent Directors nominated. No other nomination was submitted as of 01 March 2011.

Unless marked otherwise, the proxies received will be voted FOR the election of the nominees named below who have signified their acceptance of their respective nominations. The Board of Directors has no reason to believe that any of such nominees will be unwilling or unable to serve if elected as a Director. Each Director shall serve until the next annual meeting of stockholders or until his successor is elected or appointed in case of vacancy due to death, resignation or removal. Management recommends a vote FOR the election of each of the nominees listed below who are incumbent directors of the Company.

The nominations for independent Directors complies with SRC Rule 38, which requires that a corporation with a class of equity securities listed for trading on an Exchange or with assets in excess of Fifty million pesos (P50,000,000.00) and having two hundred (200) or more holders, at least two hundred (200) of which are holding at least one hundred (100) shares of a class of its equity securities shall have at least two (2) independent Directors or such independent Directors shall constitute at least twenty percent (20%) of the members of such Board.

The two nominated independent Directors of the Company are Mr. Oscar J. Hilado and Mr. Roberto R. Romulo. They are neither officers nor employees of the Company or of any of its subsidiaries. They do not have any relationship with the company which would interfere with the exercise of independent judgment in carrying out their responsibilities. Further, the nominated independent Directors posses all the qualifications and none of the disqualifications to serve as independent Directors of the Company. The independent Directors are nominated and elected in the same manner as regular directors in accordance with the nomination and election procedures provided in the By-Laws. The Company amended its By-Laws in 04 March 2010 and 18 February 2011 to incorporate the requirements of SRC Rule 38 with respect to the nomination and election of independent directors.

**ANDRES SORIANO III**, age 60, American, Director of the Company since 19 May 1982; Chairman and Chief Executive of the Company (1983 to present); Chairman and President of Anscor Consolidated Corporation (1987 to present); Chairman of Andres Soriano Foundation, Inc. (1985 to present) and Pamalican Resort, Inc. (May 2011 to present); Director of Anscor Property Holdings, Inc. (1998 to present), A. Soriano Air Corporation (2003 to present) and Anscor-Casto Travel Corporation (1983 to present); Chairman of Phelps Dodge International Philippines, Inc. (1983 to present), Phelps Dodge Philippine Energy Products Corporation (1997 to present), Seven Seas Resorts and Leisure, Inc. (1998 to present); Director of Cirrus Medical Staffing, Inc. (2007 to present); Director of International Container

Terminal Services, Inc. (ICTSI) (1992 to present), ICTSI, Ltd. (2001 to present), International Container Terminal Holdings, Inc. (1999 to present), Manila Peninsula Hotel, Inc. (1986 to present). Mr. Soriano was formerly President and Chief Operating Officer of San Miguel Corporation and was subsequently Chairman and Chief Executive Officer of San Miguel Corporation. He was Chairman of Coca-Cola (Philippines), Coca-Cola Amatil (Australia) and Nestle (Philippines). He was a Director of SPI Technologies and eTelecare Global Solutions, Inc. until 2006. He was also a Member of the G.E. Asian Advisory and the Wharton East Asia Executive Board. He holds a Bachelor of Science Degree in Economics, Major in Finance and International Business, Wharton School of Finance and Commerce, University of Pennsylvania, (1972).

**EDUARDO J. SORIANO**, age 57, Filipino, Director of the Company since 21 May 1980; Vice Chairman-Treasurer of the Company (1990 to present); Chairman of Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) (2004 to present), A. Soriano Air Corporation (2003 to present); Chairman and President of Anscor Property Holdings, Inc. (1985 to present); Director of Phelps Dodge Philippines Energy Products Corporation (1997 to present), Phelps Dodge International Phils., Inc. (1997 to present), Sutton Place Holdings, Inc. (2009 to present), Minuet Realty Corporation, Anscor Consolidated Corporation (1982 to present), Pamalican Island Holdings; Chairman & President of NewCo, Inc. (1997 to present); Trustee of Andres Soriano Foundation, Inc. (1985 to present); Graduate of Bachelor of Science Degree in Economics, Major in History, University of Pennsylvania, (1977).

**ERNEST K. CUYEGKENG**, age 65, Filipino, Director of the Company since 22 April 2009; Executive Vice President and Chief Financial Officer of the Company (1990 to present); President and Director of Anscor Property Holdings, Inc. (1990 to present), Phelps Dodge Philippines Energy Products Corporation (1999 to present), A. Soriano Air Corporation (2003 to present), and Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) (2004 to present); Director of Pamalican Island Holdings, Inc. (1995 to present), KSA Realty Corporation (2001 to present) and T-O Insurance (2008 to present); AB Capital & Investment Corporation (2003 to present), Artha Land (2007 to present) and Sumifru, Singapore (2003 to present) and Pamalican Resort, Inc. (May 2011 to present); Trustee of Andres Soriano Foundation, Inc. (1990 to present); Member of the Management Association of Philippines, Makati Business Club and Financial Executive Institute of the Philippines (FINEX); Graduate of De La Salle University, B.A. Economics and B.S. Business Administration, (1968). Masters Degree in Business Administration, Columbia Graduate School of Business, New York, (1970).

**JOHN L. GOKONGWEI, JR.**, age 85, Filipino, Director of the Company since 21 May 1980; Director and Chairman Emeritus of JG Summit Holdings, Inc. (2002 to present); Chairman and CEO of JG Summit Holdings, Inc. (1990 to 2001); Director of Robinsons Land Corporation (1980 to present), JG Summit Petrochemical Corporation (1994 to present), Universal Robina Sugar Milling Corporation (1987 to present), Southern Negros Development Corporation (1982 to present), Robinsons Inc, (1987 to present), Gokongwei Brothers Foundation, Inc. (1992 to present); Graduate of De La Salle University, Masters Degree in Business Administration, (1977) Advance Management Program, Harvard University, (1972-1973).

**OSCAR J. HILADO,** age 74, Filipino, an independent Director of the Company since 13 April 1998; Chairman & CEO of Philippine Investment Management (PHINMA), Inc. (January 1994 to August 2005) and as Chairman (August 2005 to present); Chairman of Holcim Phils., Inc.; Chairman of the Board & Chairman of the Executive Committee of Phinma Corporation; Chairman of the Board of Phinma Property Holdings Corporation; Vice Chairman of Trans Asia Power Generation Corporation (1996 to present); Chairman of Trans Asia Oil & Energy Development Corporation (April 2008 to present); Director of Manila Cordage Corporation (1986 to present), Seven Seas Resorts & Leisure, Inc., First Philippine Holdings Corporation (November 1996 to present) and Philex Mining Corporation (December 2009 to present); Trustee of the Andres Soriano Foundation, Inc. (2009 to present); Graduate of De La Salle College (Bacolod), Bachelor of Science in Commerce, (1958) Masters Degree in Business Administration, Harvard Graduate School of Business, (1962). Mr. Hilado also serves as Chairman of the Audit Committee of the Company.

**JOSE C. IBAZETA**, age 69, Filipino, Director of the Company from 1981 to 1998, 2004 to present; Director of International Container Terminal Services, Inc. (1987 to present), Anscor Consolidated Corporation (1980 to present), Anscor Property Holdings, Inc. (1982 to present), Anscor-Casto Travel Corporation (1984 to present), A. Soriano Air Corporation (1988 to present), AFC Agribusiness Corporation (1989 to present), Atlas Consolidated Mining & Development Corporation (1989 to present), Minuet Realty Corporation (1995 to present), Phelps Dodge Philippines Energy Products Corporation (1997 to present), NewCo, Inc. (1997 to present) and Capital Mediaworks, Inc. (2003 to present); President of Seven Seas Resorts & Leisure, Inc. (2008 to present) and Pamalican Resort, Inc. (May 2011 to present); Member, Finance Committee of Ateneo de Manila University (1997 to present); Board of Trustees of Radio Veritas (1991 to present). Mr. Ibazeta was President and CEO of Power Sector Assets & Liabilities Management Corporation (February 2007 to March 2010) and Acting Secretary of Energy (March–June 2010); Graduate of Bachelor of Science in Economics, Ateneo de Manila University, (1963), Masters Degree in Business Administration, University of San Francisco, (1968).

**ROBERTO R. ROMULO**, age 73, Filipino, an independent Director of the Company since 13 April 1998; Chairman of CHARTIS Philippines Insurance, Inc. (formerly AIU Philippines Inc.), PETNET, Inc., Carlos P. Romulo Foundation for Peace and Development, Foundation for Information Technology Education and Development (FIT-ED), MediLink Network, Philippine Foundation for Global Concerns, Inc. (PFGC), Zuellig Family Foundation, Romulo Asia Pacific Advisory, Inc. and Asia-Europe Foundation of the Philippines; Advisory Board Member of Philippine Long Distance Telephone Co. (PLDT); Board Member of Aboitiz Equity Ventures, Inc. and Equicom Savings Bank, 25-year career at IBM Corporation holding CEO positions in the Philippines, Thailand, Burma and Bangladesh; Graduate of Georgetown University, (A.B.) and Ateneo de Manila University (LLB),. Former Ambassador to Belgium, Luxembourg and the European Commission and Secretary of Foreign Affairs.

The following are the members of the Audit Committee, Compensation Committee, and Executive Committee:

Audit Committee:

| | |
|---|---|
| Mr. Oscar J. Hilado | Chairman |
| Mr. Eduardo J. Soriano | Member |
| Mr. Jose C. Ibazeta | Member |

Compensation Committee:

| | |
|---|---|
| Mr. Oscar J. Hilado | Chairman |
| Mr. Andres Soriano III | Member |
| Mr. Eduardo J. Soriano | Member |

Executive Committee:

| | |
|---|---|
| Mr. Andres Soriano III | Chairman |
| Mr. Eduardo J. Soriano | Vice Chairman |
| Mr. Oscar J. Hilado | Member |
| Mr. Ernest K. Cuyegkeng | Member |
| Mr. Jose C. Ibazeta | Member |

The following are not nominees but incumbent officers of the Company:

**NARCISA M. VILLAFLOR**, age 49, Filipino, Vice President and Comptroller of the Company since 19 April 2000; Treasurer of Seven Seas Resorts and Leisure. Inc., Pamalican Resort, Inc., Andres Soriano Foundation, Inc., Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.), A. Soriano Air Corporation, Pamalican Island Holdings, Inc., and Sutton Place Holdings, Inc.; Director of Anscor Consolidated Corporation, Cirrus Global, Inc.; Trustee of Andres Soriano Foundation, Inc.. Joined SGV (January 1985 to November 1989) and joined Anscor in December 1989. Graduate of University of the Philippines, Bachelor of Science in Business Administration and Accountancy (1984). Attended AIM Management Program (November 1996).

**LORNA PATAJO-KAPUNAN**, age 59, Filipino, Corporate Secretary of A. Soriano Corporation (1998 to present); Senior Partner of KAPUNAN LOTILLA GARCIA & CASTILLO Law Offices; Corporate Secretary of Central Azucarera de Don Pedro (1995 to present), Central Azucarera de la Carlota (1996 to present), Beverage Industry Association of the Philippines (1991 to present), Seven Seas Resorts & Leisure, Inc (1990 to present), Pamalican Island Holdings, Inc. (1995 to present), iAcademy (2002 to present), Uni-President Phils., Inc. (2002 to present), Huntly Corporation (1992 to present), Palomino Resources, Inc. and Malate Pensionne, Inc.(2001 to present), Cuisine Exchange, Inc. and Culinary Innovators, Inc. (2001 to present), Jose M. Velero Corporation (2001 to present), Creative Concoctions, Inc. (2001 to present), Hotel Concepts, Inc. (2001 to present), Creative Hotel Concepts, Inc. (2001 to present), Culinary Events, Inc. (2001 to present), AH Distribution Corporation, Hotel & Resorts Trench, Inc. (2002 to present), It's About Taste (I'ATE), Inc. (2002 to present), Kitchen Alley, Inc. (2001 to present), & Les Maitres Gourmands, Inc. (2001 to present); Traditional Financial Services Philippines, Inc. (2008 to present); Avaya Philippines, Inc. (2006 to present); Elixir Gaming Technologies Philippines, Inc. (2007-2008); Elixir Group Philippines, Inc. (2006-2008); Director of AMAX Holdings Limited (2008 to present); Graduate of University of the Philippines College of Law, (1978).

**JOSHUA L. CASTRO**, age 37, Filipino, Executive Assistant and Assistant Corporate Secretary of the Company (2006 to present); Assistant Corporate Secretary of Seven Seas Resorts and Leisure, Inc. (2006 to present) and Island Aviation, Inc. (2006 to present); Corporate Secretary of Phelps Dodge International Philippines, Inc., PD Energy International Corporation, Phelps Dodge Philippines Energy Products Corporation (2006 to present), A. Soriano Air Corporation (2006 to present), Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) (2006 to present), Anscor Property Holdings, Inc. (2006 to present), and Andres Soriano Foundation, Inc. (2006 to present). Tax Lawyer, SyCip Gorres Velayo & Co. (1999 to 2005). Graduate of San Beda College of Law (1999).

Ownership Structure and Parent Company

The registrant has no parent company.

Family Relationship

Andres Soriano III and Eduardo J. Soriano are brothers.

Executive Officers and Significant Employees

There are no significant employees.

Legal Proceedings

For the last five years and as of 29 February 2012, Management is not aware of any pending material legal proceeding i.e. bankruptcy petitions, convictions by final judgment, being subject to any order, judgment or decree or violation of a Securities or Commodities Law involving its nominees for directorship, executive officers and incumbent officers and directors.

Certain Relationship and Related Transactions

In line with the strategic direction of the Company with respect to its investments, i.e., shifting more resources from financial instruments to operating investments, the Company, as of 04 April 2011, acquired additional shares of stock in Seven Seas Resorts and Leisure, Inc. (SSRLI") from other minority shareholders in SSRLI, including shares of stock directly or indirectly owned by Andres Soriano III and Eduardo J. Soriano. The acquisition from all the minority shareholders increased the ownership of the Company from 46.79% to 62.30% of the total outstanding common and preferred shares of SSRLI. The combined purchase price of the acquisition of shares of stock directly and indirectly owned by Andres Soriano III and Eduardo J. Soriano is ₱131.66 million representing 7.98% of the total outstanding common and preferred shares of stock of SSRLI.

Resignation of Directors

No incumbent Director has resigned or declined to stand for re-election to the Board of Directors due to disagreement with Management since the date of the last annual meeting.

## Compensation of Directors and Executive Officers

As approved in 2004, Directors are paid a per diem of ₱20,000.00 per meeting attended and are given directors bonus representing no more than 1% of previous year's net income. Similarly, annual bonus, of no more than 3% of the preceding year's net income as well as salary increase of Executive Officers are approved by the Compensation Committee and the Board of Directors.

| Name | Principal Position | Compensation | | |
|---|---|---|---|---|
| | | 2010 Actual | 2011 Actual | 2012 (Estimate) |
| Andres Soriano III | Chairman & Chief Executive | | | |
| Eduardo J. Soriano | Vice Chairman & Treasurer | | | |
| Ernest K. Cuyegkeng | Executive Vice President & Chief Financial Officer | | | |
| Narcisa M. Villaflor | Vice President & Comptroller | | | |
| Joshua L. Castro | Executive Assistant & Assistant Corporate Secretary | | | |
| Salaries | | ₱ 45,035,314 | ₱ 46,982,205 | ₱ 48,917,524 |
| Benefits | | 995,909 | 2,225,679 | 2,210,834 |
| Bonus | | 34,550,000 | 45,511,778 | 14,547,500 |
| Sub-Total Top Executive | | ₱ 80,581,223 | ₱ 94,719,662 | ₱ 65,675,858 |
| Other Directors | | 13,536,049 | 13,901,049 | 7,436,049 |
| Total | | ₱ 94,117,272 | ₱108,620,711 | ₱ 73,111,907 |

Employment Contracts and Termination of Employment and Change-in Control Arrangements

All the Executive Officers are not subject of any employment contract. Neither are there any compensatory plans or arrangements with respect to the named executive officers that will result from their resignation, retirement or any other termination or from change in control in the company or change in the named executive officers' responsibilities following a change in control.

Warrants and Options Outstanding

There are no warrants or options granted to the Directors, Chief Executive Officer, and other named Executive Officers.

## Compliance with Leading Practice on Corporate Governance

On 22 December 2010, the Company submitted its annual Certification to the SEC confirming its substantial compliance with its Manual on Corporate Governance. Before issuance of said Certification, the Board of Directors and Management evaluated the Company's compliance with the Manual on Corporate Governance. The different Board Committees also evaluate the level of compliance with the Manual on Corporate Governance.

The Company continues to improve its systems and processes to enhance adherence and fully comply with leading practices on good corporate governance. In line with this goal, Directors of the Company are required, before assuming office, to attend a seminar on Corporate Governance conducted by a duly recognized private or government institution.

Likewise, the Company participates in the annual Corporate Governance Scorecard Self-Assessment for Publicly-Listed Companies conducted by the Institute of Corporate Directors. Before submitting the self-assessment, Management evaluates the responses and considers the scorecard as a tool to further improve and ensure compliance with the Manual on Corporate Governance.

As part of the Company's continuing efforts to comply with leading practice on corporate governance, on 10 March 2010, the Company submitted to the SEC and PSE its revised Manual on Corporate Governance in conformity with SEC Memorandum Circular No. 6, Series of 2009. The Manual on Corporate Governance was further revised on 18 February 2011 to comply with additional requirements of the SEC. All the revisions to the Manual on Corporate Governance are discussed and deliberated upon by the Board of Directors prior to its approval and subsequent submission to the SEC.

As of 29 February 2012, there were no deviations from the Company's Manual on Corporate Governance.

## Appointment of Independent Auditors

SyCip Gorres Velayo & Co. (SGV) has been the Company's independent auditors since its establishment in 1946. They will again be nominated for reappointment and presented for approval by the stockholders during the stockholders' meeting as external auditors for the ensuing fiscal year. Unless marked to the contrary, proxies received will be voted FOR the appointment of SGV as the independent auditors for the ensuing year. The Management recommends a vote FOR the appointment of SGV as independent auditors for the Company for the current year.

A representative of SGV is expected to be present at the Annual Meeting to respond to appropriate questions from the stockholders and to make a statement if so desired.

The Company has no disagreements with its independent auditors on Accounting and Financial Disclosure and changes in Accounting and Financial Disclosures are included in the attached Notes to Financial Statements, if applicable.

In compliance with SRC Rule 68 paragraph 3(b) (iv) (Rotation of External Auditors), the SGV audit partner, as of December 2010, is Ms. Josephine Estomo who is on her third year of audit engagement.

Audit and Audit Related Fees

The Company paid to its external auditors the following fees in the past two years:

| Year | Audit Fees |
|---|---|
| 2011 | ₱ 988,500 |
| 2010 | ₱ 988,500 |

The audit fees were approved by the Audit Committee based on the scope of work of external auditors and the complexity of accounting and audit issues identified. There are no other fees paid to the external auditors for other assurance and related services.

## Tax Consultancy and Other Fees

No tax consultancy fees were paid by the Company to SGV for the years 2011 and 2010.

# FINANCIAL AND OTHER INFORMATION

## Management's Discussion and Analysis of Operation

See Annex A for the Financial and Other Information/Management's Discussion and Analysis of Operations.

## Audited Financial Statements

The audited Financial Statements as of 31 December 2011 are included in pages 12 to 83 of the 2011 Annual Report in the same CD containing this Information Statement.

The Statement of Management's Responsibility in page 11 of the 2011 Annual Report in the same CD containing this Information Statement.

## Action with Respect to Reports

The following reports/minutes shall be submitted for approval/ ratification:

Approval of Minutes of Annual Meeting of Stockholders on 13 April 2011

The Minutes of Annual Meeting of Stockholders of the Company held on 13 April 2011 ("Minutes") will be presented for approval of the stockholders. Such action on the part of the stockholders will not constitute approval or disapproval of the matters referred to in said Minutes since Stockholders' approval and action on those items had already been obtained in that meeting and subsequently carried out.

The Minutes and related records are available for inspection at the office of the Company during business hours. In addition, copies of the Minutes shall be posted at the meeting site.

Summary of the Minutes of 13 April 2011:

In the Annual Stockholders' Meeting the following were taken up:

1. Approval of the Annual Report and Audited Financial Statements as of 31 December 2010 and ratification of all acts, contracts, investments and resolutions of the Board as set forth in the minutes of the Board of Directors.

2. Election of the members of the Board of Directors.
3. Appointment of external auditors.

In the organizational meeting that followed after the Stockholders' Meeting, the Executive Officers were re-elected and the member of the Audit Committee and Compensation Committee were re-appointed.

Approval of 2011 Audited Financial Statements

The Audited Financial Statements of the Company for the period ended 31 December 2011 will be submitted for approval of the stockholders at the Annual Meeting.

SGV had examined the Financial Statements in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of the presentation in their report to the Board of Directors and Stockholders of the Company. The information and representation in the Financial Statements are the responsibility of Company's Management.

Ratification of All Acts, Contracts, Investments and Resolutions of the Board of Directors and Management since the Last Annual Meeting.

As matter of corporate policy, Management seeks the approval and ratification by the stockholders of all acts, contracts, investments and resolutions of the Board of Directors and Management since 13 April 2011, the last Annual Meeting. These are reflected in the Minutes of the meetings of the Board of Directors in their regular reports and disclosure to the Securities and Exchange Commission, and the Philippine Stock Exchange, and in the 2011 Annual Report of the Company. For reference, attached herewith (Annex A) is a list of all the resolutions approved by the Board of Directors since 13 April 2011 which are the subject of ratification by the stockholders.

## Voting Procedures

SyCip Gorres Velayo & Co., the Independent Auditors elected as Board of Election Inspectors in the last Annual Meeting, has signified no changes in the voting procedures, which will be the same as in the previous years.

Stockholders as of 09 March 2012 may vote at the scheduled Stockholders Meeting.

Registration of stockholders and proxies attending the meeting will open at 9:00 a.m. on 11 April 2012.

In the previous meeting of stockholders, considering that only seven (7) were nominated to fill the seven (7) seats of the Board of Directors, there was no balloting.

In case of balloting, only stockholders and proxies who have previously registered will be given ballots. The ballots will be distributed at the registration booths. Upon being given a ballot, a stockholder/proxy should sign the stockholder/proxy registration list beside his/her signature placed earlier during registration.

After casting his/her vote, the stockholder/proxy may place his/her ballot inside any of the ballot boxes clearly marked as such and located at designated areas at the place of the meeting. Stockholders/proxies will be given a sufficient period of time to vote. Thereafter, SyCip Gorres Velayo & Co. will proceed to collect the ballot boxes and canvass the votes.

All questions and elections shall be decided by majority vote of stockholders present and in proxy and entitled to vote thereat.

## Other Matters

As of the date hereof, there are no other matters which the Board of Directors intends to present or has reason to believe others will present at the meeting. If other matters come before the meeting, the proxy holders will vote in accordance with his best judgment with respect to such matters that are not known to the solicitors at a reasonable time before the solicitation is made.

The Company shall provide to the stockholders, without charge, on written request the Annual Report of the Company on SEC Form 17-A. All such requests for a copy of the Annual Report shall be directed to the Corporate Secretary, 7th Floor Pacific Star Building, Makati Avenue corner Gil Puyat Avenue, Makati City, Philippines.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 16 March 2012.

LORNA PATAJO-KAPUNAN
Corporate Secretary

# ANNEX A

## FINANCIAL AND OTHER INFORMATION

### Management's Discussion and Analysis of Operation

Description of General Nature and Scope of Business

A. Soriano Corporation ("Anscor") was incorporated on February 13, 1930.

Anscor is a Philippine holding company with diverse investments. Anscor major investments are in Phelps Dodge Philippines Energy Products Corporation ("PDP Energy") which manufactures wire and cable products and Seven Seas Resorts and Leisure, Inc., owner of Amanpulo Resort. It has investments in US-based nurse and physical therapists staffing company. It has other investments in companies engaged in a wide range of activities in the Philippines including aviation, nurse deployment, school, broadband services, business process outsourcing and real estate. As a holding company, the principal sources of income for Anscor are: the share in net earnings of the companies in which it has investments, management fees, interest income, dividends and gains from the sale of investments mainly the trading gain on marketable securities and bonds.

As of 31st December 2011, the Company's consolidated total assets stood at ₱12.6 billion. During the year ended 31st December 2011, consolidated revenues of the Company amounted to about ₱2.8 billion.

A. Soriano Corporation has the following direct/indirect subsidiaries/ associates as of December 31, 2011:

| Company | % of Ownership | Business | Jurisdiction |
|---|---|---|---|
| A. Soriano Air Corporation | 100% | Service/Rental | Philippines |
| Pamalican Island Holdings, Inc. | 62% | Holding Company | Philippines |
| Island Aviation, Inc. | 62% | Air Transport | Philippines |
| Anscor Consolidated Corporation | 100% | Holding Company | Philippines |
| Anscor International, Inc. | 100% | Holding Company | British Virgin Island |
| IQ Healthcare Investments Limited | 100% | Manpower Services | British Virgin Island |
| Cirrus Medical Staffing, Inc. | 94% | Manpower Services | USA |
| Cirrus Holdings USA, LLC | 94% | Manpower Services | USA |
| Cirrus Allied, LLC (formerly MDI Medicals, LLC) | 94% | Manpower Services | USA |
| NurseTogether, LLC | 94% | Online Community | USA |

| Company | % of Ownership | Business | Jurisdiction |
|---|---|---|---|
| Anscor Property Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Makatwiran Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Makisig Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Malikhain Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Akapulko Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Sutton Place Holdings, Inc. | 100% | Holding Company | Philippines |
| Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) | 93% | Manpower Services | Philippines |
| IQ Healthcare Professional Connection, LLC | 93% | Manpower Services | Houston, Texas, United States |
| Seven Seas Resorts and Leisure, Inc. | 62% | Villa Development | Philippines |
| Pamalican Resort, Inc. | 62% | Resort Operations | Philippines |
| Minuet Realty Corporation | 60% | Landholding | Philippines |
| New Co, Inc. | 45% | Real Estate | Philippines |
| AFC Agribusiness Corporation | 45% | Real Estate | Philippines |
| Anscor-Casto Travel Corporation | 44% | Travel Agency | Philippines |
| Phelps Dodge International Philippines, Inc. | 40% | Holding Company | Philippines |
| Minuet Realty Corporation | | | |
| Phelps Dodge Philippines Energy Products Corporation | 40% | Wire Manufacturing | Philippines |
| PD Energy International Corporation | 40% | Wire Manufacturing | Philippines |
| Vicinetum Holdings, Inc. | 27% | Holding Company | Philippines |
| Columbus Technologies, Inc. | 27% | Holding Company | Philippines |
| Multi-media Telephony, Inc. | 27% | Broadband Services | Philippines |
| Enderun Colleges, Inc. | 20% | Culinary School | Philippines |
| Prople, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-bpo, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-kpo, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-contents, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Direct WithHotels | 16% | Online Reservation | Philippines |
| KSA Realty Corporation | 11% | Realty | Philippines |

Below are the key performance indicators of the Company:

Over the last three years, consolidated revenues and net income from operations are as follows (in thousand pesos):

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **REVENUES** | | | |
| Services | ₱ **1,572,688** | ₱ 866,113 | ₱ 1,056,014 |
| Dividend income | **223,198** | 145,749 | 102,137 |
| Interest income | **120,204** | 111,236 | 120,209 |
| Equity in net earnings of associates | **93,030** | 115,225 | 78,247 |
| Management fee | **36,065** | 37,755 | 28,251 |
| Others | **36,436** | 34,077 | 27,931 |
| | **2,081,620** | 1,310,155 | 1,412,788 |
| **INVESTMENT GAINS (LOSSES)** | | | |
| Gain on sale of: | | | |
| AFS investments | **676,840** | 2,091,925 | 186,272 |
| Property and equipment and investment property | **39,886** | – | 340 |
| Long-term investments | **16,725** | – | – |
| Gain (loss) on increase (decrease) in market values of FVPL investments | **(7,243)** | 99,868 | 136,823 |
| | **726,208** | 2,191,793 | 323,435 |
| **TOTAL REVENUES** | ₱ **2,807,828** | ₱ 3,501,948 | ₱ 1,736,223 |
| **NET INCOME** | ₱ **996,276** | ₱ 1,976,723 | ₱ 282,578 |

| | | | |
|---|---|---|---|
| Attributable to | | | |
| **Equity holdings of the Parent** | ₱ **994,507** | ₱ 1,975,358 | ₱ 289,644 |
| Noncontrolling interests | **1,769** | 1,365 | (7,067) |
| | ₱ **996,276** | ₱ 1,976,723 | ₱ 282,578 |

Significant performance indicators are the following:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| 1. Book Value Per Share | **8.69** | 8.28 | 5.17 |
| 2. Current Ratio | **3.14** | 7.04 | 2.23 |
| 3. Debt to Equity Ratio | **0.08** | 0.06 | 0.12 |
| 4. Profit Ratio (Net Income/Total Revenues) | **35.4%** | 56.4% | 16.7% |
| 5. Return on Equity (Net Income/Equity Attributable to Equity Holdings of the Parent) | **8.8%** | 18.3% | 3.9% |

***Financial Performance Year 2011***

The Company earned ₱994.5 million in consolidated net income in 2011, against ₱1.98 billion in 2010. The decrease came largely from the reduced volume of traded available-for-sale securities in the financial portfolio which, as stated in last year's report, is principally in companies such as ICTSI, Aboitiz Equity Ventures and Aboitiz Power. In 2011, the Philippine Stock Exchange Index rose by 4.07%, while Anscor's marketable securities posted an 11% rate of return. Anscor considered it prudent to liquidate a smaller number of shares in 2011, for a gain of ₱621.0 million compared to 2010's ₱1.95 billion.

The portfolio's remaining investments continue to possess considerable values above their original cost, and these values are reflected in the balance sheet. The gain will be reflected in the income statement when the investments are sold.

Anscor also deemed it advisable to dispose of certain bonds and equity funds at a small loss which was offset by the gain of ₱37.1 million realized from the sale of its floor at the Enterprise Center and income of ₱66.5 million and ₱16.7 million from the sale of holdings in ATR Kim-Eng Financial Corporation and Vesper Industrial and Development Corporation, respectively.

The peso remained relatively stable against the US dollar and hedging transactions enabled Anscor to reduce significantly last year's consolidated foreign exchange loss of ₱138.4 million to ₱7.4 million.

During the year, Anscor generated dividend and interest income of ₱223.2 million and ₱120.2 million, respectively, vis a vis last year's ₱145.7 million dividend income and ₱111.2 million interest income, posting a total increase of 34%.

Results in the operating businesses were generally favorable despite the somber business climate and many of Company's newer operations recorded improved EBITDA or reduced losses.

**Group Operations**

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

PDP Energy's diversified product line registered a 9% rise in copper and aluminum sales, mainly from expanded exports to General Cable Australia. However, domestic sales volumes declined with the slack in economic growth.

Despite lower sales volumes, copper prices lifted domestic revenues by 10.3% to ₱4.93 billion from ₱4.47 billion in 2010. Export sales revenues of PEZA-registered PD Energy International Corporation (PDEIC) rose from ₱606 million last year to ₱1.57 billion. Net income slipped 3% to ₱221.8 million, owing to the learning curve that typically attends the development and delivery of new products to new customers overseas.

Pursuing its customer service, manufacturing process and cost reduction programs, the company secured ISO 9001/14001/18001 certification for Quality, Environment, and Health and Safety for PDEIC from Certification International (UK). PDP also continued promoting new products and solutions, notably special cables for export, medium and high voltage cables up to 230 KV, low smoke halogen-free cables, and aluminum cables. It leveraged its medium voltage (MV) cable manufacturing facility to offer shorter delivery time of MV 35 KV cables to power utilities, and widened sales coverage to new provincial dealers and customers. It also advanced consumer education and safety awareness through the Philippine Electrical Wires Manufacturers Association's campaign against counterfeit wires.

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

Amanpulo experienced a challenging year as Japanese tourists chose to stay home and held back from the island resort after the March 2011 tsunami and other international travelers were affected by the recessionary environment. To counteract this, Management focused their efforts on domestic travelers and other regional foreign guests. The Resort generated revenues of ₱516.9 million, a 6.0% improvement over 2010, mainly from higher room revenues (4.8%), food and beverage (8.3%) and villa handling and management fees (20.0%). The average room rate was increased by $25 to $924 per night. However, net profit fell to ₱24.3 million due to the ₱19.5 million increase in depreciation expense of the special capital expenditure program that started in 2007 (inclusive of the SPA) and higher power generating costs by ₱11.6 million.

Amanpulo's new spa complex, which opened in late 2010, is now fully operational, with facilities for hairdressing, gym and pilates, plunge pools and massage treatments. The company has also invested ₱40 million in a 1000 MW generating unit and a new desalination plant to boost power efficiency.

During the year, Gallivanter's Tourist Guide 21st Annual Reader Poll cited Amanpulo as No. 3 Best Leisure Hotel Worldwide, No. 4 Best Resort in Southeast Asia, and No. 3 Best Small Hotel/Resort under 100 Rooms.

***Cirrus Medical Staffing, Inc.***

Demand for temporary health care staffing improved throughout 2011, bringing a steady increase in job orders. Revenues in 2011 increased 41% to ₱1.04 billion and consolidated losses before tax dropped to ₱5.7 million from ₱37.7 million in 2010, due to stronger demand and higher recruiter productivity.

Investments in increased recruitment and account management personnel were made and will support future growth. The company closed its Atlanta, Georgia office in September and consolidated all operations into a single office in Charlotte, North Carolina, to allow better coordination of Cirrus Medical's market strategy across both nursing and therapy specialties. The National Physical Therapy Examinations (NPTE) lifted its ban on graduates from Egypt, India, Pakistan and the Philippines, which will allow Filipino physical therapists to once again become licensed and employed in the United States. Philippine support operations continue to provide effective back-office service.

Last year's Annual Report announced the acquisition of NurseTogether, which owns two on-line properties catering to health care professionals who seek job postings. NurseTogether saw an increase in user traffic and encouraging customer feedback throughout the year but, given its early stage nature, generated a loss for 2011. Continuing investment in technology, sales and support capabilities will enable NurseTogether to become a critical component in Cirrus' overall offering.

A number of factors – the aging of both the baby boomer generation and American nurses (whose average age is about 50 years) and the broader insurance coverage resulting from health care reform – constitute an assurance that health care will be among the fastest growing job sectors over the next decade.

***KSA Realty Corporation***

The office leasing market turned more competitive with the entry of new players offering additional space and lower rates in the Makati Central Business District and alternative locations. However, The Enterprise Center (TEC) signed up new lessees and existing tenants expanded leased areas, raising average occupancy rate to 86.8% from 80.8% in 2010.

Gross revenues climbed 28% to ₱857.4 million while net income of ₱562.6 million is 35% over last year, attributable to the 2011 fair value adjustment in investment property of ₱157 million. KSA declared and paid cash dividends of ₱250 million, of which ₱28.6 million accrued to Anscor.

TEC received a Special Award of Distinction from the Makati Fire Safety Foundation and the Makati City Government for consistently winning the Building Fire Safety Award, Building Fire Brigade Award and Corporate Fire Safety Award.

***Enderun Colleges, Inc.***

Enderun posted its first operating profit of ₱10 million, from a ₱50 million loss last year, on the back of robust enrollment, which rose 15% to 952 full-time college and certificate students in the current school year. Revenues likewise gained 28% to reach ₱297 million in 2011. Noteworthy in this progress is Restaurant 101, the Colleges' application restaurant, which generated revenues of ₱30 million over the previous year, and the continuing education unit Enderun Extension, whose revenues grew 40% to ₱21 million.

Enderun held its second graduation rites in April 2011, with 71 students receiving degrees in BS International Hospitality Management. During the year, 248 students completed internships, bringing to 686 the number that the school has placed since 2006, in such prestigious establishments as Hyatt Regency Lake Tahoe, Hotel Arts in Barcelona, Alain Ducasse in Paris, Le Meridien in Kuala Lumpur and Shangri-La in Abu Dhabi. Foreign internships in 2011 numbered 146, or 59% of this year's batch.

The school continued to upgrade its campus facilities, spending over ₱30 million to complete five additional classrooms, a new state-of-the-art kitchen, and a multi-purpose covered court.

***Prople, Inc.***

Business process services provider Prople experienced a turnaround year. Focusing on its three priorities of responsible growth, building capability and operational excellence, it increased total revenues by 21% to ₱94.7 million, and improved EBITDA significantly from negative ₱23.5 million in 2010 to a virtual break-even performance.

The turnaround began in June when monthly EBITDA first turned positive, then rose steadily and peaked in December. Investments in software, processes and employee productivity enabled the company to push overhead costs down from 68% of revenues to 59%, and improved contribution margin from 32% to 41%, in 2010 and 2011, respectively.

The company gained 23 new customers, boosting its client base to 102, and expanded contracts with five existing clients, entailing longer service terms, added seats, supplemental finance and accounting, information and technology outsourcing, and knowledge process work. New service lines in HR, information and technology, and knowledge process outsourcing grew

118%, 142% and 105%, respectively, and now represent 14%, 18% and 12%, of total revenues, respectively. Prople's proprietary cloud-computing-based technologies are expected to attract new business and expanded contracts in 2012.

In April, Prople closed its Calgary satellite office, which proved unable to penetrate the North American market, but is maintaining its Business Partner Network for future tie-ups.

***Alphion Corporation***

Based on preliminary financial statements subject to audit adjustments, Alphion generated revenues of $9.2 million in 2011, an 83% decline from the previous year's $52.6 million. Net loss rose from $9.3 million to $12.3 million. The company experienced working capital constraints for most of 2011 and was unable to meet customer orders.

However, in October 2011, Alphion successfully completed the first closing of its Series F financing, led by the Aditya Birla Group of companies, which invested $20 million in Indian Rupees (INR). Birla is a leading Indian conglomerate headquartered in Mumbai, with $35 billion in annual revenues and 133,000 employees worldwide. It first ventured into telecommunications in 2006 and its investment in Alphion represents a significant endorsement of Alphion's quality, technology and management team. A further indicator of Alphion's promise is that new orders have been placed by customers in India, the US, Canada and Russia.

As the INR-denominated Birla fund is restricted to investing in Indian companies, it was placed in Alphion India Private Limited, a wholly-owned Alphion subsidiary. Since foreign exchange restrictions on converting INR into other currencies limit the company's ability to leverage these funds to the fullest, Alphion is working on additional credit facilities.

**New Major Investments**

In October 2011, Anscor invested $3.0 million in Predictive Edge Media Holdings, LLC (PEMH), which is building a portfolio of early stage technology companies focused on applying its proprietary artificial intelligence product to clinical drug trials, financial market performance, politics and social media. Within social media, PEMH intends to create a protective on-line infrastructure for the 60 million "tweens," or youth between the ages of 9 to 13, who are at risk from on-line predators, cyber-bullying, and adult content.

This environment is regulated by the Children's On-line Privacy Protection Act (COPPA), which was passed by the US Congress in 2000, and defines privacy standards, holds web operators responsible for age validation and data collection disclosure for children under the age of 13.

Anscor made a second new investment in December, placing $5.0 million in AG&P, Southeast Asia's leading modular fabricator of refinery and petrochemical plants, power plants, liquid natural gas facilities, mining processing, offshore platforms, and other infrastructure.

Modular fabrication's advantages include reduction of on-site labor cost and construction risk, parallel processing that eliminates bottlenecks in the oil and gas, mining, power, and civil infrastructure industries, and a more benign impact on local communities and environments.

AG&P has 110 years of experience serving clients like British Petroleum, Shell, Total and leading engineering procurement construction companies in the world's key energy and mining regions. Its prowess in modular engineering and construction has earned it a respected brand name and track record in multiple large-scale and long-term projects. It possesses ISO 9001:2008 certification, expects to receive its and OSHAS 18001:2007 certification in April 2012 and a safety record of 16 million man-hours without lost time. Its in-house training facility can turn out 1,000 skilled workers annually, whose strength is high productivity in a low-cost environment.

AG&P is currently a finalist for several mega-projects with potential awards of $50 million and more.

***Other Information***

Except as discussed above, disclosures of the following information are not applicable for the registrant and its subsidiaries:

*Business Development*

- Bankruptcy, receivership or similar proceedings
- Material reclassification, merger, consolidation or purchase or sale of a significant amount of asset

*Business of the Issuer*

- Distribution methods of the products or services
- Status of any publicly-announced new product and services
- Competition
- Transaction with and/or related parties (except those disclosed in the notes to financial statements)
- Patents, trademarks, copyrights, licenses, franchises, royalty, etc.
- Need for any government approval of principal products and services
- Effect of existing or probable governmental regulations on the business
- The amount spent on development activities and its percentage to revenues during each of the last three years.

Anscor and its subsidiaries are not aware of any major risks involved in their businesses.

The key performance indicators of our major subsidiaries, are the following:

***Cirrus Group***

1. Submisson to lock ratio (Operating statistic to evaluate recruitment)
2. Nurse/therapist retention ratio (Operating statistic to evaluate retention of nurse and therapist in the pool for staffing business).

(In Thousand Pesos)

| | **2011** | 2010 |
|---|---|---|
| 3. Service Income | **1,005,133** | 711,561 |
| 4. Cost of Services Rendered | **822,106** | 596,058 |
| 5. Income (losses) Before Interest, Taxes, Depreciation and Amortization | **4,361** | (24,955) |

***Seven Seas Group***

(In Thousand Pesos)

| | **2011** | 2010 |
|---|---|---|
| 1. Occupancy Rate | **48.0%** | 47.7% |
| 2. Hotel Revenues | **516,925** | 487,529 |
| 3. Gross Operating Profit (GOP) | **143,172** | 149,544 |
| 4. GOP Ratio | **27.7%** | 30.7% |
| 5. Net Income Before Tax | **32,634** | 72,392 |

Occupancy rate is based on actual room nights sold over available room nights on a 12-month period. Hotel revenues include rooms, food and beverage and other ancillary services. GOP is total revenues less direct costs and GOP ratio is GOP over total hotel revenues.

***Outlook and Investment Strategy***

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

### *Employees*

The Company and the Group as of December 31, 2011, has 18 and 141 employees, respectively. Breakdowns are as follows:

| | Parent | Subsidiaries | Group |
|---|---|---|---|
| Management | 8 | 16 | 24 |
| Rank and file | 10 | 107 | 117 |
| TOTAL | 18 | 123 | 141 |

- The Company and the Group were not subjected to any employees' strike in the past three years nor there threatening strike for the ensuing year.
- Employees of the Group are not subject to Collective Bargaining Agreement (CBA).
- The Group provides various employee benefits including health care and retirement benefits and has enjoyed good labor relations in the past.

### *Properties*

Anscor owns and maintains its office at 7/F, Pacific Star Building in Makati City with approximately 2,000 square meters. It also owns the following:

Shipping Centre Bldg., Intramuros, Manila - 1 office condo unit/
509 sq. meters

Information regarding properties of major subsidiaries and affiliates are:

- PDP Energy plants are situated on an 18.4 hectare property owned by Phelps Dodge's wholly owned subsidiary, Minuet Realty Corporation in the Luisita Industrial Park in San Miguel, Tarlac.
- Seven Seas owns a 40-room resort in Pamalican Island, called Amanpulo. This covers about 75 hectares of land, with 40 room casitas of about 65 sq. meters each and back of house facilities to service its power and water and staff house requirements. Additional 39 villa rooms are available for rent under the management agreement executed by SSRLI and the villa owners.

- APHI has interests in land covering an area of approximately 830.12 hectares in Berong, Palawan, 11.06 hectares in San Vicente, Palawan and parcels of land with a total area of 25.70 hectares in Cebu. Also, APHI owns a lot at the Cebu Business Park, about 1.27 hectare properties in Puerto Princesa and 1 townhouse unit in Alpha Village, Capitol Hills, Quezon City.

***Other Information:***

- The registrant is not involved in lease contracts requiring it to pay substantial amount of rental fees.

- There were no commitments for major capital expenditures or acquisitions of properties in the next twelve months.

**Financial Condition**

The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.79% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group as of December 31, 2011 versus December 31, 2010.

***Cash and Cash Equivalents***

The decrease in cash and cash equivalents can be attributed to net cash flows used in investing and financing activities total of ₱1.9 billion which included additional AFS investments and property and equipment; and payment of dividends. Cash generated from operating activities amounted to ₱266.0 million

(Please see attached consolidated cash flow statements for detailed analysis of cash movements.)

***Fair Value Through Profit and Loss (FVPL) Investments***

The increase in the account can be attributed to the net additional investment for the period of about ₱74.2 million. The increase was reduced by the market value of foreign denominated investment in bonds, stocks and funds decreased by ₱7.2 million vs. December 31, 2010 market values. Unrealized foreign exchange loss related to FVPL investment amounted to ₱1.2 million.

***Receivables***

The increase in receivables was mainly due consolidation of SSRLI balances as of December 31, 2011.

***Inventories***

Inventories increased by ₱67.3 million, one of the reasons was the consolidation of SSRLI inventories. Also, minimal purchases were made in 2011 for spare parts and supplies needed by the aviation subsidiary.

***Prepayments and Other Current Assets***

Change in the account balance can be attributed mainly to the net reduction in refundable/miscellaneous deposits by the air transport subsidiary.

***Investments and Advances***

By consolidating SSRLI, investments and advances decreased by ₱299.2 million, the booked value of the 46% holdings of Anscor in SSRLI held as investment in associate as of February 28, 2011.

The decrease in investments and advances was offset by equity earnings of associates amounting to ₱93.0 million for the year ended December 31, 2011.

Cash dividends received from associate amounted to ₱45.6 million.

***Available for Sale (AFS) Investments***

Change in the account can be attributed mainly to the net additions that were mostly in bonds, equity funds and traded equities amounting to ₱2.1 billion. There was a net decrease of about ₱173.6 million in market value of AFS investments. Foreign exchange loss from translation of foreign currency-denominated AFS investments amounted to ₱10.5 million.

Valuation allowances on the AFS on its quoted investment amounted to ₱35.9 million.

***Investment Properties***

The parent company sold the 34th floor of Enterprise Center with a book value of ₱71.6 million as of February 28, 2011 which resulted to reduction in the investment properties account.

The reduction in the account was offset by the consolidation of SSRLI balances by about ₱28.5 million.

Depreciation for the period amounted to ₱1.0 million.

***Property, Plant and Equipment - net***

The consolidation of SSRLI increases the property, plant and equipment by ₱688.0 million. As required by the new accounting standard for business combination, when Anscor increased its stake in SSRLI from 47% to 62.3%, the net assets of SSRLI were valued at ₱774.3 million using discounted cash flow from operations (including future PPE acquisition) for the next 10 years, reduced by its book value of ₱650.4 million as of February 28, 2011, resulting in an upward adjustment in fair value attributable to property, plant and equipment amounting to ₱123.9 million.

Depreciation charged to operations amounted to ₱104.3 million. Additions to property and equipment amounted to ₱186.3 million.

***Goodwill***

The provisional goodwill that arises from the acquisition of SSRLI amounted to ₱99.3 million.

The goodwill from US-based staffing business, amounting to ₱510.9 million as of December 31, 2010 decreased by ₱5.6 million due to foreign exchange loss of the peso equivalent of the dollar investment.

***Other Noncurrent Assets***

Change in the account balance can be attributed mainly to the consolidation of SSRLI balances. Other noncurrent assets include the following: (a) Fund for villa operations of PRI amounting to ₱47.1 million as of December 31, 2011, which is a restricted cash fund for the villas held as a source of future maintenance requirements and association dues when the need arises as determined by PRI. Interest income on this fund shall accrue to the villa owners. A liability related to the fund was recognized and is included under “Other noncurrent liability” in the balance sheet, (b) Deferred nurse costs of IQHPC amounting to ₱33.3 million and ₱29.3 million as of December 31, 2011 and 2010, (c) Property development in progress of SSRLI amounting to ₱11.5 million as of December 31, 2011, which pertains to the development costs incurred on Phase 3 and Phase 4 projects started in 2009 by SSRLI, (d) A restricted cash fund for future replacement of the resort’s generator set and desalination plant amounting to ₱2.7 million as of December 31, 2011 and is also recognized as “Other reserve” in equity.

***Notes Payable***

The increase in the account was due net additional loan availed by IAI and Cirrus as of December 31, 2011.

***Accounts Payable and Accrued Expenses***

The changed in the account was mainly due to consolidation of SSRLI balances as of December 31, 2011.

***Dividend payable***

As of December 31, 2011 and 2010, the Company had dividends payable amounting to ₱146.6 million and ₱134.9 million, respectively. Dividends payable represent mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2011 and 2010 due to problematic addresses of some of the Company's stockholders.

***Income Tax Payable***

Movement in the account was attributable to income tax payment made by the group for nine months of 2011 offset by the provision for income for the period ended December 31, 2011.

***Advances from Customer***

The 2010 balance was a related party transaction between the Aviation subsidiary and Seven Seas. For 2011, the whole amount was eliminated during the consolidation since Seven Seas is already a subsidiary of Anscor.

***Long-term debt (current and noncurrent)***

The account balance increased as a result of the consolidation of SSRLI balances as of December 31, 2011.

***Deferred Income Tax Liability***

Deferred tax effect of the fair value adjustment on property, plant and equipment of SSRLI amounted to ₱37.2 million (30% of ₱123.9 million).

***Retirement benefits payable***

The increase in the account was due to consolidation of SSRLI balances as of December 31, 2011.

***Other noncurrent liabilities***

This account consists of fund for villa operations of PRI amounting to ₱47.1 million as of December 31, 2011, which is a restricted cash fund for the villas held as a source of future maintenance requirements and association dues when the need arises as determined by PRI. Interest income on this fund shall accrue to the villa owners. A liability related to the fund was recognized and is included under this account. Also included in other noncurrent liabilities is the restricted cash fund or future replacement of the resort's generator set and desalination plant amounting to ₱2.7 million as of December 31, 2011.

***Unrealized valuation gains on AFS investments (equity portion)***

The decrease in market values of AFS investments from December 31, 2010 to December, 2011 amounted ₱155.0 million, net of deferred income taxes. When the assets are sold, the gain or loss is realized and will be reflected in the consolidated statements of income.

***Cumulative Translation Adjustment***

This account includes translation adjustments of Anscor International, Inc., Cirrus Medical Staffing, Inc. and Cirrus Global, Inc. (formerly IQMAN).

***Noncontrolling interests (Balance Sheet)***

Increase in noncontrolling interests was mainly due to share of minority shareholders on net assets of SSRLI as of December 31, 2011.

***Retained Earnings – Appropriated***

On December 6, 2011, the BOD approved the appropriation of the Company's unrestricted retained earnings amounting to ₱2.1 billion for expansion projects and investments in 2012 in the areas of tourism, business process outsourcing (BPOs), manpower, education and manufacturing.

***Others***

There were no commitments for major capital expenditures in 2011.

***Results of Operation***

Management is not aware of any known trends, events or uncertainties except for political and market uncertainties that may have material impact on the Company's recurring revenues and profits.

***Revenues***

This year's consolidated gross revenues of ₱2.8 billion was 19.8% lower than last year's revenue of ₱3.5 billion. The gain from sale of AFS investments was significantly lower compared to the gain reported last year. This reduction in revenues was partially offset by improved service revenues of Cirrus group and inclusion of SSRLI's ₱412.4 million hotel revenues for the period March 1 to December 31, 2011.

***Cost of Services Rendered***

Increase in cost of services rendered was mainly attributable to higher cost of services of nurse staffing business (as a result of improved revenues) and consolidation of SSRLI cost of services for the period March 1 to December 31, 2011.

***Operating Expenses***

Operating expenses increased as a result of consolidation of SSRLI operating expenses for the period March 1 to December 31, 2011.

***Recoveries (Valuation Allowances) - net***

As a result of recovery in market values of some AFS investments mostly from bonds, previously booked provisions were reversed.

***Foreign Exchange Loss***

Due to the appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss.

***Interest Expense***

The Group reported lower charges for interest expense in 2011 resulting from payment of the parent company of its loan. Despite the pick up in the consolidated balance sheet of SSRLI's loans/debt, the interest expense that was considered only pertained to March 1 to December 31, 2011, as the effectivity of consolidation of income statement accounts of SSRLI was March 1, 2011.

***Other Income***

Other income reported in 2011 pertains mainly to gain from fair value adjustment of net assets of acquired subsidiary and forfeiture of rental deposit from lessee by the parent company.

***Provision for Income Tax - net***

The current provision for income tax of the group increased due to consolidation of SSRLI's income tax expense of ₱4.7 million for the period March 1 to December 31, 2011. The parent company sets up provision for deferred income tax liability on uncollected management fee during the year and wrote off the tax benefit on unrealized foreign exchange loss and unrealized loss from decrease in market value of AFS investments.

***Noncontrolling Interests (Income Statement)***

Increase in noncontrolling interests was mainly due to share of minority shareholders on reduced losses of Cirrus Global, Inc. and Cirrus Medical Staffing, Inc. and the share of minority shareholders on results of SSRLI from March 1 to December 31, 2011.

**Year Ended December 31, 2010 Compared with Year Ended December 31, 2009 (as report in 2010 SEC 17-A)**

***Revenues***

This year's consolidated gross revenues of ₱3.5 billion doubled last year's revenue of ₱1.7 billion. Anscor posted higher equity earnings from associates and investment gain from sale of AFS investments, mostly locally traded shares amounting ₱115.2 million and ₱2.1 billion, respectively. The increase in revenues was partially reduced by the lower service revenues of Cirrus Medical Staffing, Inc., from ₱916.7 million to ₱711.5 million.

***Costs of Services Rendered***

Decrease in cost of services rendered was mainly attributable to decline in business activities of the nurse staffing and recruitment services.

***Operating Expenses***

Operating expenses increased slightly. In view of the substantial income generated by the Company in 2010 for the sale of its investments, the parent company declared and paid bonuses to its executive officers and directors as approved by the BOD and the Compensation Committee.

***Valuation Allowances***

The Parent Company setup a provision for decline in market value of some AFS investments based on reduced market values as of December 31, 2010 vs. values as of December 31, 2009 and/or original acquisition cost. Additional provision was also setup for some of its equitized investments. Likewise, provisions for doubtful accounts receivable was set up.

***Foreign Exchange Loss***

Due to appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss. The loss could have been higher if not for the hedging transaction.

***Interest Expense***

The Group reported higher charges for interest expense resulting from additional loans obtained by the parent company and its subsidiary during 2010.

***Other Expense- net***

Minimal rental income was recognized in 2010. In 2009, the rental income amounted to ₱14.5 million are shown as part of "Other expense-net" in the consolidated statements of income.

***Provision for Income Tax***

This account increased mainly due to the higher income tax due by a subsidiary.

***Noncontrolling Interest***

Increase in noncontrolling interest represents the share of minority shareholders on income of the aviation subsidiary, net of share in losses of minority shareholders of Cirrus Global, Inc. and Cirrus Medical Staffing, Inc. for the year ended December 31, 2010.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008 (as report in 2009 SEC 17-A)

***Revenues***

This year's consolidated gross revenues of ₱1.7 billion declined by ₱534.7 million from last year's ₱2.3 billion revenues. Cirrus' ₱916.9 million service revenues were lower compared to prior year's ₱1.2 billion. The 2008 revenues include nonrecurring gain from sale of eTelecare shares and PDIPI shares of ₱740.4 million and ₱312.3 million, respectively.

***Cost of Goods Sold/Services Rendered***

Decrease in cost of goods sold/services rendered was mainly attributable to decrease in Cirrus' and IQMan's cost of services due to slowdown in business activities.

***Operating Expenses***

Operating expenses decreased as a result of cost reduction both for the Parent company and the group, mainly there was no bonus paid by the Parent company in 2009.

***Valuation Allowances***

The Parent Company setup a provision for decline in market value of some AFS investments based on reduced market values as of December 31, 2009 vs. values as of December 31, 2008 and/or original acquisition cost, but the amount of valuation allowances was lower at ₱89.3 million as against 2008's ₱216.5 million.

***Foreign Exchange Loss***

Due to the slight appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss.

***Interest Expense***

The Group reported lower charges for interest expense. Parent Company and its Air transport subsidiary availed additional short-term loan during the latter part of 2009.

***Provision for Income Tax***

This account decreased mainly due to the Parent Company's set up of a deferred tax assets pertaining to unrealized foreign exchange loss and impairment of AFS investments as of December 31, 2009.

***Income from Deconsolidated Subsidiary***

On June 30, 2008, the Parent Company entered into Deed of Assignment for the sale to General Cable Company of Canada of its 1,081,900 shares of stock (representing 18.38% share of the total outstanding shares) in Phelps Dodge International Philippines Inc. (PDIPI). As a result, the Parent Company's ownership of PDIPI has been reduced to 40% and it therefore deconsolidated starting July 1, 2008. The Parent Company's investment in PDIPI is accounted for under equity method effective July 1, 2008.

***Minority Interest***

This account no longer included the share of non-Anscor owners in PDPI's net income. What was included in this account is the share of minority interest in the results of ASAC, IQMAN/IQHPC and Cirrus, Inc.

***Cash Flows***

Management has no knowledge of known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

***Changes in Accounting Policies and Disclosures***

**Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations based on IFRIC which were adopted as of January 1, 2011. Unless otherwise indicated, the adoption of these changes did not significantly affect the consolidated financial statements.

- Amendment to PAS 24, Related Party Disclosures, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

***Improvements to PFRS Issued in 2010***

The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of these amendments did not significantly impact the financial position or performance of the Group.

- PFRS 7, Financial Instruments: Disclosures, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put quantitative information in context.

- PAS 1, Presentation of Financial Statements, clarifies than an entity may present an analysis of each component of other comprehensive income, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 34, Interim Financial Reporting, provides guidance to illustrate how to apply disclosure principles of PAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between levels of fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment is applied retrospectively.

The following interpretation and amendments to PAS and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, Customer Loyalty Programmes
- Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
- Amendment to PAS 32, Financial Instruments: Presentation - Classification of Rights Issues
- Amendment to Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2011

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

*Effective in 2012*

- Amendment to PFRS 7, Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements, requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and will have no impact on the Group's financial position or performance.

- Amendment to PAS 12, Income Taxes-Deferred Taxes: Recovery of Underlying Assets, introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. The amendments also introduce the requirements that deferred tax on non-depreciable assets measured using the revaluation model on property, plant and equipment should always be measured on a sale basis.

*Effective in 2013*

- Amendments to PAS 1, Financial Statement Presentation, improve how we present components of other comprehensive income. The new requirements are effective for annual periods beginning on or after July 1, 2012.

- Amendment to PAS 19, Employee Benefits, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

- PFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard defines control when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. PFRS

10 replaces the consolidation requirements in SIC-12 Consolidation - Special Purpose Entities and PAS 27. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements in PAS 27. Earlier application is permitted.

- PAS 27, Separate Financial Statements (as revised in 2011), as a consequence of the new PFRS 10, Consolidated Financial Statements and PFRS 12, Disclosure of Interests in Other Entities, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PFRS 11, Joint Arrangements, supersedes PAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers. This standard describes the accounting for joint arrangements with joint control. Further, proportionate consolidation is not permitted for joint ventures under the new definition of a joint venture. Earlier application is permitted.

- PAS 28, Investment in Associates and Joint Ventures (as revised in 2011), as a consequence of the new PFRS 11, Joint Arrangements and PFRS 12, PAS 28 has been renamed PAS 28, Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

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

This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

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

- PFRS 12, Disclosures of Involvement with Other Entities, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Earlier application is permitted.

- PFRS 13, Fair Value Measurement, establishes new guidance on fair value measurement and disclosures. Earlier application is permitted.

***Effective in 2014***

- PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

***Effective in 2015***

- PFRS 9, Financial Instruments, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39.

The approach in this new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

The Group decided not to early adopt PFRS 9 for its 2011 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2011 do not reflect the impact of the said standard.

The Group shall conduct another impact evaluation in early 2012 using the consolidated financial statements for the year ended December 31, 2011. Given the amendments on PFRS 9, Financial Instruments, the Group at present, does not plan to early adopt in 2012 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2012 financial reporting will be disclosed in its consolidated financial statements as at and for the period ending March 31, 2012. Should the Group decide to early adopt the said standard for its 2012 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2012 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group's impact evaluation.

- The Group's AFS investments, receivables, notes payable, accounts payable and accrued expenses, dividends payable and long term debt may be affected by the adoption of this standard.

***Effectivity date to be determined***

- Philippine Interpretation IFRIC 15, Agreements 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. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations. The effects and required revised disclosures, if any, will be included in the financial statements when the relevant accounting standards and interpretations are adopted subsequent to December 31, 2011.

**Business Combination**

On February 28, 2011, the Company acquired additional 15.51% shares in SSRLI which increased the Company's ownership from 46.79% to 62.30%.

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

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

| | Fair Value Recognized on Acquisition (in millions) | |
|---|---|---|
| Cash | ₱ | 96.2 |
| Receivables -net | | 76.6 |
| Property and equipment | | 470.9 |
| Other assets | | 46.8 |
| Total assets | | 690.5 |
| Accounts payables and accrued expenses | | 93.4 |
| Other liabilities | | 137.8 |
| Net assets | | 459.3 |
| Goodwill arising from the acquisition | | 99.3 |
| Total consideration | ₱ | 558.6 |

The total cost of the combination was ₱558.6 million broken down as follows (in millions):

| | | |
|---|---|---|
| Cash consideration | ₱ | 255.9 |
| Fair value of 46.79% investment | | 302.7 |
| Total consideration | ₱ | 558.6 |

**Other Financial information**

- There are no material events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

- There are no off-balance sheet transactions, arrangements, obligations including contingent obligations, and other relationships of the Company with unconsolidated entities or other persons created during the year.
- There were no commitments for major capital expenditures in 2010 and onwards.

- The management has no knowledge of known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenue or income from continuing operations.

- There are no seasonality or cyclicality trends in the business that would have material effect on the Company's result of operations and financial condition.

- There is no other change in composition of the registrant, no restructuring, except the business combination mentioned above.

- There is no other material event subsequent to the reporting period that have not been reflected in financial statements.

***Financial Statements***

1. The financial statements were presented using the classified balance sheet format in accordance with the Philippines Financial Reporting Standards (PFRS).

2. The financial statements were prepared in accordance with the disclosures required by SRC Rules 68 and 68.1, current PFRS/IAS.

3. The consolidated financial statements include disclosures with regards to new accounting standards that the Company and its subsidiaries adopted.

## Market Information

The Principal Market where the registrant's Common equity is traded:

**Philippine Stock Exchange**
**Latest Market Price – 29 February 2012**

| Previous Close | High | Low | Close |
|---|---|---|---|
| ₱ 3.67 | ₱ 3.58 | ₱ 3.50 | ₱ 3.50 |

The following are the high and low sales prices of the shares of the Company for each quarter within the last two fiscal years:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| Quarter | **High** | **Low** | High | Low |
| First | **3.35** | **2.98** | 2.26 | 2.00 |
| Second | **3.80** | **3.30** | 2.34 | 2.10 |
| Third | **3.60** | **3.00** | 3.20 | 2.00 |
| Fourth | **3.75** | **3.00** | 3.20 | 3.03 |

Source: PSE Report

The total number of stockholders/accounts as of 29 February 2012 is 11,659 holding 2,500,000,000 shares of common stock.

**Dividends**

In 2011 the Board of Directors declared the following cash dividends:

| Classification | Peso Rate Per Share | Declaration Date | Record Date | Payable Date |
|---|---|---|---|---|
| Regular | 0.12 | 18-Feb-11 | 07-Mar-11 | 30-Mar-11 |
| Special | 0.12 | 11-Oct-11 | 26-Oct-11 | 21-Nov-11 |

The cash dividends declared by the Board in 2010 were:

| Classification | Peso Rate Per Share | Declaration Date | Record Date | Payable Date |
|---|---|---|---|---|
| Special | 0.10 | 4-Mar-10 | 25-Mar-10 | 21-Apr-10 |
| Regular | 0.12 | 14-Oct-10 | 4-Nov-10 | 26-Nov-10 |

There is no restriction on payment of dividends other than the availability of retained earnings following the SEC rule on calculation of available retained earnings for dividend declaration. As of 31 December 2011, the Company has sufficient retained earnings available for dividend declaration.

**Security Holders**

The top 20 stockholders as of 29 February 2012 are as follows:

| Stockholder Name | Number of Common Shares | % of Ownership |
|---|---|---|
| 1. Anscor Consolidated Corporation | 1,201,317,039 | 48.053 % |
| 2. PCD Nominee Corp. (Non-Filipino) | 505,656,814 | 20.226 % |
| 3. PCD Nominee Corp. (Filipino) | 163,991,517 | 6.560 % |
| 4. A-Z Asia Limited Philippines, Inc | 176,646,329 | 7.066 % |
| 5. Universal Robina Corporation | 64,605,739 | 2.584 % |
| 6. Andres Soriano III | 50,490,265 | 2.020 % |
| 7. C & E Property Holdings, Inc. | 28,011,922 | 1.120 % |
| 8. Edmen Property Holdings Inc. | 27,511,925 | 1.100 % |
| 9. MCMS Property Holdings, Inc | 26,513,928 | 1.061 % |
| 10. EJS Holdings, Inc. | 25,884,905 | 1.035 % |
| 11. Express Holdings, Inc. | 23,210,457 | 0.928 % |
| 12. Phil. International Life Insurance Co. | 19,002,875 | 0.760 % |
| 13. TTC Development Corporation | 9,207,345 | 0.368 % |
| 14. Dao Investment & Management Corp. | 8,628,406 | 0.345 % |
| 15. Philippine Remnants Co., Inc. | 7,556,183 | 0.302 % |
| 16. Balangingi Shipping Corporation | 2,767,187 | 0.111 % |
| 17. Dolmar Real Estate Dev. Corporation | 2,531,106 | 0.101 % |
| 18. Lennie A. Lee | 2,000,000 | 0.080 % |
| 19. Jocelyn C. Lee | 2,000,000 | 0.080 % |
| 20. Leonardo T. Siguion-Reyna | 2,000,000 | 0.080 % |

There are no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

# ANNEX B

## Resolutions Approved During the Meetings of the Board of Directors of A. Soriano Corporation for the Period April 13, 2011 to February 17, 2012

1. <u>Board Meeting held on April 13, 2011</u>

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

1.2

I. DEPOSITORY BANK OF THE CORPORATION

RESOLVED, that Bank of the Philippine Islands is designated as depository of this Corporation, and that the officers or agents of this Corporation herein designated be, as they hereby are, authorized to deposit/place any of the funds of this Corporation in the Bank of the Philippine Islands, their subsidiaries, and affiliates including non-bank financial institutions either at their head offices or at any of their branches.

II. WITHDRAWAL OR CHARGE AGAINST THE FUNDS OF THE CORPORATION WITH ITS DEPOSITORY BANK

RESOLVED, that any withdrawal from, or charge against, the funds, properties or accounts of the Corporation with its depository bank by way of checks, drafts, bills of exchange, acceptances, endorsements, undertakings, debit memo(s), fund transfer(s) or other instruments or order involving payment of money or documents assigning, transferring and conveying rights to any fund or property of the Corporation, shall be signed, executed and delivered by any two (2) of the following officers of the Corporation, namely:

| NAME | POSITION |
|---|---|
| Mr. Andres Soriano III | Chairman and Chief Executive Officer |
| Mr. Eduardo J. Soriano | Vice Chairman and Treasurer |
| Mr. Ernest K. Cuyegkeng | Executive Vice President and Chief Financial Officer |
| Mr. Jose C. Ibazeta | Director |
| Atty. Joshua L. Castro | Executive Assistant and Assistant Corporate Secretary |

III. FOREIGN EXCHANGE TRANSACTIONS

RESOLVED, that any and all documents, instruments and papers, including and without in any manner restricting or limiting to applications for establishment or opening of letters of credit, or other modes of trade payments/ collections, their renewals, extensions, amendments or increase or decrease of the same, bankers acceptances, bills of exchange, guarantee bonds, bills of lading or any and all such other instruments, documents and papers related to foreign exchange transactions, such as purchase or sale of foreign exchange, forwards and non-deliverable forward transactions, servicing of trade or non-trade transactions involving visibles and invisibles, shall be signed, executed and delivered by the signatories in the manner stated above.

1.3 RESOLVED, as it is hereby resolved, that the Corporation is hereby authorized to enter into Make Whole Agreements with Fifth Third Bank and Cirrus Medical Staffing, Inc. in connection with the renewal of credit lines of Cirrus Allied, LLC and Cirrus Holdings USA, LLC, respectively, under such terms and conditions as may be for the best interest of the Corporation.

RESOLVED, FURTHER, that Ernest K. Cuyegkeng, the Corporation’s Executive Vice President and Chief Financial Officer, is hereby authorized to sign the above mentioned Make Whole Agreements and/or such other documents that may be required to give full force and effect to this resolution.

## 2. Board Meeting held on October 11, 2011

2.1 RESOLVED, as it is hereby resolved, that Anscor International, Inc. (the "Corporation") is hereby authorized to invest the amount of US$3,000,000.00 in Predictive Edge Media Holdings LLC, a Delaware Limited Liability Company, under such terms and conditions as may be for the best interest of the Corporation.

RESOLVED, FURTHER, that Mr. William H. Ottiger is hereby authorized to sign any and all documents that may be required to give full force and effect to this resolution.

2.2 RESOLVED, as it is hereby resolved, that A. Soriano Corporation (the "Corporation") is hereby authorized to sell, convey, and transfer its 265,616 Common shares of stock in Vesper Industrial and Development Corporation to Therma Power, Inc. under such terms and conditions that may be for the best interest of the Corporation.

RESOLVED, FURTHER, that the Corporation's Executive Vice President and Chief Financial Officer, Mr. Ernest K. Cuyegkeng, is hereby authorized to sign any and all documents necessary to give full force and effect to the foregoing resolution.

2.3 RESOLVED, as it is hereby resolved, that there is hereby declared out of the surplus profits of the Corporation, a cash dividend of Twelve Centavos (₱0.12) per share on the common stock of the Corporation, payable on November 21, 2011, to all stockholders of record as of the close of business on October 26, 2011, and Mr. Ernest K. Cuyegkeng, the Corporation's Executive Vice President and Chief Financial Officer, is hereby directed and authorized to cause the payment of the said cash dividend on the specified date.

2.4 RESOLVED, that the Corporation is hereby empowered and authorized to apply for and establish a BDO Corporate Card Account (including Purchasing, Distribution and Fleet Card) with Banco De Oro Unibank, Inc. (BDO), from which Account BDO will issue BDO Corporate Cards to qualified officers or employees (the "Assignees") of the Corporation;

RESOLVED, that for this purpose, any one (1) of the following officer/s of the Corporation whose names and specimen signatures appear below:

| NAME | POSITION |
| --- | --- |
| Mr. Andres Soriano III | Chairman and Chief Executive Officer |
| Mr. Eduardo J. Soriano | Vice Chairman and Treasurer |
| Mr. Ernest K. Cuyegkeng | Executive Vice President and Chief Financial Officer |
| Mr. Jose C. Ibazeta | Director |
| Atty. Joshua L. Castro | Executive Assistant and Assistant Corporate Secretary |

with full power of substitution, are hereby empowered and authorized to represent and act for and on behalf of the Corporation in connection with the establishment of the BDO Corporate Card Account with BDO, and such authority includes but not limited to making the Corporation liable under such terms and conditions, to the extent as said officers may deem necessary, to any and all purchases made through the use of the BDO Corporate Cards; to the execution, signing, delivery and performance of any required or necessary deeds, transactions, agreements or documents under such terms and conditions as said officer/s, in his/their sole judgment, may deem fit for the Corporation;

RESOLVED, that the Corporation shall pay, to the extent of its liability under the terms and conditions of the BDO Corporate Cards, for the purchases made and/or expenses incurred by the said Assignees through the use of the Corporate Cards issued by virtue of this resolution including interest and service charges that may accrue thereto;

RESOLVED, that all transactions, warranties, covenants, dealings and agreements with BDO by the aforestated officer/s with respect to the enforcements and/or implementation of the foregoing transactions, for and on behalf of the Corporation, prior to the approval of these Resolutions and properly thereafter, are hereby approved, confirmed and ratified to be the valid and binding acts, representations, warranties and covenants of the Corporation;

RESOLVED, that these resolutions shall be valid and subsisting and shall remain in full force and effect unless otherwise revoked or amended in writing by the Corporation and duly served upon BDO;

RESOLVED, that any one of the above-named officers is hereby empowered and authorized to advise BDO of these resolutions.

3. **Board Meeting held on December 6, 2011**

3.1 RESOLVED, as it is hereby resolved, that A. Soriano Corporation (the "Corporation") hereby accepts, approve, and ratify the tender offer of Maybank for the Corporation's 41,936,663 shares in ATR Kim-Eng at ₱4.38 per share or a total amount of ₱183.68 million with net gain amounting to ₱66.53 million.

3.2 RESOLVED, as it is hereby resolved, that the Corporation is authorized to invest the amount of Five Million US Dollars (US$5,000,000.00) in AGP International Holdings Ltd. under such terms and conditions that may be for the best interest of the Corporation.

RESOLVED, FURTHER, That Ernest K. Cuyegkeng, Executive Vice President and Chief Financial Officer and/or Joshua L. Castro, Assistant Corporate Secretary, are hereby authorized to sign any document that may be required to give full force and effect to this resolution.

3.3 RESOLVED, as it is hereby resolved, that the Corporation is authorized to appropriate the amount of Two Billion One Hundred Million Pesos (₱2,100,000,000.00) out of its retained earnings for its expansion projects and investments in 2012 onwards in the areas of tourism, BPO, manpower, education, and manufacturing.

4. **Board Meeting held on February 17, 2012**

4.1 RESOLVED, as it is hereby resolved, that the audited Financial Statements of the Corporation for the year ended December 31, 2011 is hereby approved."

4.2 The Board proceeded to approve the record date, proxy validation date and the date of the Annual Stockholders' Meeting as follows:

Record Date – March 9, 2012
Proxy Validation Date – March 30, 2012
Date of Stockholders' Meeting – April 11, 2012

4.3 RESOLVED, as it is hereby resolved, that there is hereby declared out of the surplus profits of the Corporation, a cash dividend of Twenty Five Centavos (₱0.25) per share on the common stock of the Corporation, payable on March 27, 2012, to all stockholders of record as of the close of business on March 5, 2012, and Mr. Ernest K. Cuyegkeng, the Corporation's Executive Vice President and Chief Financial Officer, is hereby directed and authorized to cause the payment of the said cash dividend on the specified date.

4.4 RESOLVED, as it is hereby resolved, that A. Soriano Corporation (the "Corporation") hereby authorizes Atty. Joshua L. Castro, Assistant Corporate Secretary, to represent the Corporation with the Optical Media Board in connection with its application for registration and replication permit for the manufacture of Compact Discs (CDs) containing the Corporation's annual report for the year 2011 and Information Statement for distribution to its stockholders.

A. SORIANO CORPORATION

# 2011
ANNUAL REPORT

# 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, 2011.

# CHAIRMAN'S MESSAGE

## The Economy in 2011

The years of recession continue to take their toll. 2011 was a year of tumult, wracked by upheaval in North Africa, debt crises and leadership changes in Europe, lingering unemployment in the United States, and calamity and dislocation in Japan.

While reconstruction is under way in Japan and the US job markets have inched upwards in recent months, turbulence in the Middle East has sent oil prices soaring, and harsh fiscal discipline in Europe has forced belt-tightening and slashed demand for goods from trading partners.

The Philippines' GDP growth slowed from 7.3% in 2010 to 3.7% in 2011, weighed down by contraction in semiconductor and electronics exports, losses from typhoons and floods, and the government's deferment of public infrastructure spending amid a high-profile anti-graft campaign. Services were the economy's main driver of growth, with US$20.1 billion in OFW remittances complementing the real estate; business process outsourcing; and tourism subsectors. The government has served notice that procurement reforms have been substantially completed and infrastructure programs will be back on track this year.

## Financial Performance

Your Company earned ₱994.5 million in consolidated net income in 2011, against ₱1.98 billion in 2010. The decrease came largely from the reduced volume of traded available-for-sale securities in the financial portfolio. As stated in last year's Annual Report, these securities are principally in companies such as ICTSI, Aboitiz Equity Ventures and Aboitiz Power. In 2011, the Philippine Stock Exchange Index rose by 4.07%, while Anscor's marketable securities posted an 11% rate of return. We considered it prudent to liquidate a smaller number of shares in 2011, for a gain of ₱621.0 million compared to 2010's ₱1.95 billion.

The portfolio's remaining investments continue to possess considerable values above their original cost, and these values are reflected in the balance sheet. The gain will be reflected in the income statement when the investments are sold.

Your Company also deemed it advisable to dispose of certain bonds and equity funds at a small loss which was offset by the gain of ₱37.1 million realized from the sale of its floor at the Enterprise Center and income of ₱66.5 million and ₱16.7 million from the sale of holdings in ATR Kim-Eng Financial Corporation and Vesper Industrial and Development Corporation, respectively.

The peso remained relatively stable against the US dollar and hedging transactions enabled Anscor to reduce significantly last year's consolidated foreign exchange loss of ₱138.4 million to ₱7.4 million.

During the year, Anscor generated dividend and interest income of ₱223.2 million and ₱120.2 million, respectively, vis a vis last year's ₱145.7 million dividend income and ₱111.2 million interest income, posting a total increase of 34%.

Results in the operating businesses were generally favorable despite the somber business climate and many of our newer operations recorded improved EBITDA or reduced losses.

## Group Operations

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

PDP Energy's diversified product line registered a 9% rise in copper and aluminum sales, mainly from expanded exports to General Cable Australia. However, domestic sales volumes declined with the slack in economic growth.

Despite lower sales volumes, copper prices lifted domestic revenues by 10.3% to ₱4.93 billion from ₱4.47 billion in 2010. Export sales revenues of PEZA-registered PD Energy International Corporation (PDEIC) rose from ₱606 million last year to ₱1.57 billion. Net income slipped 3% to ₱221.8 million, owing to the learning curve that typically attends the development and delivery of new products to new customers overseas.

Pursuing its customer service, manufacturing process and cost reduction programs, the company secured ISO 9001/14001/18001 certification for Quality, Environment, and Health and Safety for PDEIC from Certification International (UK). PDP also continued promoting new products and solutions, notably special cables for export, medium and high voltage cables up to 230 KV, low smoke halogen-free cables, and aluminum cables. It leveraged its medium voltage (MV) cable manufacturing facility to offer shorter delivery time of MV 35 KV cables to power utilities, and widened sales coverage to new provincial dealers and customers. It also advanced consumer education and safety awareness through the Philippine Electrical Wires Manufacturers Association's campaign against counterfeit wires.

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

Amanpulo experienced a challenging year as Japanese tourists chose to stay home and held back from the island resort after the March 2011 tsunami and other international travelers were affected by the recessionary environment. To counteract this, Management focused their efforts on domestic travelers and other regional foreign guests. The Resort generated revenues of ₱516.9 million, a 6.0% improvement over 2010, mainly from higher room revenues (4.8%), food and beverage (8.3%) and villa handling and management fees (20.0%). The average room rate was increased by $25 to $924 per night. However, net profit fell to ₱24.3 million due to the ₱19.5 million increase in depreciation expense of the special capital expenditure program that started in 2007 (inclusive of the spa) and higher power generating costs by ₱11.6 million.

Amanpulo's new spa complex, which opened in late 2010, is now fully operational, with facilities for hairdressing, gym and pilates, plunge pools and massage treatments. The company has also invested ₱40 million in a 1000 MW generating unit and a new desalination plant to boost power efficiency.

During the year, Gallivanter's Tourist Guide 21st Annual Reader Poll cited Amanpulo as No. 3 Best Leisure Hotel Worldwide, No. 4 Best Resort in Southeast Asia, and No. 3 Best Small Hotel/Resort under 100 Rooms.

***Cirrus Medical Staffing, Inc.***

Demand for temporary health care staffing improved throughout 2011, bringing a steady increase in job orders. Revenues in 2011 increased 41% to ₱1.04 billion and consolidated losses before tax dropped to ₱5.7 million from ₱37.7 million in 2010, due to stronger demand and higher recruiter productivity.

Investments in increased recruitment and account management personnel were made and will support future growth. The company closed its Atlanta, Georgia office in September and consolidated all operations into a single office in Charlotte, North Carolina, to allow better coordination of Cirrus Medical's market strategy across both nursing and therapy specialties. The National Physical Therapy Examinations (NPTE) lifted its ban on graduates from Egypt, India, Pakistan and the Philippines, which will allow Filipino physical therapists to once again become licensed and employed in the United States. Philippine support operations continue to provide effective back-office service.

Last year's Annual Report announced the acquisition of NurseTogether, which owns two on-line properties catering to health care professionals who seek job postings. NurseTogether saw an increase in user traffic and encouraging customer feedback throughout the year but, given its early stage nature, generated a loss for 2011. Continuing investment in technology, sales and support capabilities will enable NurseTogether to become a critical component in Cirrus' overall offering.

A number of factors – the aging of both the baby boomer generation and American nurses (whose average age is about 50 years) and the broader insurance coverage resulting from health care reform – constitute an assurance that health care will be among the fastest growing job sectors over the next decade.

***KSA Realty Corporation***

The office leasing market turned more competitive with the entry of new players offering additional space and lower rates in the Makati Central Business District and alternative locations. However, The Enterprise Center (TEC) signed up new lessees and existing tenants expanded leased areas, raising average occupancy rate to 86.8% from 80.8% in 2010.

Gross revenues climbed 28% to ₱857.4 million while net income of ₱562.6 million is 35% over last year, attributable to the 2011 fair value adjustment in investment property of ₱157 million. KSA declared and paid cash dividends of ₱250 million, of which ₱28.6 million accrued to Anscor.

TEC received a Special Award of Distinction from the Makati Fire Safety Foundation and the Makati City Government for consistently winning the Building Fire Safety Award, Building Fire Brigade Award and Corporate Fire Safety Award.

***Enderun Colleges, Inc.***

Enderun posted its first operating profit of ₱10 million, from a ₱50 million loss last year, on the back of robust enrollment, which rose 15% to 952 full-time college and certificate students in the current school year. Revenues likewise gained 28% to reach ₱297 million in 2011. Noteworthy in this progress is Restaurant 101, the Colleges' application restaurant, which generated revenues of ₱30 million over the previous year, and the continuing education unit Enderun Extension, whose revenues grew 40% to ₱21 million.

Enderun held its second graduation rites in April 2011, with 71 students receiving degrees in BS International Hospitality Management. During the year, 248 students completed internships, bringing to 686 the number that the school has placed since 2006, in such prestigious establishments as Hyatt Regency Lake Tahoe, Hotel Arts in Barcelona, Alain Ducasse in Paris, Le Meridien in Kuala Lumpur and Shangri-La in Abu Dhabi. Foreign internships in 2011 numbered 146, or 59% of this year's batch.

The school continued to upgrade its campus facilities, spending over ₱30 million to complete five additional classrooms, a new state-of-the-art kitchen, and a multi-purpose covered court.

***Prople, Inc.***

Business process services provider Prople experienced a turnaround year. Focusing on its three priorities of responsible growth, building capability and operational excellence, it increased total revenues by 21% to ₱94.7 million, and improved EBITDA significantly from negative ₱23.5 million in 2010 to a virtual break-even performance.

The turnaround began in June when monthly EBITDA first turned positive, then rose steadily and peaked in December. Investments in software, processes and employee productivity enabled the company to push overhead costs down from 68% of revenues to 59%, and improved contribution margin from 32% to 41%, in 2010 and 2011, respectively.

The company gained 23 new customers, boosting its client base to 102, and expanded contracts with five existing clients, entailing longer service terms, added seats, supplemental finance and accounting, information and technology outsourcing, and knowledge process work. New service lines in HR, information and technology and knowledge process outsourcing grew 118%, 142% and 105%, respectively, and now represent 14%, 18% and 12%, of total revenues, respectively. Prople's proprietary cloud-computing-based technologies are expected to attract new business and expanded contracts in 2012.

In April, Prople closed its Calgary satellite office, which proved unable to penetrate the North American market, but is maintaining its Business Partner Network for future tie-ups.

***Alphion Corporation***

Based on preliminary financial statements subject to audit adjustments, Alphion generated revenues of $9.2 million in 2011, an 83% decline from the previous year's $52.6 million. Net loss rose from $9.3 million to $12.3 million. The company experienced working capital constraints for most of 2011 and was unable to meet customer orders.

However, in October 2011, Alphion successfully completed the first closing of its Series F financing, led by the Aditya Birla Group of Companies, which invested $20 million in Indian Rupees (INR). Birla is a leading Indian conglomerate headquartered in Mumbai, with $35 billion in annual revenues and 133,000 employees worldwide. It first ventured into telecommunications in 2006 and its investment in Alphion represents a significant endorsement of Alphion's quality, technology and management team. A further indicator of Alphion's promise is that new orders have been placed by customers in India, the US, Canada and Russia.

As the INR-denominated Birla fund is restricted to investing in Indian companies, it was placed in Alphion India Private Limited, a wholly-owned Alphion subsidiary. Since foreign exchange restrictions on converting INR into other currencies limit the company's ability to leverage these funds to the fullest, Alphion is working on additional credit facilities.

## New Investments

In October 2011, Anscor invested $3.0 million in Predictive Edge Media Holdings, LLC (PEMH), which is building a portfolio of early stage technology companies focused on applying its proprietary artificial intelligence product to clinical drug trials, financial market performance, politics and social media. Within social media, PEMH intends to create a protective on-line infrastructure for the 60 million "tweens", or youth between the ages of 9 to 13, who are at risk from on-line predators, cyber-bullying, and adult content. This environment is regulated by the Children's On-line Privacy Protection Act (COPPA), which was passed by the US Congress in 2000, and defines privacy standards, holds web operators responsible for age validation and data collection disclosure for children under the age of 13.

Anscor made a second new investment in December, placing $5.0 million in AG&P, Southeast Asia's leading modular fabricator of refinery and petrochemical plants, power plants, liquid natural gas facilities, mining processing, offshore platforms, and other infrastructure.

Modular fabrication's advantages include reduction of on-site labor cost and construction risk, parallel processing that eliminates bottlenecks in the oil and gas, mining, power, and civil infrastructure industries, and a more benign impact on local communities and environments.

AG&P has 110 years of experience serving clients like British Petroleum, Shell, Total and leading engineering procurement construction companies in the world's key energy and mining regions. Its prowess in modular engineering and construction has earned it a respected brand name and track record in multiple large-scale and long-term projects. It possesses ISO 9001:2008 certification, expects to receive its OSHAS 18001:2007 certification in April 2012 and has a safety record of 16 million man-hours without lost time. Its in-house training facility can turn out 1,000 skilled workers annually, whose strength is high productivity in a low-cost environment.

AG&P is currently a finalist for several mega-projects with potential awards of $50 million and more.

## Corporate Social Responsibility

The Andres Soriano Foundation once again expanded its Small Islands Sustainable Development Program (SISDEP) in northeastern Palawan, while reaffirming its commitment to cancer care through the treatment of 35 indigent breast cancer patients over the next five years with support from Zuellig Pharma.

SISDEP's highlights include:

• a biodiversity conservation and food security strategy that protects ten fish sanctuaries (up from eight last year) and two mangrove forests with 23 hectares of rehabilitated mangroves, resulting in higher fish density and catch, sighting of new species, and reduced illegal fishing;

• as part of a solid waste management advocacy now extended to mainland Agutaya, a material recovery facility that demonstrates to Manamoc residents that recycling yields "pera sa basura";

• a biogas demo project and a vermin-compost project that produces organic fertilizer for vegetable production; and

• ensuring continued access to capital for a growing number of qualified small entrepreneurs now connected to Amanpulo's food supply chain.

The Foundation also helped in the complete rehabilitation of a pre-school building in Quiniluban, supporting 245 children attending pre-school and a children's dictionary distribution project in four schools, and has two college scholars studying in Manila with assistance from COHIBA Holdings. The annual medical caravan served 1,693 individuals in three island villages and added a cataract and pterygium mission in partnership with local government units.

## Outlook and Investment Strategy

The Philippines is not insulated from the stress and strain felt in the rest of the globe. While the Euro zone nations and the International Monetary Fund have approved a new bailout loan to save one country from imminent default, the attendant sweeping austerity measures risk pushing that country deeper into recession. This can further unsettle Europe's other troubled economies, with adverse consequences on trading partners reliant on commodity exports and remittance inflows.

In the US, the job collapse has bottomed out, the auto industry bailout seems to be succeeding, and the banking sector is on the mend. But the housing market losses still exert a drag on spurring the economic recovery by holding back consumer spending and cramping the ability of small business owners to obtain credit. A paralyzed Congress and a President focused on reelection further constrain the much needed reforms of social programs and curtailment of the budget deficit that if not addressed will lead to further uncompetitiveness of the US.

Closer to home, China's main domestic concern stems from measures taken to avoid a potential real estate bubble, which have led to a drop in land sales, a vital revenue source for indebted local governments. Japan still wrestles with policy issues on energy strategy and nuclear safety after Fukushima, and on how to finance the full reconstruction needed to restore supply chains worldwide. In late 2011, foreign investors retreated from Indonesian banks and Indian equities, indicative of risk aversion on a global scale.

Given these scenarios, the World Bank has urged developing countries to gird for a further economic slowdown by pre-financing budget deficits and prioritizing spending on infrastructure and social safety nets.

Fortunately, the Philippine economy is on stronger footing today. International rating agencies have upgraded their outlook on Philippine debt, the budget gap has narrowed, and foreign exchange reserves have been built up. Significant amounts of the ₱150 billion earmarked for infrastructure spending in 2012 have already been released.

The government has to maintain the momentum and vindicate the current view of the country's potential by addressing power supply and energy costs, upgrading logistics facilities, and accelerating competitiveness that draws investments.

Your Company has encountered its share of hurdles, particularly in those operations that seek to serve overseas markets or cater to customer segments made vulnerable by the downturn. Nevertheless, each Anscor subsidiary and affiliate has endeavored to adjust to current exigencies, while banking on operational efficiency and new offerings to attract new customers, as in the case of PDP, KSA and Amanpulo; securing an edge through innovation, learning, and investing in people, as in Prople and Enderun; and using new technologies and business models to offer superior solutions, as in Alphion and AG&P; and to tap the potential of demographics whose needs have been underserved or unrecognized, as in Cirrus Medical and PE Media Holdings. Our investment decisions will be guided, as always, by our commitment to protect and grow shareholder value.

## Acknowledgment

In behalf of your Board of Directors, we express once again our lasting gratitude for the abiding confidence of our shareholders, the loyalty of our customers and the steadfast diligence of our employees.

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

# FINANCIAL HIGHLIGHTS

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

| CONSOLIDATED FOR THE YEAR | 2011 | 2010 | 2009 |
|---|---|---|---|
| REVENUES | **2,807.8** | 3,501.9 | 1,736.2 |
| Services | **1,572.7** | 866.1 | 1,056.0 |
| Gain on sale of available for sale (AFS) investments | **676.8** | 2,091.9 | 186.3 |
| Dividend income | **223.2** | 145.7 | 102.1 |
| Interest income | **120.2** | 111.2 | 120.2 |
| Equity in net earnings of associates | **93.0** | 115.2 | 78.3 |
| Gain on sale - others | **56.6** | – | 0.3 |
| Other income | **36.4** | 34.1 | 27.9 |
| Management fees | **36.1** | 37.8 | 28.3 |
| Gain (loss) on increase (decrease) in market values of fair value through profit or loss (FVPL) investments | **(7.2)** | 99.9 | 136.8 |
| Recoveries (valuation allowances) - net | **34.3** | (185.8) | (89.3) |
| Foreign exchange loss - net | **(7.4)** | (138.4) | (34.4) |
| NET INCOME* | **994.5** | 1,975.4 | 289.6 |
| EARNINGS PER SHARE** | **0.74** | 1.46 | 0.20 |

| CONSOLIDATED AT YEAR-END | 12-31-11 | 12-31-10 | 12-31-09 |
|---|---|---|---|
| Total Assets | **12,550.1** | 11,430.3 | 8,354.7 |
| Equity Attributable to Equity Holdings of the Parent | **11,291.5** | 10,776.1 | 7,453.9 |
| Investment Portfolio | **10,519.4** | 8,742.5 | 7,173.7 |
| Current Ratio | **3.14** | 7.04 | 2.23 |
| Debt to Equity Ratio*** | **0.08** | 0.06 | 0.12 |
| Book Value Per Share**** | **8.69** | 8.28 | 5.17 |

* *Attributable to equity holdings of the parent.*

** *Based on weighted average number of shares of 1,350.7 million in 2011, 1,351.6 million in 2010 and 1,442.6 million in 2009.*

*** *Excluding minority interests.*

**** *Based on outstanding shares of 1,298.7 million, 1,301.6 million and 1,441.8 million as of December 31, 2011, 2010 and 2009, respectively.*

# GROUP'S KEY FINANCIAL DATA

(In Million Pesos)

| | 2011 | 2010 |
|---|---|---|
| ***Phelps Dodge Philippines Energy Products Corporation (Note 1)*** | | |
| Revenues | **6,504** | 5,039 |
| Net Income | **222** | 228 |
| Total Assets | **3,299** | 2,461 |
| Stockholders' Equity | **2,256** | 1,628 |
| ***Cirrus Medical Staffing, Inc. and Subsidiaries*** | | |
| Revenues | **1,040** | 712 |
| Loss Before Tax | **6** | 38 |
| Total Assets | **808** | 774 |
| Stockholders' Equity | **556** | 577 |
| ***Seven Seas Resorts and Leisure, Inc.*** | | |
| Revenues | **517** | 488 |
| Net Income | **24** | 52 |
| Total Assets | **1,624** | 981 |
| Stockholders' Equity | **1,242** | 633 |
| ***Revenues – Other Affiliates*** | | |
| KSA Realty Corporation | **857** | 670 |
| Enderun Colleges, Inc. | **297** | 232 |
| Island Aviation, Inc. | **157** | 141 |
| Prople, Inc. | **95** | 78 |
| Cirrus Global, Inc. (consolidated; formerly IQMAN) | **10** | 5 |

*Available figures as of March 2, 2012.*

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

## FIVE-YEAR REVIEW

### Consolidated Financial Information

(In Million Pesos Except Per Share Data)

| YEAR | NET INCOME | EQUITY ATTRIBUTABLE TO HOLDINGS OF THE PARENT | WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | EARNINGS PER *SHARE | BOOK VALUE PER **SHARE |
|---|---|---|---|---|---|
| **2011** | **994.5** | **11,291.5** | **1,350.7** | **0.74** | **8.69** |
| 2010 | 1,975.4 | 10,776.1 | 1,351.6 | 1.46 | 8.28 |
| 2009 | 289.6 | 7,453.9 | 1,442.6 | 0.20 | 5.17 |
| 2008 (Note 1) | 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 |

| YEAR | GROSS REVENUES | TOTAL ASSETS | INVESTMENT PORTFOLIO |
|---|---|---|---|
| **2011** | **2,807.8** | **12,550.1** | **10,519.4** |
| 2010 | 3,501.9 | 11,430.3 | 8,742.5 |
| 2009 | 1,736.2 | 8,354.7 | 7,173.7 |
| 2008 (Note 1) | 2,271.0 | 6,942.0 | 5,023.2 |
| 2007 (Note 2) | 1,225.6 | 9,687.6 | 5,419.1 |

*Note 1* *Included the one-time gain on sale of PDIPI and eTelecare shares amounting to ₱312.3 million and ₱740.4 million, respectively.*

*Note 2* *Gross revenues for 2007 were restated to deconsolidate PDIPI.*

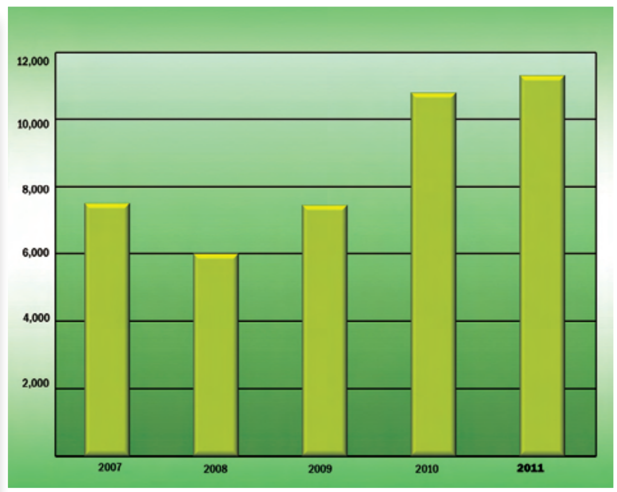
* *Ratio of net income to weighted average number of shares outstanding during the year.*

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

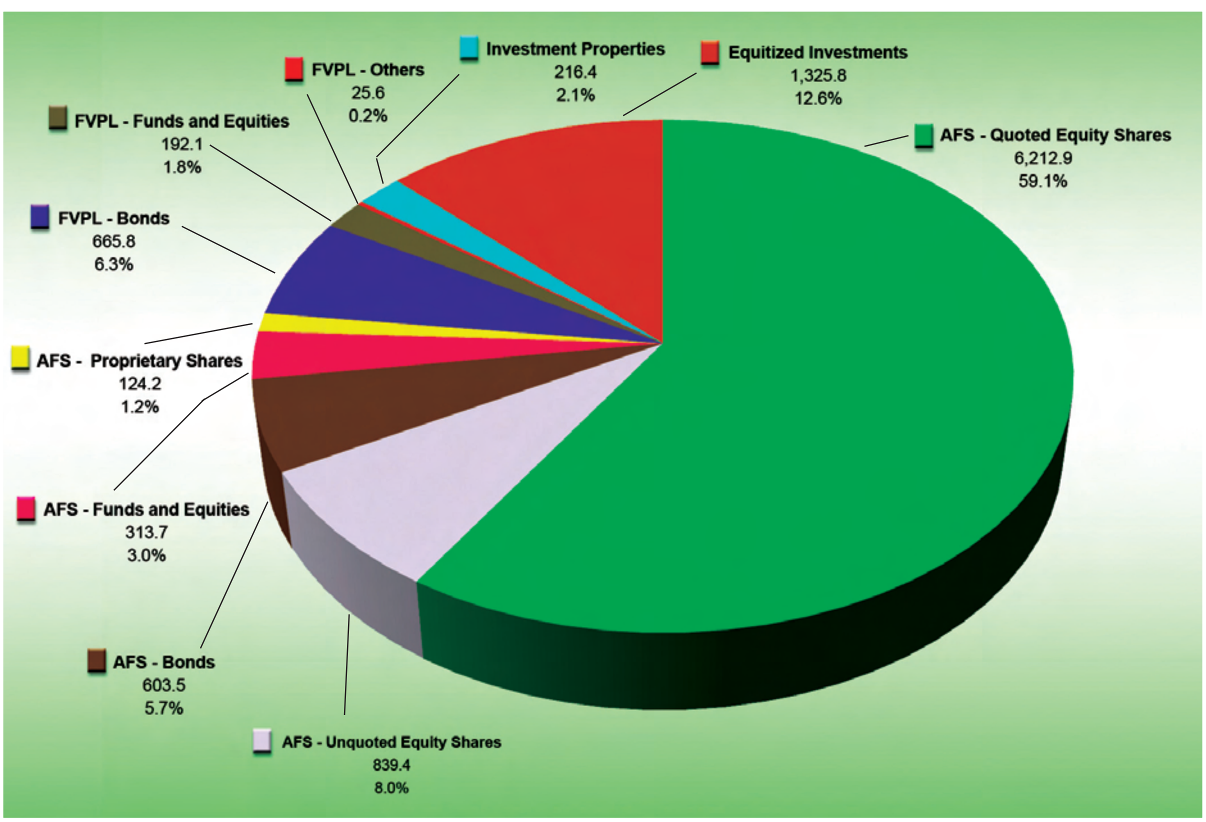
In Million Pesos

### Consolidated Total Assets and Investment Portfolio


### Equity Attributable to Holdings of the Parent




### Consolidated Investment Portfolio Details December 31, 2011



# STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of A. Soriano Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed under oath by the following:

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

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

Signed this 17th day of February 2012

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

SUBSCRIBED AND SWORN to before me this 17th day of February 2012 affiants exhibited to me the following:

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

Doc. No. 195;
Page No. 40;
Book No. IX;
Series of 2012.

**REGINALDO L. HERNANDEZ**
Notary Public for and in the City of Makati
Appointment No. M-354; Roll No. 20642
Commission Expires on 12-31-12
PTR No. 3178422; 1-04-12; Makati City
IBP No. 883446; 1-11-12; Pasig City
TIN No. 100-364-501

## 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,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

**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, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements presents fairly, in all material respects, the financial position of A. Soriano Corporation and Subsidiaries as at December 31, 2011 and 2010 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

**Josephine H. Estomo**
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-2 (Group A),
February 11, 2010, Valid until February 10, 2013
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174595, January 2, 2012, Makati City

February 17, 2012

## Consolidated Balance Sheets

| | | December 31 | | |
|---|---|---|---|---|
| | | 2011 | | 2010 |
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents (Notes 6 and 7) | ₱ | **542,426,682** | ₱ | 2,188,123,589 |
| Fair value through profit or loss (FVPL) investments (Note 8) | | **883,456,012** | | 817,656,671 |
| Receivables (Notes 6 and 9) | | **335,048,616** | | 230,447,395 |
| Inventories (Notes 6 and 10) | | **83,192,215** | | 15,909,310 |
| Prepayments and other current assets (Note 6) | | **58,532,769** | | 66,280,014 |
| **Total Current Assets** | | **1,902,656,294** | | 3,318,416,979 |
| | | | | |
| **Noncurrent Assets** | | | | |
| Available-for-sale (AFS) investments (Note 11) | | **8,093,777,731** | | 6,213,532,572 |
| Investments and advances (Note 12) | | **725,232,813** | | 942,752,891 |
| Property and equipment (Notes 6, 13 and 18) | | **906,768,274** | | 143,177,924 |
| Investment properties (Notes 6, 14 and 29) | | **216,432,223** | | 260,483,302 |
| Goodwill (Note 6) | | **604,598,071** | | 510,905,060 |
| Other noncurrent assets (Notes 6, 15 and 29) | | **100,593,994** | | 41,033,781 |
| **Total Noncurrent Assets** | | **10,647,403,106** | | 8,111,885,530 |
| **TOTAL ASSETS** | ₱ | **12,550,059,400** | ₱ | 11,430,302,509 |
| | | | | |
| **LIABILITIES AND EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Notes payable (Note 16) | ₱ | **86,797,229** | ₱ | 64,393,852 |
| Accounts payable and accrued expenses (Notes 6, 17 and 29) | | **346,976,595** | | 257,440,701 |
| Dividends payable (Note 19) | | **146,644,057** | | 134,856,337 |
| Income tax payable | | **1,113,407** | | 3,617,707 |
| Current portion of long-term debt (Notes 6 and 18) | | **23,854,113** | | 10,960,000 |
| **Total Current Liabilities** | | **605,385,401** | | 471,268,597 |
| | | | | |
| **Noncurrent Liabilities** | | | | |
| Long-term debt - net of current portion (Notes 6 and 18) | | **118,625,887** | | 10,960,000 |
| Deferred revenues (Note 29) | | **80,142,589** | | 80,142,589 |
| Deferred income tax liabilities - net (Notes 6 and 24) | | **43,273,997** | | 8,227,521 |
| Retirement benefits payable (Notes 6 and 23) | | **43,297,692** | | 23,343,489 |
| Advances from customer (Note 29) | | **–** | | 22,141,811 |
| Other noncurrent liabilities (Notes 6 and 15) | | **49,809,710** | | – |
| **Total Noncurrent Liabilities** | | **335,149,875** | | 144,815,410 |
| **Total Liabilities** | | **940,535,276** | | 616,084,007 |
| **Equity Attributable to Equity Holdings of the Parent (Note 19)** | | | | |
| 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 noncontrolling interest (Note 3) | | **(26,356,543)** | | (26,356,543) |
| Cumulative translation adjustment | | **(70,632,555)** | | (68,240,077) |
| Unrealized valuation gains on AFS investments (Note 11) | | **2,495,985,688** | | 2,650,946,926 |
| Retained earnings: | | | | |
| Appropriated (Note 19) | | **2,100,000,000** | | – |
| Unappropriated | | **4,555,062,107** | | 5,972,637,668 |
| Cost of shares held by a subsidiary (1,201,317,039 shares in 2011 and 1,198,438,093 shares in 2010) (Note 19) | | **(1,836,655,862)** | | (1,827,024,465) |
| | | **11,291,506,746** | | 10,776,067,420 |
| **Noncontrolling Interests** (Note 3) | | **318,017,378** | | 38,151,082 |
| **Total Equity** | | **11,609,524,124** | | 10,814,218,502 |
| **TOTAL LIABILITIES AND EQUITY** | ₱ | **12,550,059,400** | ₱ | 11,430,302,509 |

*See accompanying Notes to Consolidated Financial Statements.*

## Consolidated Statements of Income

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **REVENUES** | | | |
| Services (Note 29) | **₱ 1,572,687,890** | ₱ 866,112,933 | ₱ 1,056,013,587 |
| Dividend income (Notes 11 and 12) | **223,197,863** | 145,749,114 | 102,136,741 |
| Interest income (Notes 11 and 22) | **120,204,004** | 111,236,357 | 120,209,111 |
| Equity in net earnings of associates (Note 12) | **93,029,847** | 115,224,619 | 78,246,910 |
| Management fee (Note 29) | **36,064,697** | 37,754,660 | 28,251,300 |
| Others | **36,435,545** | 34,077,196 | 27,930,617 |
| | **2,081,619,846** | 1,310,154,879 | 1,412,788,266 |
| **INVESTMENT GAINS (LOSSES)** | | | |
| Gain on sale of: | | | |
| AFS investments (Note 11) | **676,840,454** | 2,091,925,238 | 186,271,990 |
| Property and equipment and investment property (Notes 13 and 14) | **39,885,688** | – | 340,199 |
| Long-term investments (Note 3) | **16,725,079** | – | – |
| Gain (loss) on increase (decrease) in market values of FVPL investments (Note 8) | **(7,243,193)** | 99,867,962 | 136,822,715 |
| | **726,208,028** | 2,191,793,200 | 323,434,904 |
| TOTAL | **2,807,827,874** | 3,501,948,079 | 1,736,223,170 |
| **Costs of services rendered** (Note 20) | **(1,108,860,054)** | (714,101,500) | (892,697,022) |
| **Operating expenses** (Note 20) | **(691,909,530)** | (445,459,266) | (436,129,949) |
| **Recoveries (valuation allowances) - net** (Note 22) | **34,259,012** | (185,766,042) | (89,256,480) |
| **Foreign exchange loss - net** | **(7,446,980)** | (138,365,146) | (34,433,061) |
| **Interest expense** (Note 22) | **(9,092,211)** | (13,934,412) | (10,793,402) |
| **Other income (expenses) - net** (Note 29) | **2,441,843** | (15,666,088) | (5,497,629) |
| | **(1,780,607,920)** | (1,513,292,454) | (1,468,807,543) |
| **INCOME BEFORE INCOME TAX** | **1,027,219,954** | 1,988,655,625 | 267,415,627 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 24) | **30,943,621** | 11,932,537 | (15,161,954) |
| **NET INCOME** | **₱ 996,276,333** | ₱ 1,976,723,088 | ₱ 282,577,581 |
| Attributable to | | | |
| **Equity holdings of the Parent** | **₱ 994,506,977** | ₱ 1,975,357,978 | ₱ 289,644,550 |
| Noncontrolling interests | **1,769,356** | 1,365,110 | (7,066,969) |
| | **₱ 996,276,333** | ₱ 1,976,723,088 | ₱ 282,577,581 |
| **Earnings per share** | | | |
| Basic/diluted, for net income attributable to equity holdings of the Parent (Note 25 ) | **₱ 0.74** | ₱ 1.46 | ₱ 0.20 |

*See accompanying Notes to Consolidated Financial Statements.*

## Consolidated Statements of Comprehensive Income

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **NET INCOME** | ₱ **996,276,333** | ₱ 1,976,723,088 | ₱ 282,577,581 |
| | | | |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Unrealized valuation gains on AFS investments (Note 11) | **536,801,995** | 4,101,232,336 | 1,462,159,420 |
| Income tax effect | **23,694,655** | (45,748,745) | (56,277,319) |
| | **560,496,650** | 4,055,483,591 | 1,405,882,101 |
| Realized gains on sale of AFS investments, net of impairment losses, recognized in the statements of income (Note 11) | **(712,214,022)** | (2,107,472,762) | (102,957,571) |
| Income tax effect | **(3,243,866)** | 46,204,971 | (33,531,566) |
| | **(715,457,888)** | (2,061,267,791) | (136,489,137) |
| Subtotal | **(154,961,238)** | 1,994,215,800 | 1,269,392,964 |
| Cumulative translation adjustment | **(2,392,478)** | (37,265,840) | (34,403,096) |
| | | | |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | **(157,353,716)** | 1,956,949,960 | 1,234,989,868 |
| **TOTAL COMPREHENSIVE INCOME** | ₱ **838,922,617** | ₱ 3,933,673,048 | ₱ 1,517,567,449 |
| | | | |
| Attributable to | | | |
| **Equity holdings of the Parent** | ₱ **837,153,261** | ₱ 3,932,307,938 | ₱ 1,524,634,418 |
| Noncontrolling interests | **1,769,356** | 1,365,110 | (7,066,969) |
| | ₱ **838,922,617** | ₱ 3,933,673,048 | ₱ 1,517,567,449 |

*See accompanying Notes to Consolidated Financial Statements.*

## Consolidated Statements of Changes in Equity

| | Equity Attributable to Equity Holdings of the Parent (Note 19) | | | | |
|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Noncontrolling Interest (Note 3) | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 11) |
| BALANCES AT DECEMBER 31, 2008 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 26,356,543) | ₱ 3,428,859 | (₱ 612,661,838) |
| Total comprehensive income (loss) for the year | – | – | – | (34,403,096) | 1,269,392,964 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱63.4 million (Note 19) | – | – | – | – | – |
| Shares repurchased during the year (Note 19) | – | – | – | – | – |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – |
| BALANCES AT DECEMBER 31, 2009 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 26,356,543) | (₱ 30,974,237) | ₱ 656,731,126 |

| | Equity Attributable to Equity Holdings of the Parent (Note 19) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Retained Earnings | | | | | |
| | Subtotal* | Appropriated | Unappropriated | Cost of shares Held by a Subsidiary | Total | Noncontrolling Interests | Total |
| BALANCES AT DECEMBER 31, 2008 | ₱ 3,438,514,389 | ₱ – | ₱ 4,094,475,536 | (₱ 1,514,379,748) | ₱ 6,018,610,177 | ₱ 44,987,162 | ₱ 6,063,597,339 |
| Total comprehensive income (loss) for the year | 1,234,989,868 | – | 289,644,550 | – | 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 19) | – | – | (86,587,795) | – | (86,587,795) | – | (86,587,795) |
| Shares repurchased during the year (Note 19) | – | – | – | (2,783,560) | (2,783,560) | – | (2,783,560) |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – | (1,994,430) | (1,994,430) |
| BALANCES AT DECEMBER 31, 2009 | ₱ 4,673,504,257 | ₱ – | ₱ 4,297,532,291 | (₱ 1,517,163,308) | ₱ 7,453,873,240 | ₱ 35,925,763 | ₱ 7,489,799,003 |

* *Sum of 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 (Note 19) | | | | |
|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Noncontrolling Interest (Note 3) | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 11) |
| BALANCES AT DECEMBER 31, 2009 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 26,356,543) | (₱ 30,974,237) | ₱ 656,731,126 |
| Total comprehensive income (loss) for the year | – | – | – | (37,265,840) | 1,994,215,800 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱249.7 million (Note 19) | – | – | – | – | – |
| Shares repurchased during the year (Note 19) | – | – | – | – | – |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – |
| BALANCES AT DECEMBER 31, 2010 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 26,356,543) | (₱ 68,240,077) | ₱ 2,650,946,926 |

| | Equity Attributable to Equity Holdings of the Parent (Note 19) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Retained Earnings | | | | | |
| | Subtotal* | Appropriated | Unappropriated | Cost of shares Held by a Subsidiary | Total | Noncontrolling Interests | Total |
| BALANCES AT DECEMBER 31, 2009 | ₱ 4,673,504,257 | ₱ – | ₱ 4,297,532,291 | (₱ 1,517,163,308) | ₱7,453,873,240 | ₱ 35,925,763 | ₱ 7,489,799,003 |
| Total comprehensive income (loss) for the year | 1,956,949,960 | – | 1,975,357,978 | – | 3,932,307,938 | 1,365,110 | 3,933,673,048 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱249.7 million (Note 19) | – | – | (300,252,601) | – | (300,252,601) | – | (300,252,601) |
| Shares repurchased during the year (Note 19) | – | – | – | (309,861,157) | (309,861,157) | – | (309,861,157) |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – | 860,209 | 860,209 |
| BALANCES AT DECEMBER 31, 2010 | ₱ 6,630,454,217 | ₱ – | ₱ 5,972,637,668 | (₱ 1,827,024,465) | ₱10,776,067,420 | ₱ 38,151,082 | ₱10,814,218,502 |

* *Sum of equity details in the first table.*
*See accompanying Notes to Consolidated Financial Statements.*

| | Equity Attributable to Equity Holdings of the Parent (Note 19) | | | | |
|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Noncontrolling Interest (Note 3) | Cumulative Translation Adjustment | Unrealized Valuation Gains (Losses) on AFS Investments (Note 11) |
| BALANCES AT DECEMBER 31, 2010 | ₱ 2,500,000,000 | ₱ 1,574,103,911 | (₱ 26,356,543) | (₱ 68,240,077) | ₱ 2,650,946,926 |
| Total comprehensive income (loss) for the year | – | – | – | (2,392,478) | (154,961,238) |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱287.9 million (Note 19) | – | – | – | – | – |
| Shares repurchased during the year (Note 19) | – | – | – | – | – |
| Acquisition of a subsidiary (Note 6) | – | – | – | – | – |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – |
| Appropriation of retained earnings (Note 19) | – | – | – | – | – |
| **BALANCES AT DECEMBER 31, 2011** | **₱ 2,500,000,000** | **₱ 1,574,103,911** | **(₱ 26,356,543)** | **(₱ 70,632,555)** | **₱ 2,495,985,688** |

| | Equity Attributable to Equity Holdings of the Parent (Note 19) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Retained Earnings | | | | | |
| | Subtotal* | Appropriated | Unappropriated | Cost of shares Held by a Subsidiary | Total | Noncontrolling Interests | Total |
| BALANCES AT DECEMBER 31, 2010 | ₱ 6,630,454,217 | ₱ – | ₱5,972,637,668 | (₱1,827,024,465) | ₱10,776,067,420 | ₱ 38,151,082 | ₱10,814,218,502 |
| Total comprehensive income (loss) for the year | (157,353,716) | – | 994,506,977 | – | 837,153,261 | 1,769,356 | 838,922,617 |
| Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱287.9 million (Note 19) | – | – | (312,082,538) | – | (312,082,538) | – | (312,082,538) |
| Shares repurchased during the year (Note 19) | – | – | – | (9,631,397) | (9,631,397) | – | (9,631,397) |
| Acquisition of a subsidiary (Note 6) | – | – | – | – | – | 277,897,423 | 277,897,423 |
| Movement in noncontrolling interests (Notes 3 and 6) | – | – | – | – | – | 199,517 | 199,517 |
| Appropriation of retained earnings (Note 19) | – | 2,100,000,000 | (2,100,000,000) | – | – | – | – |
| **BALANCES AT DECEMBER 31, 2011** | **₱ 6,473,100,501** | **₱2,100,000,000** | **₱4,555,062,107** | **(₱1,836,655,862)** | **₱ 11,291,506,746** | **₱ 318,017,378** | **₱11,609,524,124** |

* *Sum of equity details in the first table.*
*See accompanying Notes to Consolidated Financial Statements.*

## Consolidated Statements of Cash Flows

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱ 1,027,219,954** | ₱ 1,988,655,625 | ₱ 267,415,627 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 13 and 14) | **105,230,051** | 51,579,256 | 53,677,408 |
| Loss (gain) on decrease (increase) in market values of FVPL investments (Note 8) | **7,243,193** | (99,867,962) | (136,822,715) |
| Valuation allowances (recoveries) - net (Note 22) | **(34,259,012)** | 185,766,042 | 89,256,480 |
| Gain on sale of: | | | |
| AFS investments (Note 11) | **(676,840,454)** | (2,091,925,238) | (186,271,990) |
| Investment property (Note 14) | **(39,885,688)** | – | – |
| Property and equipment (Note 13) | **–** | – | (340,199) |
| Long-term investments (Note 3) | **(16,725,079)** | – | – |
| Dividend income | **(223,197,863)** | (145,749,114) | (102,136,741) |
| Gain from fair value adjustment on net assets of acquired subsidiary (Note 6) | **(3,479,270)** | – | – |
| Equity in net earnings of associates (Note 12) | **(93,029,847)** | (115,224,619) | (78,246,910) |
| Interest income (Note 22) | **(120,204,004)** | (111,236,357) | (120,209,111) |
| Interest expense (Note 22) | **9,092,211** | 13,934,412 | 10,793,402 |
| Retirement benefit expense (Note 23) | **13,651,840** | 35,654,077 | 4,287,622 |
| Unrealized foreign exchange losses - net | **84,246,951** | 69,570,090 | 34,433,061 |
| Operating income (loss) before working capital changes | **39,062,983** | (218,843,788) | (164,164,066) |
| Decrease (increase) in: | | | |
| FVPL investments | **(74,254,005)** | (11,227,963) | 57,597,973 |
| Receivables | **19,092,592** | 15,651,635 | 76,041,442 |
| Inventories | **(13,556,102)** | (1,980,913) | (936,954) |
| Prepayments and other current assets | **28,119,936** | (31,213,767) | 15,853,928 |
| Increase (decrease) in accounts payable and accrued expenses | **(81,148,120)** | 6,121,091 | 46,397,305 |
| Net cash provided by (used in) operations | **(82,682,716)** | (241,493,705) | 30,789,628 |
| Dividends received | **268,797,863** | 177,749,114 | 141,693,151 |
| Retirement benefit contribution | **(7,830,343)** | (5,308,347) | (5,318,343) |
| Interest received | **120,654,946** | 116,310,012 | 120,990,290 |
| Interest paid | **(9,092,211)** | (12,226,912) | (10,793,402) |
| Income taxes paid | **(23,849,020)** | (9,043,380) | (8,140,099) |
| Net cash flows from operating activities | **265,998,519** | 25,986,782 | 269,221,225 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| AFS investments (Note 11) | **(₱5,585,359,166)** | (₱3,193,300,087) | (₱3,124,862,974) |
| Investment properties (Note 14) | **–** | (2,203,739) | (4,440,805) |
| Property and equipment (Note 13) | **(111,945,990)** | (15,719,537) | (101,105,473) |
| Proceeds from sale of: | | | |
| AFS investments (Note 11) | **4,120,839,967** | 5,719,026,524 | 2,383,711,035 |
| Long-term investment (Note 3) | **44,619,226** | – | – |
| Investment property (Note 14) | **111,455,100** | – | – |
| Property and equipment (Note 13) | **–** | – | 340,199 |
| Collection from associates (Note 12) | **–** | 9,132,897 | 15,445,522 |
| Collection of other noncurrent assets - net | **–** | 2,560,697 | 137,218 |
| Acquisition of subsidiaries, net of cash acquired (Note 6) | **(141,759,179)** | (23,850,449) | – |
| Net cash flows from (used in) investing activities | **(1,562,150,042)** | 2,495,646,306 | (830,775,278) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from notes payable (Note 16) | **263,518,777** | 159,155,452 | 345,450,856 |
| Proceeds from long-term debt (Note 18) | **43,840,000** | – | – |
| Payments of: | | | |
| Notes payable (Note 16) | **(241,115,400)** | (439,315,336) | (154,400,141) |
| Long-term debt (Note 18) | **(72,942,100)** | (14,437,500) | (12,468,438) |
| Dividends (Note 19) | **(300,294,818)** | (287,080,489) | (234,236,678) |
| Other noncurrent liabilities | **–** | – | (401,562) |
| Increase (decrease) in: | | | |
| Advances from customer | **(22,141,811)** | 355,288 | (11,345,153) |
| Deferred revenues | **–** | (4,314,245) | (5,342,185) |
| Noncontrolling interests | **199,517** | 860,209 | (9,061,398) |
| Company shares purchased by a subsidiary (Note 19) | **(9,631,397)** | (309,861,157) | (2,783,560) |
| Net cash flows used in financing activities | **(338,567,232)** | (894,637,778) | (84,588,259) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,634,718,755)** | 1,626,995,310 | (646,142,312) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(10,978,152)** | (33,398,920) | 22,038,408 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **2,188,123,589** | 594,527,199 | 1,218,631,103 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 7) | **₱ 542,426,682** | ₱ 2,188,123,589 | ₱ 594,527,199 |

*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. On July 17, 1979, the SEC approved the Company's amended articles of incorporation extending the term of its existence for another fifty years up to February 12, 2030. The Company is a corporation incorporated and domiciled in the Philippines whose shares are publicly traded. The registered office address of the Company is at 7th Floor, Pacific Star Building, Makati Avenue corner Gil Puyat Avenue Extension, Makati City, Philippines.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the Board of Directors (BOD) on February 17, 2012.

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

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations based on IFRIC which were adopted as of as of January 1, 2011. Unless otherwise indicated, the adoption of these changes did not significantly affect the consolidated financial statements.

- Amendment to PAS 24, *Related Party Disclosures*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

*Improvements to PFRS Issued in 2010*

The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of these amendments did not significantly impact the financial position or performance of the Group.

- PFRS 7, *Financial Instruments: Disclosures*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put quantitative information in context.

- PAS 1, *Presentation of Financial Statements*, clarifies that an entity may present an analysis of each component of other comprehensive income, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 34, *Interim Financial Reporting*, provides guidance to illustrate how to apply disclosure principles of PAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between levels of fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment is applied retrospectively.

The following interpretation and amendments to PAS and interpretations did not have any significant impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2011

The Group will adopt the standards and interpretations enumerated below when these become effective. The Group continues to assess the impact of the following new and amended accounting standards and interpretations. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

*Effective in 2012*

- Amendment to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements,* requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and will have no impact on the Group's financial position or performance.

- Amendment to PAS 12, *Income Taxes - Deferred Taxes: Recovery of Underlying Assets*, introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. The amendments also introduce the requirements that deferred tax on non-depreciable assets measured using the revaluation model on property, plant and equipment should always be measured on a sale basis.

*Effective in 2013*

- Amendments to PAS 1, *Presentation of Financial Statements*, improve how we present components of other comprehensive income. The new requirements are effective for annual periods beginning on or after July 1, 2012.

- Amendment to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

- PFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard defines control when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. PFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation - Special Purpose Entities* and PAS 27. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements in PAS 27. Earlier application is permitted.

- PAS 27, *Separate Financial Statements* (as revised in 2011), as a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PFRS 11, *Joint Arrangements*, supersedes PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. This standard describes the accounting for joint arrangements with joint control. Further, proportionate consolidation is not permitted for joint ventures under the new definition of a joint venture. Earlier application is permitted.

- PAS 28, *Investment in Associates and Joint Ventures* (as revised in 2011), as a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 12, *Disclosures of Interests with Other Entities*, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Earlier application is permitted.

- PFRS 13, *Fair Value Measurement*, establishes new guidance on fair value measurement and disclosures. Earlier application is permitted.

*Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective in 2015*

- PFRS 9, *Financial Instruments*, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39. The approach in this new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

  The Group decided not to early adopt PFRS 9 for its 2011 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2011 do not reflect the impact of the said standard.

  The Group shall conduct another impact evaluation in early 2012 using the consolidated financial statements for the year ended December 31, 2011. Given the amendments on PFRS 9, *Financial Instruments*, the Group at present, does not plan to early adopt in 2012 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

  The Group's decision whether to early adopt PFRS 9 for its 2012 financial reporting will be disclosed in its consolidated financial statements as of and for the period ending March 31, 2012. Should the Group decide to early adopt the said standard for its 2012 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2012 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group's impact evaluation.

  The Group's AFS investments, receivables, notes payable, accounts payable and accrued expenses, dividends payable and long-term debt may be affected by the adoption of this standard.

*Effectivity date to be determined*

- Philippine Interpretation IFRIC 15, *Agreements 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. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

## 3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

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

| | Nature of Business | Percentage of Ownership 2011 | 2010 |
|---|---|---|---|
| A. Soriano Air Corporation | Services/Rental | **100** | 100 |
| Pamalican Island Holdings, Inc. (PIHI) | Holding | **62** | 62 |
| Island Aviation, Inc. (IAI, Notes 18 and 29) | 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 |
| NurseTogether, LLC (NT) (Note 6) | Online Community Management | **94** | 94 |
| Anscor Property Holdings, Inc. (APHI, Notes 12 and 14) | Real Estate Holding | **100** | 100 |
| Makatwiran Holdings, Inc. (Makatwiran, Note 12) | Real Estate Holding | **100** | 100 |
| Makisig Holdings, Inc. (Makisig, Note 12) | Real Estate Holding | **100** | 100 |
| Malikhain Holdings, Inc. (Malikhain, Note 12) | Real Estate Holding | **100** | 100 |
| Akapulko Holdings, Inc. (Akapulko, Note 12) | Real Estate Holding | **100** | 100 |
| Sutton Place Holdings, Inc. (Sutton) | Holding | **100** | 100 |
| Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc. or IQMAN, Notes 16 and 29) | Manpower Services | **93** | 93 |
| IQ Healthcare Professional Connection, LLC (IQHPC, Notes 15 and 29) | Manpower Services | **93** | 93 |
| Seven Seas Resorts and Leisure, Inc. (SSRLI, Note 12) | Villa Project Development | **62** | 47 |
| Pamalican Resort, Inc. (PRI, Note 12) | Resort Operations | **62** | – |

On January 4, 2010, the Philippine 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 (CGI).

On February 28, 2011, the Group acquired an additional 15.51% shares in SSRLI, increasing its ownership from 46.79% to 62.30%. This resulted to the acquisition by the Group of the power to govern the financial and operating policies of SSRLI, with due consideration to the terms and conditions of the management agreement with Amanresorts (see Notes 6 and 29).

On May 5, 2011, PRI, a wholly-owned subsidiary of SSRLI, was incorporated and is mainly involved in the resort operations (see Note 12).

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 is based in the United States of America (USA).

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

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

Noncontrolling interests represents a portion of profit or loss and net assets of subsidiaries not held by the Group, directly or indirectly, and are presented separately in the consolidated statement of income and within the equity section in the consolidated balance sheet and consolidated statement of changes in equity, separately from Company's equity. Total comprehensive income is attributed to the portion held by the Group and to the noncontrolling interests even if this results in the noncontrolling interests having a deficit balance.

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

*Basis of consolidation prior to January 1, 2010*

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the noncontrolling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the noncontrolling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between noncontrolling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 have not been restated.

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

Investments in Associates

Associates are 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 and are initially recognized at cost.

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.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the assets transferred. 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 Group determines at the end of each reporting period whether there is any evidence that the investments in associates are impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investments and their recoverable amount.

The following are the Group's associates:

| | Nature of Business | Percentage of Ownership 2011 | 2010 |
|---|---|---|---|
| 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 12 and 29) | Holding | 40 | 40 |
| Minuet Realty Corporation (Minuet) | Landholding | 60 | 60 |
| Phelps Dodge Philippines Energy Products Corporation (PDP Energy, Notes 12 and 29) | Wire Manufacturing | 40 | 40 |
| PD Energy International Corporation (PDEIC) | Wire Manufacturing | 40 | 40 |
| Vicinetum Holdings, Inc. (VHI, Note 12) | Holding | 27 | 27 |
| Columbus Technologies, Inc. | Holding | 27 | 27 |
| Multi-media Telephony, Inc. (MTI, Note 12) | Broadband Services | 27 | 27 |
| Vesper Industrial and Development Corporation (Vesper) | Real Estate Holding | – | 60 |

Vesper and Minuet have been excluded in the consolidated financial statements as special voting requirements adopted by their respective shareholders manifested that the Company's 60% holdings in Vesper and Minuet are not sufficient to carry major business decisions. On December 2, 2011, a deed of assignment was executed for the sale of the Company's 60% holdings in Vesper. Gain recognized from the sale amounted to ₱16.7 million recorded under gain on sale of long-term investments.

Business Combinations and Goodwill

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

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

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

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

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

*Business combinations prior to January 1, 2010*
In comparison to the above-mentioned requirements, the following differences applied:

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

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

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

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

<u>Foreign Currency Translation</u>
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in Peso based on the exchange rate recorded at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing exchange rate at the end of reporting period. All differences are taken to the consolidated statements of income. Non-monetary items that

are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the closing exchange rates at the date when the fair value was determined. Foreign exchange gains and losses relating to AFS equity instruments are presented under other comprehensive income.

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

Financial Instruments

*Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date. Derivatives are recognized on trade date basis.

*Initial recognition of financial instruments*

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

*Determination of fair value*

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

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

*Derivatives recorded at FVPL*

The Group enters into derivative contracts such as currency forwards. These derivative financial instruments are initially recorded at fair value and are subsequently remeasured at fair value at each reporting date. 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. There are no outstanding freestanding derivative contract as of December 31, 2011 and 2010.

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 among others.

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, 2011 and 2010, 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, 2011 and 2010, the Group has designated as FVPL all investments in bonds that have callable and other features, managed/hedged funds, and derivatives amounting to ₱883.5 million and ₱817.7 million, respectively. No financial liability at FVPL is outstanding as of December 31, 2011 and 2010 (see Notes 8 and 28).

(b) Loans and receivables

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in the consolidated statements of income. The losses arising from impairment of such loans and receivables are recognized as "Recoveries (valuation allowances) - net" 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, 2011 and 2010, the Group has loans and receivables amounting to ₱877.5 million and ₱2,418.6 million, respectively (see Note 28).

(c) AFS investments

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

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

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

As of December 31, 2011 and 2010, the Group's AFS investments amounted to ₱8,093.8 million and ₱6,213.5 million, respectively (see Notes 11 and 28).

(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, 2011 and 2010, total other financial liabilities amounted to ₱584.1 million and ₱351.0 million, respectively (see Note 28).

Derecognition of Financial Assets and Financial Liabilities

*Financial assets*

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

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

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

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

*Financial liabilities*
A financial liability is removed from the consolidated balance sheets when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification will result into the removal of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

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

*Assets carried at amortized cost*
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

For individually significant financial assets, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statements of income. Interest income, if any, continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to “Recoveries (valuation allowances) - net” 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 and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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 a subsidiary is recognized under the completed contract method. Under this method, revenue is recognized only when the villa clusters have been constructed, turned over to, and accepted by the buyer.

*Cost of Real Estate Sold*
The cost of real estate sold includes the acquisition cost of the land and total development costs upon completion.

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

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

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

Revenue from rooms is recognized based on actual occupancy. Other ancillary services are recognized when the related services are rendered and/or facilities/amenities are used.

*Costs of Services Rendered*
All direct nurse costs incurred in deployment of nurses are deferred and included in "Other noncurrent assets" 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 that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income of the Group pertains to gains and losses on remeasuring AFS investments and exchange differences on translating foreign operations. In computing for the earnings available for dividend declaration and earnings per share, other comprehensive income is not considered.

Cash and Cash Equivalents

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV).Cost of aircraft spare parts and supplies is determined at purchase price using the first-in, first-out method while NRV is the estimated current replacement cost of such spare parts and supplies.

Cost of food and beverage inventories and operating supplies is determined using the moving average method. NRV of food and beverage inventories is the estimated selling price in the ordinary course of business, less the estimated cost of preparation and the estimated cost necessary to make the sale. NRV of operating supplies is the estimated current replacement cost.

Residential units held for sale include those costs incurred for the development and improvement of the properties. Its NRV was based on the available net selling price of similar residential units sold during the year.

Property and Equipment

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

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

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

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

| Category | Number of Years |
|---|---|
| Buildings and improvements | 10 - 30 |
| Land improvements | 25 |
| Leasehold improvements* | 5-20 |
| Machinery and equipment | 5 - 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.

Construction in progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time the relevant assets are completed and put into operational use.

Property Development in Progress

Property development in progress includes the acquisition costs of raw lots and development costs and expenses incurred.

Property development in progress is carried at the lower of cost incurred and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

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 | 25 |
| Buildings | 20 - 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 noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately from the consolidated statements of income.

Capital Stock

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

Additional Paid-in Capital

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

Retained Earnings

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

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.

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.

*The 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.

*The 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 23). 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 relate to the same taxable entity and the same taxation authority.

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.

Related Party Relationships and Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Events After the Reporting Period

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 5.

## 4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

*Determination of functional currency*

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

*Classification of financial instruments*

The Group classifies a financial instrument, or its component parts, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet (see Note 28).

*Operating Lease Commitments - The 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 - The Group as Lessor*

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

*Financial assets not in an active market*

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment losses on loans and receivables*

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

For the advances to related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and their current credit status, are considered to ascertain the amount of reserves that will be recognized. These reserves are re-evaluated and adjusted as additional information is received.

Allowance for doubtful accounts as of December 31, 2011 and 2010 amounted to ₱605.3 million and ₱604.2 million, respectively. Receivables and advances, net of valuation allowance, amounted to ₱339.1 million and ₱233.3 million as of December 31, 2011 and 2010, respectively (see Notes 9 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 ₱839.3 million and ₱544.7 million as of December 31, 2011 and 2010, respectively (see Note 11).

*Impairment of AFS equity investments*

The Group recognizes impairment losses on AFS equity investments when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In determining whether the decline in value is significant, the Group considers historical volatility of share price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the share price has been depressed (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 ₱7,490.3 million and ₱5,594.1 million as of December 31, 2011 and 2010, respectively (see Note 11).

*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, 2011 and 2010, allowance for decline in value of investments amounted to ₱112.3 million and ₱176.1 million, respectively. The carrying amounts of the investments, net of valuation allowance, amounted to ₱721.2 million and ₱939.9 million as of December 31, 2011 and 2010, respectively (see Note 12).

*Estimation of allowance for inventory and impairment losses*

The Group estimates the allowance for inventory obsolescence and impairment losses related to inventories based on specifically identified inventory items. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for inventory and impairment losses would increase recorded expenses and decrease current assets. As of December 31, 2011 and 2010, allowance for inventory losses and obsolescence amounted to ₱4.3 million and ₱1.3 million, respectively. The carrying amount of the inventories, net of valuation allowance, amounted to ₱83.2 million and ₱15.9 million as of December 31, 2011 and 2010, respectively (see Note 10).

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

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

As of December 31, 2011 and 2010, the aggregate net book value of property and equipment and investment properties amounted to ₱1,123.2 million and ₱403.7 million, respectively (see Notes 13 and 14).

*Impairment of non-financial assets*

*(a) Property and equipment and investment properties*

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

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

As of December 31, 2011 and 2010, the aggregate impairment loss on property and equipment amounted to nil and ₱3.3 million, respectively (see Note 13).

*(b) Goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value-in-use" of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Considering the U.S. crisis and the unemployment rate, the Group recognized an impairment provision of ₱100.0 million since December 31, 2009 on its investment in Cirrus. As of December 31, 2011 and 2010, goodwill recognized for this investment amounted to ₱505.3 million and ₱510.9 million, respectively (see Note 6).

Resulting goodwill from the step acquisition of SSRLI amounting to ₱99.3 million will be tested for impairment in the next financial year (see Note 6).

*Estimation of contingent consideration*

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

On December 10, 2010, as part of the purchase price allocation for its acquisition of NT, the Group identified an element of contingent consideration with a fair value of ₱14.6 million which is classified under "Accounts payable and accrued expenses" in the 2010 consolidated balance sheet. In May 2011, Cirrus and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to ₱5.8 million. The Group recognized an impairment loss for goodwill for the same amount.

*Recognition of deferred income tax assets*

The Group reviews the carrying amounts of the deferred income tax assets at each end of reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. As of December 31, 2011 and 2010, the Group recognized deferred income tax assets amounting to ₱22.0 million and ₱34.6 million, respectively (see Note 24).

*Determination of pension and other retirement benefits*

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

The expected rates of return on plan assets ranging from 5% to 10% 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 23 for the details of assumptions used in the calculation.

| *In Million Pesos* | | **2011** | | 2010 | | 2009 |
|---|---|---|---|---|---|---|
| Net benefit expense | ₱ | **13.7** | ₱ | 35.6 | ₱ | 4.3 |
| Pension liability | | **43.3** | | 23.3 | | 12.4 |
| Pension asset | | **–** | | – | | 16.8 |

*Provisions and contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in the preceding notes and in Note 30.

## 5. Segment Information

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

Holding company segment pertains to the operations of the Company.

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

Resort operations segment pertains to the Company's subsidiary providing hotel and resort accommodation, relaxation and entertainment, among others (see Note 3).

Amounts for the investments in associates comprise the Group's equity in net earnings of the associates. Other operations include air transportation, hangarage, real estate holding and management, and recruitment services.

The following tables present the financial information of the business segments as of and for the years ended December 31, 2011, 2010 and 2009 (in thousands).

| | Before Eliminations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Philippines | | | | | | |
| | US Nurse/PT Staffing Co. | Holding Co. (Parent) | Resort Operations (Note 6) | Other Operations | Investments in Associates | Total | Eliminations | Consolidated |
| As of and for the year ended December 31, 2011 | | | | | | | | |
| Revenues, excluding interest income | ₱ 998,257 | ₱ 647,091 | ₱ 412,375 | ₱ 187,547 | ₱ – | ₱ 2,245,270 | (₱ 283,854) | ₱ 1,961,416 |
| Interest income | – | 115,974 | 427 | 3,803 | – | 120,204 | – | 120,204 |
| Investment gains | – | 726,088 | – | 120 | – | 726,208 | – | 726,208 |
| Interest expense | 931 | 1,215 | 4,534 | 2,412 | – | 9,092 | – | 9,092 |
| Income tax expense | – | 19,965 | 4,738 | 6,241 | – | 30,944 | – | 30,944 |
| Net income (loss) | (2,381) | 1,307,510 | 5,050 | (137,090) | 93,030 | 1,266,119 | (269,843) | 996,276 |
| Total assets | 1,332,048 | 11,900,903 | 1,018,288 | 316,536 | – | 14,567,775 | (2,017,715) | 12,550,060 |
| Investments and advances | – | 3,047,439 | – | – | – | 3,047,439 | (2,322,206) | 725,233 |
| Property and equipment | 6,573 | 39,870 | 611,033 | 125,387 | – | 782,863 | 123,905 | 906,768 |
| Total liabilities | 1,186,630 | 244,643 | 362,843 | 292,924 | – | 2,087,040 | (1,146,505) | 940,535 |
| Depreciation and amortization | 6,173 | 8,916 | 58,796 | 31,345 | – | 105,230 | – | 105,230 |
| Other non-cash expenses | – | (34,791) | – | 532 | – | (34,259) | – | (34,259) |
| Cash flows from (used in): | | | | | | | | |
| Operating activities | (43,630) | 493,400 | 95,995 | (277,358) | | 268,407 | (2,408) | 265,999 |
| Investing activities | (2,950) | (1,581,350) | (219,257) | 278,896 | | (1,524,661) | (37,489) | (1,562,150) |
| Financing activities | 32,380 | (654,665) | 118,977 | 9,387 | | (493,921) | 155,354 | (338,567) |

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

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

## 6. Business Combinations

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

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

| | Fair Value Recognized on Acquisition (in millions) |
|---|---|
| Cash | ₱ 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 |

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

   The fair value of the contingent consideration at the acquisition date using the discount rate of 5% amounted to $332,868 or ₱14.6 million. In May 2011, Cirrus and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to ₱5.8 million (included under "Accounts payable and accrued expenses", see Note 17). The Group recognized an impairment loss for goodwill for the same amount in 2011.

   The purchase price was initially allocated to assets acquired and liabilities assumed based on a provisional assessment of fair values as of the date of acquisition. In 2011, the fair value of accounts receivable was determined to be ₱0.1 million lower than the previous amount of ₱0.3 million. This increased goodwill by ₱0.1 million.

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

| | Fair Value Recognized on Acquisition (in millions) |
|---|---|
| Cash | ₱ 0.2 |
| Receivables - net | 0.2 |
| Total assets | 0.4 |
| Accounts payable and accrued expenses | 0.4 |
| Net assets | – |
| Goodwill arising from the acquisition | 38.5 |
| Total consideration | ₱ 38.5 |

d. On February 28, 2011, the Company acquired additional 15.51% shares in SSRLI which increased the Company's ownership from 46.79% to 62.30%.

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

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

| | | Fair Value Recognized on Acquisition (in millions) |
|---|---|---|
| Cash | ₱ | 96.2 |
| Receivables - net | | 76.6 |
| Property and equipment | | 470.9 |
| Other assets | | 46.8 |
| Total assets | | 690.5 |
| Accounts payable and accrued expenses | | 93.4 |
| Other liabilities | | 137.8 |
| Net assets | | 459.3 |
| Goodwill arising from the acquisition | | 99.3 |
| Total consideration | ₱ | 558.6 |

The total cost of the combination was ₱558.6 million broken down as follows (in millions):

| | | |
|---|---|---|
| Cash consideration | ₱ | 255.9 |
| Fair value of 46.79% investment | | 302.7 |
| Total consideration | ₱ | 558.6 |

From the date of acquisition, Cirrus LLC, MDI Medical and NT have contributed losses amounting to ₱5.7 million, ₱43.4 million and ₱58.3 million to the Group's consolidated income for 2011, 2010 and 2009, respectively (excluding expenses of Cirrus).

The goodwill of ₱577.9 million, before exchange differences amounting to ₱33.0 million as of December 31, 2010, comprises the value of the acquired companies' customer and staff base and existing market share in the healthcare staffing industry. There are no specific values assigned to the customer and staff base. These are not separate and quantifiable and therefore, do not meet the criteria for recognition as an intangible asset under PAS 38, *Intangible Assets*. The goodwill from Cirrus was reduced by ₱5.5 million due to foreign exchange differences in 2011. Also, the goodwill was reduced by ₱0.1 million and ₱1.7 million collections from the previous debtors of Cirrus in 2011 and 2009, respectively.

In 2011, the Group recognized goodwill amounting to ₱99.3 million arising from the acquisition of additional shares in SSRLI.

Impairment Testing of Goodwill

a. The recoverable amount of the investments in Cirrus LLC and MDI Medical has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a ten year period. The pre-tax discount rate applied to cash flow projections is 11% in 2011 and 2010. In 2011, the cash flows beyond the ten-year period are extrapolated using a growth rate that is consistent with the expected average growth rate for the industry.

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

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

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

*Growth rate*
Growth rate assumptions for the ten year cash flow projections are supported by the different initiatives of Cirrus and MDI which started in 2011.

*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 ₱201.4 million. The implications of the key assumptions to the recoverable amount are discussed below:

- Growth rate assumptions
  Management has used the average industry growth rate for the forecast. Although the current economic downturn is impacting the temporary healthcare staffing industry, the long-term growth of the healthcare staffing industry is underpinned by the increasing shortage of qualified healthcare professionals, notably registered nurses, and the growing demand fueled by an aging population.

- Terminal value
  Management has used the most recent healthcare staffing transaction price earnings multiple in determining the terminal value.

  The significant economic downturn in the U.S. could adversely affect the average terminal value for similar sale of assets in the same industry in future years. Accordingly, management had set up an impairment loss of ₱100.0 million as of December 31, 2011 and 2010.

b. Goodwill from the Company's investment in IQMAN, through Sutton, amounting to ₱37.0 million, was fully impaired as of December 31, 2011 and 2010. The Company, through Sutton, assessed that there will be delays in the recovery of the investment cost in IQMAN because IQMAN's operations has been restricted due to the delayed processing of EB-3 immigrant visas for nurses destined for employment in the U.S.

## 7. Cash and Cash Equivalents

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Cash on hand and with banks | ₱ | **286,949,264** | ₱ | 242,394,492 |
| Short-term investments | | **255,477,418** | | 1,945,729,097 |
| | ₱ | **542,426,682** | ₱ | 2,188,123,589 |

Cash with banks earn interest at the respective bank deposit rates ranging from 0.25% to 0.50% and 0.25% to 0.725% in 2011 and 2010, respectively (see Note 22). Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group.

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Bonds | ₱ | **665,837,528** | ₱ | 542,716,767 |
| Funds and equities | | **192,097,120** | | 204,790,484 |
| Others | | **25,521,364** | | 70,149,420 |
| | ₱ | **883,456,012** | ₱ | 817,656,671 |

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

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

| | **Unrealized valuation gains (losses) in market values as of December 31** | | **Loss on decrease in market value of FVPL investments** |
|---|---|---|---|
| | **2011** | **2010** | **in 2011** |
| Bonds | **(₱ 20.8)** | (₱ 13.7) | **(₱ 7.1)** |
| Funds and equities | **(5.1)** | (8.6) | **3.5** |
| Others | **1.4** | 3.5 | **(2.1)** |
| Total | **(₱ 24.5)** | (₱ 18.8) | **(5.7)** |
| Add realized loss on sale of FVPL investments | | | **(1.5)** |
| Net loss on decrease in market value of FVPL investments | | | **(₱ 7.2)** |

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

| | Unrealized valuation gains (losses) in market values as of December 31 | | Gain on increase in market value of FVPL investments |
|---|---|---|---|
| | 2009 | 2008 | in 2009 |
| 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 |

In 2011 and 2010, the Group entered into non-deliverable currency forward contracts to manage foreign currency risk. These contracts were all settled during the year and resulted to a realized gain of ₱10.9 million and ₱64.1 million, respectively. There was no outstanding forward transaction as of December 31, 2011 and 2010.

## 9. Receivables

| | 2011 | 2010 |
|---|---|---|
| Trade (Note 29) | ₱ 282,612,670 | ₱ 175,813,610 |
| Interest receivable | 23,915,288 | 24,115,479 |
| Tax credits/refunds | 36,398,722 | 24,146,722 |
| Advances to officers and employees | 3,260,130 | 3,983,920 |
| Others | 22,101,246 | 34,504,614 |
| | 368,288,056 | 262,564,345 |
| Less allowance for doubtful accounts | 33,239,440 | 32,116,950 |
| | ₱ 335,048,616 | ₱ 230,447,395 |

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

Other receivables in 2011 represent the resort subsidiary's collectible from the villa owners. In 2010, other receivables pertain to IAI's insurance receivable for the repair of the aircraft.

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

| | 2011 | 2010 |
|---|---|---|
| At January 1 | ₱ 32,116,950 | ₱ 34,874,749 |
| Provision for the year (Note 22) | 3,399,994 | 1,077,971 |
| Recoveries | (2,277,504) | (3,835,770) |
| At December 31 | ₱ 33,239,440 | ₱ 32,116,950 |

## 10. Inventories

| | | 2011 | | 2010 |
|---|---|---|---|---|
| At cost: | | | | |
| Food and beverage | ₱ | **19,110,059** | ₱ | – |
| Aircraft parts in transit | | **1,414,407** | | 1,006,684 |
| | | **20,524,466** | | 1,006,684 |
| At net realizable value: | | | | |
| Operating supplies - net of allowance for inventory obsolescence of ₱2.5 million in 2011 | | **43,047,545** | | – |
| Aircraft spare parts and supplies - net of allowance for inventory losses of ₱1.0 million in 2011 and 2010 | | **14,770,517** | | 14,618,537 |
| Construction-related materials - net of allowance for inventory obsolescence of ₱0.5 million in 2011 | | **4,565,598** | | – |
| Residential units held for sale - net of allowance for impairment losses of ₱0.3 million in 2011 and 2010 | | **284,089** | | 284,089 |
| | ₱ | **83,192,215** | ₱ | 15,909,310 |

Aircraft parts in transit are purchased from suppliers abroad under Freight on Board Shipping Point. These items are in the custody of either the Bureau of Customs or freight forwarder as of December 31, 2011 and 2010.

Operating supplies pertain to inventory items used in providing services such as printing, cleaning and office and guest supplies.

Construction-related materials are excess materials and supplies from Phase 2 of the Villa Development Project (the Project). These are held for use in other construction projects and villa operations.

## 11. Available for Sale (AFS) Investments

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Quoted equity shares | ₱ | **6,212,939,840** | ₱ | 4,725,844,025 |
| Unquoted equity shares | | **839,348,920** | | 544,747,290 |
| Bonds | | **603,519,773** | | 619,398,470 |
| Funds and equities | | **313,730,948** | | 229,604,987 |
| Proprietary shares | | **124,238,250** | | 93,937,800 |
| | ₱ | **8,093,777,731** | ₱ | 6,213,532,572 |

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, 2011 and 2010.

AFS investments in bonds represent foreign currency-denominated bond securities with fixed coupon interest rate per annum ranging from 3.38% to 10.50% in 2011, 3.58% to 11.13% in 2010 and 4.56% to 10.75% in 2009. Maturity dates range from February 1, 2012 to March 1, 2022 in 2011, April 1, 2011 to April 18, 2028 in 2010 and July 9, 2010 to October 25, 2017 in 2009. Effective interest rates range from 5.63% to 11.59%, 5.74% to 12.01% and 4.91% to 10.15% for foreign currency-denominated AFS investments in 2011, 2010 and 2009, respectively.

Investments in bonds, funds and equities' market prices or rates are calculated and/or confirmed by the respective fund managers.

In 2011, 2010 and 2009, gain on sale of AFS investments amounted to ₱676.8 million, ₱2,091.9 million and ₱186.3 million, respectively.

Unquoted equity shares and bonds are carried at cost, subject to impairment.

a. Prople, Inc.

In December 2007, the Group 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., jointly called 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. In 2011 and 2010, the Company made additional investment in Prople amounting to ₱4.4 million and ₱1.5 million, respectively. These additional investments enabled the Company to maintain its 20% equity share in Prople. As of December 31, 2011 and 2010, the total cost of the investment in Prople amounted to ₱42.2 million and ₱37.8 million, respectively. Investment in Prople is accounted for as AFS because management believes that the Company does not have the ability to exercise significant influence on Prople. Furthermore, the Company does not have any involvement in the operations of Prople. The investment is measured at cost less impairment rather than at fair value as the shares of stock of Prople are not publicly-traded, such that there is no reliable basis of fair value.

b. Enderun College, Inc. (Enderun)

In 2008, the Group entered into a subscription agreement for the acquisition of 16,216,217 new shares of stock equivalent to 20% equity stake in Enderun, a college that offers a full range of bachelor's degree and non-degree courses in the fields of hotel administration, culinary arts and business administration. The total cost of the investment in Enderun amounted to ₱286.2 million. Investment in Enderun is classified as AFS at cost because the Group does not exercise significant influence and its holding in Enderun is not sufficient to carry major business decisions.

c. Alphion Corporation (Alphion)

In March 2009, the Group invested US$900,000 (₱43.7 million) for 387,297 Series E Preference shares of Alphion convertible into 645,485 shares of common stock. 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. In 2011, the Group invested US$1 million (₱42.6 million) for 713,158 Series G preference shares convertible into the same number of common stock and 140,817 Series G warrants convertible into the same number of common stock. As of December 31, 2011 and 2010, the total cost of the investment in Alphion amounted to ₱83.3 million and ₱43.7 million, respectively.

d. ATR Holdings, Inc. (ATR Holdings)

On July 26, 2010, the BOD authorized the Company to purchase 38,830,244 common shares of stock of ATR Kim Eng Financial Corporation (ATRKE) for a total purchase price of ₱115.7 million to be paid as follows:

- Exchange of the Company's 5,000,000 common shares of stock of ATR Holdings which constitute 8.85% of the total outstanding capital of ATR Holdings and with aggregate book value of ₱96.8 million; and,
- Cash consideration for ₱18.7 million.

On November 2, 2010, the Company exchanged its 5,000,000 common shares in ATR Holdings with 41,936,663 shares in ATRKE. The resulting gain from the transaction amounting to ₱27.0 million is included under gain on sale of AFS investments.

On December 14, 2011, the Company sold its 41,936,663 shares in ATRKE to Maybank at ₱4.38 per share. The resulting gain net of taxes from this transaction amounting to ₱66.5 million is recorded under gain on sale of AFS investments.

e. Predictive Edge Media Holdings, LLC (PEMH)

In October 2011, AI entered into a subscription agreement with PEMH for the acquisition of 1,000,000 Series A preferred units at US$3 per unit, which constitute 10% of the total Series A preferred units outstanding. PEMH is a Delaware limited liability company organized in April 2011 based in Pennsylvania, USA. PEMH is engaged in building a portfolio of early stage social media companies with a goal of creating a safe on-line environment for children between the ages of 9 to 13 (“Tweens”). The total cost of the investment in PEMH amounted to ₱131.5 million as of December 31, 2011.

f. AGP International Holdings, Ltd. - BVI (AGP-BVI)

In December 2011, AI entered into a subscription agreement with AGP-BVI for US$5.0 million Convertible Bridge Notes (the “Notes”), with interest rate of 9% compounded annually. The principal, together with the accrued interest, is payable on the one year anniversary of the issuance of each Note. The Notes is convertible at the option of the holder into: (a) Series B preferred shares at the per share price paid to buy out existing Series A preferred shares (US$0.345/share or the “conversion price”); or (b) the equity security issued by AGP-BVI in its next round of equity financing at the per share price paid in such next round of financing. AGP-BVI is a British Virgin Islands business company formed in 2010 in connection with the acquisition of equity of Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P). AGP-BVI, through its subsidiary and associates, is focused on providing modular engineering and construction and general engineering design services, including, fabrication, assembly and manpower services, particularly in the oil, gas, petrochemical, power generation and mining industries. The total cost of the investment in AGP-BVI amounted to ₱219.2 million as of December 31, 2011.

g. KSA Realty Corporation

In 2011, 2010 and 2009, the Group received cash dividends amounting to ₱28.6 million, ₱5.7 million and ₱22.8 million, respectively.

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

| | 2011 | 2010 |
|---|---|---|
| Beginning balance | ₱ 2,650,946,926 | ₱ 656,731,126 |
| Gain recognized directly in equity - net of tax | 560,496,650 | 4,055,483,591 |
| Amount removed from equity and recognized in profit and loss - net of tax | (715,457,888) | (2,061,267,791) |
| Ending balance | ₱ 2,495,985,688 | ₱ 2,650,946,926 |

In 2011 and 2010, the Group recognized impairment losses, included in the valuation allowances, on its quoted and unquoted equity investments amounting to ₱35.9 million and ₱20.0 million, respectively.

## 12. Investments and Advances

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Investments at equity - net | ₱ | **721,180,157** | ₱ | 939,936,843 |
| Advances - net of allowance for doubtful accounts of ₱572.1 million in 2011 and 2010 | | **4,052,656** | | 2,816,048 |
| | ₱ | **725,232,813** | ₱ | 942,752,891 |

Investments at equity consist of:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Acquisition cost: | | | | |
| Common shares | ₱ | **314,901,284** | ₱ | 412,600,120 |
| Preferred shares | | **–** | | 90,390,853 |
| | ₱ | **314,901,284** | ₱ | 502,990,973 |
| Accumulated equity in net earnings (losses): | | | | |
| Balances at beginning of year | | **613,004,245** | | 529,779,626 |
| Equity in net earnings for the year | | **93,029,847** | | 115,224,619 |
| Effect of step acquisition resulting to control (Note 6) | | **(141,895,477)** | | – |
| Dividend received | | **(45,600,000)** | | (32,000,000) |
| Balances at end of year | | **518,538,615** | | 613,004,245 |
| Valuation allowance | | **(112,259,742)** | | (176,058,375) |
| | ₱ | **721,180,157** | ₱ | 939,936,843 |

Significant details of the balance sheets and statements of income of SSRLI and PDP Energy are enumerated below as of December 31 (in millions):

**PDP Energy**

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Balance Sheets: | | | | |
| Current assets | ₱ | **2,437.6** | ₱ | 2,116.4 |
| Noncurrent assets | | **861.7** | | 344.5 |
| Current liabilities | | **1,043.2** | | 832.8 |
| Noncurrent liabilities | | **0.4** | | 0.6 |
| Statements of Income: | | | | |
| Net sales | | **6,503.9** | | 5,039.4 |
| Net income | | **221.8** | | 228.0 |

**SSRLI**

| | | 2011* | | 2010 |
|---|---|---|---|---|
| Balance Sheets: | | | | |
| Current assets | ₱ | **279.3** | ₱ | 354.8 |
| Noncurrent assets | | **1,344.5** | | 626.2 |
| Current liabilities | | **203.2** | | 243.9 |
| Noncurrent liabilities | | **359.9** | | 102.1 |
| Statements of Income: | | | | |
| Gross revenues | | **516.9** | | 487.5 |
| Net income | | **24.3** | | 52.4 |

**For purposes of consolidation, only the balances and results of operations of SSRLI starting March 1, 2011 to December 31, 2011, were taken up (see Note 3).*

In addition to those discussed in Note 6, the significant transactions involving the Group's investments in subsidiaries and associates for 2011, 2010 and 2009 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 June 2011, March 2010 and October 2009, PDIPI (parent company of PDP Energy) declared cash dividends to its stockholders. Cash dividends received by the Company amounted to ₱45.6 million at ₱19.3 per share in 2011, ₱32.0 million at ₱13.6 per share in 2010 and ₱41.6 million at ₱17.6 per share in 2009.

SSRLI and PRI

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 March 2008, the Company received ₱35.8 million from SSRLI representing proceeds from SSRLI's redemption of the preferred shares held by the Company.

c. In December 2008, SSRLI entered into deeds of sale for 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.

d. On February 18, 2011, the BOD of the Company approved the Company's acquisition of additional shares from the minority shareholders of SSRLI. The acquisition increased the present ownership of the Company from 46.79% to 62.30% of the total outstanding common and preferred shares of SSRLI. Total acquisition price for the additional shares is $5.89 million (₱255.9 million) cash consideration plus the fair value of the 46.79% investment amounting to ₱302.6 million. Goodwill recognized from the acquisition amounted to ₱99.3 million.

e. On July 1, 2011, PEZA approved SSRLI's application for transfer of its PEZA registration as an Ecozone Tourism Enterprise to PRI, a wholly owned subsidiary. On the same date, PRI took over the tourism project, ownership and operations of SSRLI. On the same date, PEZA approved PRI's application for registration as an Ecozone Tourism Enterprise. SSRLI also transferred in the name of PRI all resort-operation-related contracts entered into with related parties and third parties, including its long-term loans with a bank (see Note 18).

f. On December 7, 2011, SSRLI and PRI entered into a Deed of Transfer using SSRLI's balances as of June 30, 2011 for transfer of resort related assets and liabilities of SSRLI amounting to ₱851.4 million and ₱350.9 million, respectively, to PRI, in exchange for 5,000 shares of stock with a par value of ₱100 per share for an issue value of ₱500.5 million. As of December 31, 2011, the stock certificates for the 5,000 shares have not yet been issued.

Advances

Net advances consist of receivables from the following associates:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| AFC | ₱ | 1,500,000 | ₱ | 1,500,000 |
| SSRLI | | – | | 481,651 |
| Others (net of allowance for doubtful accounts of ₱14.6 million in 2011 and ₱16.4 million 2010) | | 2,552,656 | | 834,397 |
| | ₱ | 4,052,656 | ₱ | 2,816,048 |

**13. Property and Equipment**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Land, Buildings and Improvements | Flight and Ground Equipment | Furniture, Fixtures and Office Equipment | Transportation Equipment | Construction in Progress | Total |
| **Cost** | | | | | | |
| January 1 | ₱ 152,860,004 | ₱ 219,719,566 | ₱ 57,261,762 | ₱ 29,511,633 | ₱ – | ₱ 459,352,965 |
| Additions | 39,855,755 | 115,231,999 | 14,918,123 | 15,890,837 | 427,699 | 186,324,413 |
| Additions arising from step acquisition resulting to control (Note 6) | 930,382,562 | 181,628,127 | 125,256,428 | 85,388,316 | 2,872,857 | 1,325,528,290 |
| Retirement/disposals | – | (102,517,962) | (4,000) | (6,889,071) | (2,872,857) | (112,283,890) |
| Foreign exchange adjustment | – | – | 48,568 | – | – | 48,568 |
| December 31 | 1,123,098,321 | 414,061,730 | 197,480,881 | 123,901,715 | 427,699 | 1,858,970,346 |
| **Accumulated Depreciation and Amortization:** | | | | | | |
| January 1 | 103,608,177 | 136,745,442 | 46,735,991 | 25,792,478 | – | 312,882,088 |
| Accumulated depreciation and amortization arising from step acquisition resulting to control (Note 6) | 350,955,421 | 137,171,913 | 87,142,307 | 62,227,374 | – | 637,497,015 |
| Depreciation and amortization | 37,688,191 | 37,718,103 | 21,612,515 | 7,244,088 | – | 104,262,897 |
| Retirement/disposals | 16,890 | (98,143,887) | (2,810) | (4,353,130) | – | (102,482,937) |
| Foreign exchange adjustment | (568,228) | – | 611,237 | – | – | 43,009 |
| December 31 | 491,700,451 | 213,491,571 | 156,099,240 | 90,910,810 | – | 952,202,072 |
| **Net Book Value** | ₱ 631,397,870 | ₱ 200,570,159 | ₱ 41,381,641 | ₱ 32,990,905 | ₱ 427,699 | ₱ 906,768,274 |

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

The Spa Complex of SSRLI, with facilities for hairdressing, gym and pilates, plunge pools and massage treatments, fully completed in 2011 with total cost of ₱140.98 million, is included in the additions arising from step acquisition resulting to control in 2011.

Aircraft hull and engine with total carrying value of about ₱43.2 million and ₱21.5 million as of December 31, 2011 and 2010, respectively, are used as collateral for the loan obtained in 2006 (see Note 18).

Land with improvements and structures thereon with carrying and appraised values amounting to ₱32.6 million and ₱1,289.0 million, respectively, are used as collateral for the loan obtained in 2005 by a subsidiary (see Note 18). The last appraisal was dated October 7, 2010.

Additions in 2011 include capitalized major overhaul and repair costs of an aircraft hull and engine paid by insurer and through application of deposits for the maintenance service plan paid in previous years.

Depreciation charged to operations amounted to ₱104.3 million, ₱40.7 million and ₱42.8 million in 2011, 2010 and 2009, respectively.

## 14. Investment Properties

| | 2011 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| **Cost** | | | |
| January 1 | ₱ 187,946,716 | ₱ 145,073,170 | ₱ 333,019,886 |
| Additions arising from step acquisition resulting to control (Note 6) | 28,485,507 | – | 28,485,507 |
| Disposals | – | (145,073,170) | (145,073,170) |
| December 31 | 216,432,223 | – | 216,432,223 |
| **Accumulated Depreciation:** | | | |
| January 1 | – | 72,536,584 | 72,536,584 |
| Depreciation for the year | – | 967,154 | 967,154 |
| Disposals | – | (73,503,738) | (73,503,738) |
| December 31 | – | – | – |
| **Net Book Value** | ₱ 216,432,223 | ₱ – | ₱ 216,432,223 |

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

Investment properties include 874.6 hectares of land in Palawan and Cebu. In 2010, Malikhain and APHI purchased additional land in Poblacion, San Vicente, Palawan amounting to ₱2.2 million. Based on the valuation performed by an independent appraiser as of October and November 2011, the aggregate fair market values of these properties as of December 31, 2011 and 2010 exceeded its cost by ₱265.3 million and ₱263.0 million, respectively. The fair value represents the amount at which assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The estimated recoverable amount of the investment properties were based on available net selling price of similar properties sold during the year.

Additions in 2011 pertain to land held for future development, which includes the cost of raw lots and other incidental costs intended to be used for the prospective villa development of the resort subsidiary, amounting to ₱28.5 million.

On March 1, 2011, the Company sold its unit at the 34th Floor of the Enterprise Center with an area of 1,238.4 square meters at a gain of ₱39.9 million.

### 15. Other Noncurrent Assets

Other noncurrent assets include the following:

a. Fund for villa operations of PRI amounting to ₱47.1 million as of December 31, 2011, which is a restricted cash fund for the villas held as a source of future maintenance requirements and association dues when the need arises as determined by PRI. Interest income on this fund shall accrue to the villa owners. A liability related to the fund was recognized and is included under "Other noncurrent liabilities" in the consolidated balance sheet (see Note 29).

b. A restricted cash fund for future replacement of the resort's generator set and desalination plant amounting to ₱2.7 million as of December 31, 2011 is also recognized under "Other noncurrent liabilities" in the consolidated balance sheet.

c. Property development in progress of SSRLI amounting to ₱11.5 million as of December 31, 2011, which pertains to the development costs incurred on Phase 3 and Phase 4 projects started in 2009 by SSRLI.

d. Deferred nurse costs of IQHPC amounting to ₱33.3 million and ₱29.3 million as of December 31, 2011 and 2010 (see Note 29).

## 16. 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: | | 2011 | | 2010 |
|---|---|---|---|---|
| IAI | ₱ | **65,760,000** | ₱ | 55,238,400 |
| Cirrus | | **21,037,229** | | 9,155,452 |
| | ₱ | **86,797,229** | ₱ | 64,393,852 |

The loans availed by IAI bears an annual interest rate of 3-month LIBOR + 2% per annum in 2011 and 2010. The note has a maturity of 90 days, with option to extend for another 90 days and was subsequently extended in March, June, September and December 2011.

Cirrus has a $1.50 million and $1.45 million line-of-credit as of December 31, 2011 and 2010, respectively, with Fifth Third Bank with interest payable monthly at the bank's prime rate and is secured by accounts receivables. Loans payable availed by Cirrus as of December 31, 2011 and 2010 amounted to $479,864 and $208,838, respectively. There is $1.02 million and $1.24 million available on this line-of-credit as at December 31, 2011 and 2010, respectively.

In 2011, the Company availed loans from a local bank amounting to ₱230.0 million with terms of 6 to 32 days subject to 4.2% interest rate. The loans were fully settled as at December 31, 2011. The Company's unavailed loan credit line from banks amounted to ₱550.0 million in 2011 and 2010.

Total interest expense recognized in the consolidated statements of income amounted to ₱4.3 million, ₱12.2 million and ₱8.5 million in 2011, 2010 and 2009, respectively (see Note 22).

## 17. Accounts Payable and Accrued Expenses

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Trade payables | ₱ | **193,815,432** | ₱ | 61,184,578 |
| Accrued expenses | | **106,529,090** | | 98,171,955 |
| Due to affiliates (Note 29) | | **5,471,921** | | 53,678,220 |
| Other payables (Note 6) | | **41,160,152** | | 44,405,948 |
| | ₱ | **346,976,595** | ₱ | 257,440,701 |

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 2012.

## 18. Long-term Debt

Long-term debt pertains to the following:

| Long-term debt availed by: | | 2011 | | 2010 |
|---|---|---|---|---|
| PRI | ₱ | **131,520,000** | ₱ | – |
| IAI | | **10,960,000** | | 21,920,000 |
| | | **142,480,000** | | 21,920,000 |
| Less current portion | | **23,854,113** | | 10,960,000 |
| | ₱ | **118,625,887** | ₱ | 10,960,000 |

Loans 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 loan is payable at maturity in October 2012, with interest payable quarterly at 8.87% per annum. IAI made an agreement with the bank that starting October 2008 until the original maturity date, the principal amount of the loan shall be amortized equally and the bank can demand payment for amount currently due. This loan is collateralized by chattel mortgages on IAI's two aircraft with a carrying value of ₱43.2 million and ₱21.5 million as of December 31, 2011 and 2010, respectively (see Note 13). Current portion of the loans payable is recognized amounting to ₱11.0 million as at December 31, 2011 and 2010.

Loans payable of PRI amounting to US$2.0 million and US$1.0 million were obtained from local banks on November 29, 2005 and December 22, 2011. The $2.0 million loan, which was transferred from SSRLI through an execution of Deed of Assumption of Loan and Mortgage dated June 2, 2011, is subject to Mortgage Trust Indenture (MTI), covering the assets of SSRLI which were also transferred to PRI pursuant to the Deed of Transfer dated December 7, 2011 (see Notes 13 and 14). Both loans have a floating interest rate per quarter equivalent to the average quarterly LIBOR plus 2% spread. The US$2.0 million loan has a maximum term of seven years, including three years grace period while the US$1.0 million loan has a maximum term of five years. Both loans are payable in 17 equal quarterly installments starting October 2012 to 2016. Current portion of loans payable is recognized amounting to ₱12.9 million as at December 31, 2011.

Total interest expense recognized in the consolidated statements of income amounted to ₱4.5 million, ₱1.0 million and ₱2.2 million in 2011, 2010 and 2009, respectively (see Note 22).

## 19. 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, 2011 and 2010 totaled 1,298,682,961 and 1,301,561,907, respectively. The Company's number of equity holders as of December 31, 2011 and 2010 is 11,677 and 11,768, respectively.

The SEC authorized the offering/sale to the public of the Company's 10.0 million and 140.0 million common shares with par value of ₱1.0 each on December 29, 1948 and January 17, 1973, respectively. On August 30, 1996, the SEC authorized the licensing of 910,476,302 common shares at the subscription price of ₱2.50 per share.

In 2011, 2010 and 2009, the Company declared the following cash dividends:

| | **2011** | **2011** | 2010 | 2010 | 2009 |
|---|---|---|---|---|---|
| Cash dividends per share | **₱0.12** | **₱0.12** | ₱0.12 | ₱0.10 | ₱0.06 |
| Month of declaration | **October** | **February** | October | March | April |
| Stockholders of record | **October 26** | **March 7** | November 4 | March 25 | May 8 |
| Total cash dividends | **₱300 million** | **₱300 million** | ₱300 million | ₱250 million | ₱150 million |
| Share of a subsidiary | **₱144.1 million** | **₱143.8 million** | ₱143.8 million | ₱106.0 million | ₱63.4 million |

As of December 31, 2011 and 2010, the Company had dividends payable amounting to ₱146.6 million and ₱134.9 million, respectively. Dividends payable represent mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2011 and 2010 due to problematic addresses of some of the Company's stockholders.

On December 6, 2011, the BOD approved the appropriation of the Company's unrestricted retained earnings amounting to ₱2.1 billion for expansion projects and investments in 2012 in the areas of tourism, business process outsourcing (BPOs), manpower services, education and manufacturing.

On February 17, 2012, the BOD approved a cash dividend of ₱0.25 per share payable on March 27, 2012 to all stockholders of record as of March 5, 2012.

*Shares held by a subsidiary*

As of December 31, 2011 and 2010, a subsidiary held 1,201,317,039 shares and 1,198,438,093 shares, respectively, of the Company. Cost of shares of the Company purchased by the subsidiary in 2011, 2010 and 2009 amounted to ₱9.6 million, ₱309.8 million and ₱2.8 million, respectively

## 20. Costs of Services Rendered and Operating Expenses

Costs of services rendered consist of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Salaries, wages and employee benefits (Note 21) | ₱ 642,009,654 | ₱ 463,371,068 | ₱ 604,818,050 |
| Dues and subscriptions | 110,224,808 | 32,781,618 | 18,594,170 |
| Recruitment services | 50,857,350 | 52,083,265 | 67,633,583 |
| Fuel cost | 47,266,914 | 27,321,574 | 18,887,205 |
| Insurance | 45,390,310 | 36,898,414 | 47,446,679 |
| Housing cost | 38,078,229 | 31,857,749 | 50,894,508 |
| Departmental costs - resort operations | 34,323,081 | – | – |
| Repairs and maintenance | 27,607,077 | 21,854,014 | 24,632,524 |
| Depreciation and amortization (Notes 13 and 14) | 26,289,569 | 24,794,121 | 26,159,563 |
| Materials and supplies - resort operations | 25,073,173 | – | – |
| Commissions | 10,847,108 | – | – |
| Transportation and travel | 10,098,213 | 6,554,801 | 7,339,403 |
| Outside services | 2,864,724 | 2,360,656 | 2,664,191 |
| Variable nurse costs (Note 29) | 261,817 | 2,458,871 | 3,067,894 |
| Technical assistance fees (Note 29) | 195,005 | 66,550 | 70,458 |
| Nurse deployment expenses (Note 29) | – | – | 10,866,860 |
| Others | 37,473,022 | 11,698,799 | 9,621,934 |
| | ₱ 1,108,860,054 | ₱ 714,101,500 | ₱ 892,697,022 |

Operating expenses consist of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Salaries, wages and employee benefits (Note 21) | ₱ 270,575,923 | ₱ 225,029,028 | ₱ 190,667,958 |
| Depreciation and amortization (Notes 13 and 14) | 78,940,482 | 26,785,135 | 27,517,845 |
| Utilities | 57,674,335 | 7,469,905 | 5,957,347 |
| Professional and directors' fees | 56,584,744 | 52,427,831 | 66,980,578 |
| Advertising | 33,735,871 | 11,824,481 | 13,037,999 |
| Commissions | 24,662,075 | 11,311,051 | 12,807,095 |
| Repairs and maintenance | 22,936,022 | 1,874,005 | 2,529,541 |
| Rental (Note 29) | 21,741,161 | 22,350,065 | 21,951,673 |
| Transportation and travel | 20,302,781 | 14,398,146 | 12,349,455 |
| Taxes and licenses | 13,631,787 | 8,648,448 | 8,260,406 |
| Security services | 13,458,964 | 6,124,222 | 5,946,411 |
| Entertainment, amusement and recreation | 9,622,489 | 6,219,240 | 7,727,978 |
| Communications | 9,341,625 | 7,778,406 | 12,329,852 |
| Insurance | 8,981,640 | 6,491,328 | 14,048,135 |
| Association dues | 8,148,181 | 5,760,540 | 3,719,227 |
| Office supplies | 5,083,491 | 3,194,676 | 4,672,396 |
| Meetings and conferences | 2,858,114 | 3,150,116 | 2,187,250 |
| Shipping and delivery expenses | 846,468 | 772,768 | 1,691,390 |
| Others | 32,783,377 | 23,849,875 | 21,747,413 |
| | ₱ 691,909,530 | ₱ 445,459,266 | ₱ 436,129,949 |

In 2011 and 2010, the Company paid bonus to its directors amounting to ₱19.3 million and ₱3.0 million, respectively. The payment made in 2011 was based on higher net income posted in 2010. No directors' bonus was paid in 2009.

## 21. Personnel Expenses

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Salaries and wages | ₱ 884,732,736 | ₱ 642,765,270 | ₱ 783,708,695 |
| Pension costs (Note 23) | 13,651,840 | 35,654,077 | 4,287,622 |
| Social security premiums, meals and other employees' benefits | 14,201,001 | 9,980,749 | 7,489,691 |
| | ₱ 912,585,577 | ₱ 688,400,096 | ₱ 795,486,008 |

There was no special and nonrecurring bonus declared in 2009. In March and December 2010, the Company declared and paid bonuses to its executive officers amounting to ₱7.0 million and ₱21.5 million, respectively. In March, April and December 2011, the Company also declared and paid bonuses to its executive officers amounting to ₱14.0 million, ₱11.6 million and ₱11.1 million, respectively.

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

Interest income consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Debt instruments (Notes 8 and 11) | ₱ 91,429,030 | ₱ 93,835,609 | ₱ 106,980,373 |
| Cash equivalents (Note 7) | 24,097,379 | 14,550,246 | 8,541,376 |
| Funds and equities | 3,137,167 | 1,821,353 | 4,190,172 |
| Others | 1,540,428 | 1,029,149 | 497,190 |
| | ₱ 120,204,004 | ₱ 111,236,357 | ₱ 120,209,111 |

Interest income on debt instruments is net of bond premium amortization amounting to ₱0.8 million in 2011, ₱3.3 million in 2010 and ₱3.7 million in 2009.

Interest expense consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Notes payable (Note 16) | ₱ 4,343,570 | ₱ 12,212,278 | ₱ 8,470,272 |
| Long-term debt (Note 18) | 4,533,750 | 1,010,895 | 2,221,638 |
| Others | 214,891 | 711,239 | 101,492 |
| | ₱ 9,092,211 | ₱ 13,934,412 | ₱ 10,793,402 |

Valuation allowances consist of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Valuation allowances on: | | | |
| Investments and advances (Note 12) | ₱ – | ₱ 172,072,396 | ₱ – |
| AFS investments (Note 11) | 35,904,485 | 20,000,000 | 83,673,558 |
| Receivables (Note 9) | 3,399,994 | 1,077,971 | 4,925,709 |
| Other current and noncurrent assets | – | 863,689 | 657,213 |
| Recovery of allowances for impairment losses (Notes 9, 10 and 11) | (73,563,491) | (8,248,014) | – |
| | (₱ 34,259,012) | ₱ 185,766,042 | ₱ 89,256,480 |

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

The Group has funded defined benefit pension plans covering substantially all of its officers and employees. The benefits to be received by the officers and employees under the pension plans shall not be less than the minimum mandated retirement benefit plan under Republic Act (RA) No. 7641. On November 30, 2010, the BOD approved the improvement to the Company's retirement plan which resulted to past service cost. Accordingly, in 2010, the Company recognized as expense the vested benefits and the amortization of the nonvested past service cost totaling ₱26.1 million.

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

| | | **2011** | | 2010 | | 2009 |
|---|---|---|---|---|---|---|
| Retirement benefit expense: | | | | | | |
| Current service cost | ₱ | **12,382,480** | ₱ | 9,898,219 | ₱ | 5,150,909 |
| Interest cost on benefit obligation | | **15,106,587** | | 10,199,093 | | 8,221,741 |
| Amortization of transition liability | | **–** | | – | | 135,702 |
| Expected return on plan assets | | **(13,949,827)** | | (9,662,453) | | (8,634,780) |
| Net actuarial gain recognized | | **(111,489)** | | (898,250) | | (585,950) |
| Past service cost - nonvested benefits | | **224,089** | | 224,089 | | – |
| Past service cost - vested benefits | | **–** | | 25,893,379 | | – |
| Net benefit expense (Note 21) | ₱ | **13,651,840** | ₱ | 35,654,077 | ₱ | 4,287,622 |
| Actual return on plan assets | ₱ | **16,348,665** | ₱ | 29,436,317 | ₱ | 18,065,740 |

Parent Company

Computation of pension liability:

| | | **2011** | | 2010 |
|---|---|---|---|---|
| Defined benefit obligation | ₱ | **208,248,266** | ₱ | 190,665,382 |
| Fair value of plan assets | | **190,119,948** | | 168,564,969 |
| | | **18,128,318** | | 22,100,413 |
| Unrecognized net actuarial losses | | **(2,273,630)** | | (9,195,700) |
| Unrecognized past service cost | | **(896,355)** | | (1,120,444) |
| Pension liability | ₱ | **14,958,333** | ₱ | 11,784,269 |

Subsidiaries

Computation of pension liability follow:

| | | **2011** | | 2010 |
|---|---|---|---|---|
| Defined benefit obligation | ₱ | **28,109,554** | ₱ | 12,607,228 |
| Fair value of plan assets | | **6,379,987** | | 1,378,677 |
| | | **21,729,567** | | 11,228,551 |
| Unrecognized net actuarial gain | | **6,609,792** | | 3,196,085 |
| | | **28,339,359** | | 14,424,636 |
| Less reversal of retirement benefit cost of an officer | | **–** | | (2,865,416) |
| Pension liability | ₱ | **28,339,359** | ₱ | 11,559,220 |

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

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Opening defined benefit obligation | ₱ | 203,272,610 | ₱ | 105,801,894 |
| Opening defined benefit obligation of an acquired subsidiary at acquisition date (Note 6) | | 15,244,945 | | – |
| Total opening defined benefit obligation | | 218,517,555 | | 105,801,894 |
| Interest cost | | 15,106,587 | | 10,199,093 |
| Current service cost | | 12,382,480 | | 9,898,219 |
| Past service cost - vested benefits | | – | | 25,893,379 |
| Past service cost - non vested benefits | | – | | 1,344,533 |
| Benefits paid | | (280,217) | | (165,375) |
| Actuarial losses (gains) | | (6,503,169) | | 50,300,867 |
| Reversal of retirement benefit cost of an officer | | (2,865,416) | | – |
| Closing defined benefit obligation | ₱ | 236,357,820 | ₱ | 203,272,610 |

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Opening fair value of plan assets | ₱ | 169,943,646 | ₱ | 135,285,388 |
| Opening fair value of plan assets of an acquired subsidiary at acquisition date (Note 6) | | 2,377,281 | | – |
| Total opening fair value of plan assets | | 172,320,927 | | 135,285,388 |
| Expected return | | 13,949,827 | | 9,662,453 |
| Contributions | | 7,830,343 | | 5,308,347 |
| Benefits paid | | – | | (165,375) |
| Actuarial gain | | 2,398,838 | | 19,852,833 |
| Closing fair value of plan assets | ₱ | 196,499,935 | ₱ | 169,943,646 |

The Group expects to make contributions amounting to ₱17.3 million to its defined benefit pension plans in 2012.

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

| | 2011 | 2010 |
|---|---|---|
| Bonds | 62% | 60% |
| Stocks | 37% | 36% |
| Others | 1% | 4% |

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:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 6%-8% | 8%-11% |
| Expected rate of return on plan assets | 5%-10% | 7%-8% |
| Future salary increases | 5%-10% | 5%-10% |

Amounts for 2011, 2010, 2009, 2008 and 2007 are as follows:

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Defined benefit obligation | ₱ 236,357,820 | ₱ 203,272,610 | ₱ 105,801,894 | ₱ 84,598,603 | ₱ 123,230,889 |
| Plan assets | 196,499,935 | 169,943,646 | 135,285,388 | 113,464,303 | 147,469,620 |
| Surplus (deficiency) | (39,857,885) | (33,328,964) | 29,483,494 | 28,865,700 | 24,238,731 |
| Experience adjustments on plan liabilities | 6,952,270 | 26,110,757 | 2,786,272 | 11,811,516 | 6,239,288 |
| Experience adjustments on plan assets | 2,898,428 | 19,894,449 | 9,433,597 | 32,898,747 | 509,298 |

## 24. Income Taxes

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Current | ₱ 12,313,421 | ₱ 11,152,859 | ₱ 6,998,848 |
| Deferred | 18,630,200 | 779,678 | (22,160,802) |
| | ₱ 30,943,621 | ₱ 11,932,537 | (₱ 15,161,954) |

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

Parent Company

| | 2011 | 2010 |
|---|---|---|
| Net deferred income tax assets: | | |
| Recognized directly in the consolidated statements of income: | | |
| Deferred income tax assets: | | |
| Unrealized foreign exchange losses | ₱ 2,849,453 | ₱ 15,650,973 |
| Pension liability | 4,487,500 | 3,535,281 |
| Allowances for impairment loss | – | 1,898,652 |
| | 7,336,953 | 21,084,906 |
| Deferred income tax liabilities on uncollected management fees | (7,238,709) | (3,686,971) |
| | 98,244 | 17,397,935 |
| Recognized directly in equity: | | |
| Unrealized valuation gains on AFS investments | (98,244) | (17,397,935) |
| | ₱ – | ₱ – |

Subsidiaries

| | 2011 | 2010 |
|---|---|---|
| Net deferred income tax liabilities: | | |
| Recognized directly in the consolidated statements of income: | | |
| Deferred income tax assets: | | |
| NOLCO | ₱ 14,085,792 | ₱ 5,796,408 |
| Others | 569,262 | 7,751,398 |
| | 14,655,054 | 13,547,806 |

(Forward)

| | 2011 | 2010 |
|---|---|---|
| Deferred income tax liabilities: | | |
| Goodwill amortization | (₱ 15,731,765) | (₱ 15,106,520) |
| Others | (5,854,305) | (6,779,188) |
| | (21,586,070) | (21,885,708) |
| | (6,931,016) | (8,337,902) |
| Recognized directly in equity – unrealized valuation gains on AFS investments | 828,575 | 110,381 |
| | (₱ 6,102,441) | (₱ 8,227,521) |

Deferred income tax liability amounting to ₱37.2 million was recognized for the fair value of the land with improvements of an acquired subsidiary (see Note 6).

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:

| | 2011 | 2010 |
|---|---|---|
| Allowances for: | | |
| Doubtful accounts | ₱ 791,474,784 | ₱ 793,729,173 |
| Impairment losses | 326,062,348 | 326,062,348 |
| Inventory losses | 3,883,393 | 950,147 |
| Market adjustments on FVPL investments | 25,899,910 | 22,564,993 |
| Market adjustments on AFS investments | 28,879,825 | 28,879,825 |
| NOLCO | 199,477,093 | 258,800,940 |
| MCIT | 8,409,647 | 10,230,445 |
| Accrued pension benefits and others | 28,339,359 | 11,223,991 |

The Company and other subsidiaries domiciled in the Philippines are subjected to the Philippine statutory tax rate of 30% in 2011, 2010 and 2009 while a foreign subsidiary is subject to U.S. federal tax rate of 34% in 2009.

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Provision for income tax at statutory tax rates | ₱ 322,660,236 | ₱ 602,279,908 | ₱ 84,847,062 |
| Additions to (reductions from) income taxes resulting from: | | | |
| Movement in unrecognized deferred income tax assets | (17,991,664) | 87,154,764 | 13,454,957 |
| Nondeductible expenses | 557,075 | 5,459,178 | 4,696,804 |
| Nondeductible interest expense | 400,182 | 1,371,524 | 303,761 |
| Nontaxable income | – | (8,584,786) | – |
| Interest income already subjected to final tax | (2,422,175) | (1,138,220) | (540,955) |
| Equity in net earnings of associates not subject to income tax | (27,908,954) | (34,567,386) | (23,474,073) |
| Dividend income not subject to income tax | (65,702,350) | (42,237,201) | (29,455,051) |

(Forward)

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Gain on sale of AFS investments, marketable equity securities and other investments subjected to final tax | (₱ 170,723,598) | (₱ 589,586,269) | (₱ 65,125,964) |
| Others | (7,925,131) | (8,218,975) | 131,505 |
| | ₱ 30,943,621 | ₱ 11,932,537 | (₱ 15,161,954) |

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

NOLCO

The following table summarizes the NOLCO as of December 31, 2011 of the Company and its subsidiaries domiciled in the Philippines:

| Period of Recognition | Availment period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2008 | 2009-2011 | ₱ 150,170,370 | (₱ 1,538,818) | (₱ 148,631,552) | ₱ – |
| 2009 | 2010-2012 | 62,121,143 | – | – | 62,121,143 |
| 2010 | 2011-2013 | 90,146,105 | – | – | 90,146,105 |
| 2011 | 2012-2014 | 94,162,485 | – | – | 94,162,485 |
| | | ₱ 396,600,103 | (₱ 1,538,818) | (₱ 148,631,552) | ₱246,429,733 |

As of December 31, 2011, a foreign subsidiary has NOLCO for federal and income tax purposes of approximately US$4.6 million (₱201.7 million), portion of which will begin to expire in the year 2027.

MCIT

| Period of Recognition | Availment period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2008 | 2009-2011 | ₱ 3,715,519 | (₱ 228,504) | (₱ 3,487,015) | ₱ – |
| 2009 | 2010-2012 | 3,601,794 | – | – | 3,601,794 |
| 2010 | 2011-2013 | 3,141,636 | – | – | 3,141,636 |
| 2011 | 2012-2014 | 1,498,538 | 167,679 | – | 1,666,217 |
| | | ₱ 11,957,487 | (₱ 60,825) | (₱ 3,487,015) | ₱ 8,409,647 |

## 25. Earnings Per Share - Basic / Diluted

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net income attributable to equity holdings of the parent | ₱ 994,506,977 | ₱ 1,975,357,978 | ₱ 289,644,550 |
| Weighted average number of shares (Note 19) | 1,350,762,579 | 1,351,589,662 | 1,442,579,922 |
| Earnings per share | ₱ 0.74 | ₱ 1.46 | ₱ 0.20 |

The Company does not have potentially dilutive common stock equivalents.

**26. Related Party Transactions**

In the normal course of business and in addition to those disclosed in Notes 12 and 29, the Group grants/ receives interest and noninterest-bearing cash advances to/from its associates and affiliates.

Compensation of the Group's key management personnel (in millions):

| | | 2011 | | 2010 | | 2009 |
|---|---|---|---|---|---|---|
| Short-term employee benefits (Note 21) | ₱ | **110.4** | ₱ | 80.6 | ₱ | 43.6 |
| Post-employment benefits | | **4.4** | | 4.4 | | 4.4 |
| Total compensation of key management personnel | ₱ | **114.8** | ₱ | 85.0 | ₱ | 48.0 |

**27. 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 Group's other financial instruments include accounts payable and dividends payable and amounts due to affiliates, which arose directly from operations.

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. These 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. The Group does not have a customer that accounts for more than 10% of the consolidated revenue.

*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 for each class of financial assets before the effects of collateral, credit enhancements and other credit risk mitigation techniques:

| | 2011 | 2010 |
|---|---|---|
| Cash in banks | ₱ 286,748,264 | ₱ 242,193,492 |
| Short-term investments | 255,477,418 | 1,945,729,097 |
| FVPL investments - bonds | 665,837,528 | 542,716,767 |
| AFS investments - bonds | 603,519,773 | 619,398,470 |
| Loans and receivables: | | |
| Trade | 282,612,670 | 175,813,610 |
| Interest receivable | 23,915,288 | 24,115,479 |
| Advances to officers and employees | 3,260,130 | 3,983,920 |
| Others | 22,101,246 | 34,504,614 |
| | 331,889,334 | 238,417,623 |
| Less allowance for doubtful accounts | 33,239,440 | 32,116,950 |
| | 298,649,894 | 206,300,673 |
| | ₱ 2,110,232,877 | ₱ 3,556,338,499 |

The Company has no collateral held as security nor credit enhancements as of December 31, 2011 and 2010.

*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 | | | | |
|---|---|---|---|---|---|
| **2011** | **High Grade** | **Standard Grade** | **Substandard Grade** | **Past Due or Impaired** | **Total** |
| Cash in banks | ₱ 286,748,264 | ₱ – | ₱ – | ₱ – | ₱ 286,748,264 |
| Short-term investments | 255,477,418 | – | – | – | 255,477,418 |
| FVPL investments - | | | | | |
| Bonds | 23,250,106 | 639,847,422 | 2,740,000 | – | 665,837,528 |
| AFS investments - | | | | | |
| Bonds | 204,733,457 | 398,786,316 | – | – | 603,519,773 |
| Receivables: | | | | | |
| Trade | 53,492,920 | 169,707,907 | 17,469,554 | 41,942,289 | 282,612,670 |
| Interest receivable | – | 23,915,288 | – | – | 23,915,288 |
| Advances to officers and employees | – | 3,260,130 | – | – | 3,260,130 |
| Others | 12,210,515 | 2,578,791 | 1,904,645 | 5,407,295 | 22,101,246 |
| | ₱ 835,912,680 | ₱ 1,238,095,854 | ₱ 22,114,199 | ₱ 47,349,584 | ₱2,143,472,317 |

| 2010 | Financial Assets that are Neither Past Due nor Impaired: High Grade | Standard Grade | Substandard Grade | Past Due or Impaired | Total |
|---|---|---|---|---|---|
| Cash in banks | ₱ 242,193,492 | ₱ – | ₱ – | ₱ – | ₱ 242,193,492 |
| Short-term investments | 1,945,729,097 | – | – | – | 1,945,729,097 |
| FVPL investments - | | | | | |
| Bonds | 11,223,925 | 512,214,641 | 17,086,201 | 2,192,000 | 542,716,767 |
| AFS investments - | | | | | |
| Bonds | 90,177,495 | 529,220,975 | – | – | 619,398,470 |
| Receivables: | | | | | |
| Trade | – | 111,595,293 | 13,764,327 | 50,453,990 | 175,813,610 |
| Interest receivable | – | 24,115,479 | – | – | 24,115,479 |
| Advances to officers and employees | – | 3,983,920 | – | – | 3,983,920 |
| Others | 20,529,717 | 8,174,631 | 3,271,697 | 2,528,569 | 34,504,614 |
| **Total** | ₱ 2,309,853,726 | ₱ 1,189,304,939 | ₱ 34,122,225 | ₱ 55,174,559 | ₱3,588,455,449 |

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, 2011** | Financial Assets that are Past Due but Not Impaired: Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| Trade | ₱ **2,004,700** | ₱ **6,847,342** | ₱ **1,140,414** | ₱ **2,455,614** | ₱ **12,448,070** |
| Others | **410,414** | **525,131** | **259,510** | **467,019** | **1,662,074** |
| Total | ₱ **2,415,114** | ₱ **7,372,473** | ₱ **1,399,924** | ₱ **2,922,633** | ₱ **14,110,144** |

| December 31, 2010 | Financial Assets that are Past Due but Not Impaired: Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| Trade | ₱ 10,878,296 | ₱ 2,995,821 | ₱ 3,519,446 | ₱ 1,954,905 | ₱ 19,348,468 |
| Others | 338,453 | 360,478 | 150,637 | 667,573 | 1,517,141 |
| Total | ₱ 11,216,749 | ₱ 3,356,299 | ₱ 3,670,083 | ₱ 2,622,478 | ₱ 20,865,609 |

*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 tables below summarize the maturity profile of the Group's financial liabilities at December 31 based on undiscounted contractual payments.

| **December 31, 2011** | | **Within 6 months** | | **6 to 12 months** | | **1 to 5 years** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| Notes payable | ₱ | **86,797,229** | ₱ | **–** | ₱ | **–** | ₱ | **86,797,229** |
| Accounts payable and accrued expenses* | | **208,166,495** | | **–** | | **–** | | **208,166,495** |
| Long-term debt | | **–** | | **23,854,113** | | **118,625,887** | | **142,480,000** |
| Dividends payable | | **146,644,057** | | **–** | | **–** | | **146,644,057** |
| Interest payable | | **2,325,768** | | **1,913,799** | | **2,863,218** | | **7,102,785** |
| | ₱ | **443,933,549** | ₱ | **25,767,912** | ₱ | **121,489,105** | ₱ | **591,190,566** |

**Excluding other nonfinancial liabilities amounting to ₱138.8 million.*

| December 31, 2010 | | **Within 6 months** | | **6 to 12 months** | | **1 to 5 years** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| Notes payable | ₱ | 64,393,852 | ₱ | – | ₱ | – | ₱ | 64,393,852 |
| Accounts payable and accrued expenses* | | 129,844,651 | | – | | – | | 129,844,651 |
| Long-term debt | | – | | 10,960,000 | | 10,960,000 | | 21,920,000 |
| Dividends payable | | 134,856,337 | | – | | – | | 134,856,337 |
| Interest payable | | 1,208,397 | | 1,497,910 | | 1,759,723 | | 4,466,030 |
| | ₱ | 330,303,237 | ₱ | 12,457,910 | ₱ | 12,719,723 | ₱ | 355,480,870 |

**Excluding other nonfinancial liabilities amounting to ₱127.6 million.*

The Group's total financial liabilities due to be settled within one year include notes payable that management considers as working capital. Accounts payable and accrued expenses and dividends payable are expected to be settled using cash to be generated from operations and drawing from existing lines of credits or liquidity reserves.

*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:

| **2011** | **Change in interest rates (in bps)** | | **Effect on income before tax Increase (decrease)** |
|---|---|---|---|
| Floating debt investments | **+150** | ₱ | **427,440** |
| | **-150** | | **(427,440)** |

| 2010 | **Change in interest rates (in bps)** | | **Effect on income before tax Increase (decrease)** |
|---|---|---|---|
| Floating debt investments | +150 | ₱ | 1,500,889 |
| | -150 | | (1,500,889) |

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, 2011 and 2010. 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)** | | | |
|---|---|---|---|---|---|
| **2011** | **Change in relative average yield** | | **Effect on income before tax** | | **Effect on equity** |
| AFS investments | **+0.90% to + 45.38%** | ₱ | **–** | ₱ | **82,253,091** |
| | **-0.90% to – 45.38%** | | **–** | | **(70,779,901)** |
| FVPL investments | **+0.00% to + 32.91%** | | **165,896,501** | | **–** |
| | **-0.00% to – 32.91%** | | **(151,070,552)** | | **–** |

| | | **Increase (Decrease)** | | | |
|---|---|---|---|---|---|
| 2010 | **Change in relative average yield** | | **Effect on income before tax** | | **Effect on equity** |
| AFS investments | +0.23% to + 86.78% | ₱ | – | ₱ | 6,591,344 |
| | -0.23% to – 86.78% | | – | | (6,030,483) |
| FVPL investments | +2.70% to + 21.76% | | 1,511,724 | | – |
| | -2.70% to – 21.76% | | (1,474,444) | | – |

The annual standard deviation of the changes in the bonds' historical yield ranges from 0.00% to 45.38% and 0.23% to 86.78% in 2011 and 2010, respectively. With 99% confidence level, the returns could range between 0.00% to 825.67% and 0.32% to 602.89% of the average yield in 2011 and 2010, respectively.

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) | |
|---|---|---|---|
| **2011** | **Change in PSEi average returns** | **Effect on income before tax** | **Effect on equity** |
| AFS investments | **+71.96%** | **₱ –** | **₱ 2,901,666,327** |
| | **-71.96%** | **–** | **(2,901,666,327)** |

| | | Increase (Decrease) | |
|---|---|---|---|
| 2010 | **Change in PSEi average returns** | **Effect on income before tax** | **Effect on equity** |
| AFS investments | +65.46% | ₱ – | ₱ 2,393,972,674 |
| | -65.46% | – | (2,393,972,674) |

The annual standard deviation of the PSEi is approximately 30.89% and 28.14%, and with 99% confidence level, the returns could be +/- 71.96% and +/- 65.46% from the average returns in 2011 and 2010, respectively. There are no outstanding stock investments listed in PSE that are classified as FVPL as of December 31, 2011 and 2010.

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) | |
|---|---|---|---|
| **2011** | **Change in relative average return** | **Effect on income before tax** | **Effect on equity** |
| Mutual funds | **+0.54% to +60.35%** | **₱ 4,555,893** | **₱ 60,231,545** |
| | **-0.54% to -60.35%** | **(4,555,893)** | **(60,231,545)** |

| | | Increase (Decrease) | |
|---|---|---|---|
| 2010 | **Change in relative average return** | **Effect on income before tax** | **Effect on equity** |
| Mutual funds | +0.69% to +51.21% | ₱ 20,427,864 | ₱ 44,888,415 |
| | -0.69% to -51.21% | (20,427,864) | (44,888,415) |

The annual standard deviation of the yield of related indices ranges from 0.54% to 60.35% and 0.69% to 51.21% in 2011 and 2010, respectively. With 99% confidence level, the returns could range between 1.25% to 140.39% and 1.60% to 119.14% from the average returns in 2011 and 2010, respectively.

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, 2011 and 2010.

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.

| **2011** | **Change in currency rate** | | **Increase (Decrease) Effect on income before tax** | | **Effect on equity** |
|---|---|---|---|---|---|
| US dollar | **+5.61%** | ₱ | **5,254,624** | ₱ | **1,752,126** |
| | **-5.61%** | | **(5,254,624)** | | **(1,752,126)** |
| Euro | **+3.66%** | | **–** | | **96,762** |
| | **-3.66%** | | **–** | | **(96,762)** |

| 2010 | **Change in currency rate** | | **Increase (Decrease) Effect on income before tax** | | **Effect on equity** |
|---|---|---|---|---|---|
| US dollar | +6.563% | ₱ | 6,299,327 | ₱ | 5,308,434 |
| | -6.563% | | (6,299,327) | | (5,308,434) |
| Euro | +5.733% | | 6,297,958 | | 20,129 |
| | -5.733% | | (6,297,958) | | (20,129) |

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, 2011 and 2010.

b. Cirrus' and CGI'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.

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

CGI 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.

## 28. Financial Instruments

Categorization of Financial Instruments

| December 31, 2011 | Loans and Receivables | Financial Assets at FVPL | AFS Investments | Total |
|---|---|---|---|---|
| Cash and cash equivalents | ₱ 542,426,682 | ₱ – | ₱ – | ₱ 542,426,682 |
| FVPL investments | – | 883,456,012 | – | 883,456,012 |
| AFS investments | – | – | 8,093,777,731 | 8,093,777,731 |
| Receivables | 335,048,616 | – | – | 335,048,616 |
| | ₱ 877,475,298 | ₱ 883,456,012 | ₱ 8,093,777,731 | ₱ 9,854,709,041 |

| December 31, 2010 | Loans and Receivables | Financial Assets at FVPL | AFS Investments | Total |
|---|---|---|---|---|
| Cash and cash equivalents | ₱ 2,188,123,589 | ₱ – | ₱ – | ₱ 2,188,123,589 |
| FVPL investments | – | 817,656,671 | – | 817,656,671 |
| AFS investments | – | – | 6,213,532,572 | 6,213,532,572 |
| Receivables | 230,447,395 | – | – | 230,447,395 |
| | ₱ 2,418,570,984 | ₱ 817,656,671 | ₱ 6,213,532,572 | ₱ 9,449,760,227 |

| Other Financial Liabilities | 2011 | 2010 |
|---|---|---|
| Notes payable | ₱ 86,797,229 | ₱ 64,393,852 |
| Accounts payable and accrued expenses* | 208,166,495 | 129,844,651 |
| Long-term debt, including current portion | 142,480,000 | 21,920,000 |
| Dividends payable | 146,644,057 | 134,856,337 |
| | ₱ 584,087,781 | ₱ 351,014,840 |

** Excluding other nonfinancial liabilities amounting to ₱138.8 million and ₱127.6 million in 2011 and 2010, respectively.*

*Fair Values of Financial Assets and Liabilities*

The carrying amounts of cash and cash equivalents, receivables, notes payable, dividends 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, 2011, all of the Group's assets measured at fair value are quoted and are classified as level 1.

| | | 2011 | | 2010 |
|---|---|---|---|---|
| FVPL investments: | | | | |
| Bonds | ₱ | **665,837,528** | ₱ | 542,716,767 |
| Funds and equities | | **192,097,120** | | 204,790,484 |
| Others | | **25,521,364** | | 70,149,420 |
| AFS investments: | | | | |
| Bonds | | **603,519,773** | | 619,398,470 |
| Quoted equity shares | | **6,212,939,840** | | 4,725,844,025 |
| Funds and equities | | **313,730,948** | | 229,604,987 |
| Proprietary shares | | **124,238,250** | | 93,937,800 |
| | ₱ | **8,137,884,823** | ₱ | 6,486,441,953 |

For the year ended December 31, 2011, there were no transfers from Level 1, Level 2 and Level 3 fair value measurements.

## 29. Contracts and Agreements

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 and the related investment property was sold to a third party on March 1, 2011 (see Note 14).

Total rent income recognized in 2011, 2010 and 2009 amounted to ₱0.3 million, ₱0.4 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, CGI'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, 2011, IQHPC has outstanding Service Agreements with different U.S. hospitals and one with a staffing agency. Service income recognized in 2011, 2010 and 2009 amounted to ₱14.3 million and ₱17.2 million and ₱21.5 million, respectively.

c. As of December 31, 2011 and 2010, IQHPC has an outstanding commission agreement with an independent consulting firm.

d. CGI (formerly called 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%. Upon its maturity on July 31, 2010, the lease was renewed for a two years term ending July 31, 2012.

The future minimum rentals payable under the non-cancellable operating lease within one year from the balance sheet date amounted to ₱1.4 million and ₱1.2 million as of December 31, 2011 and 2010, respectively.

Rent expense in 2011, 2010 and 2009 amounted to ₱2.4 million, ₱2.3 million and ₱2.4 million, respectively.

e. In May 2010, CGI entered into a sublease agreement with a third party covering its office space. The sublease has a term of one year ending April 30, 2011, renewable upon mutual agreement of both parties. Upon its maturity on April 30, 2011, the same was renewed for a term ending January 31, 2012. Future minimum sublease payments expected to be received as of December 31, 2011 and 2010 amounted to ₱0.1 million and ₱0.2 million, respectively. Rent income from the sublease agreement for the period ended December 31, 2011 and 2010 amounted to ₱0.8 million and ₱0.5 million, respectively.

f. In December 2011 and 2010, advances to CGI amounting to ₱20.9 million and ₱18.7 million were assigned to Sutton in exchange for its 2,609 common shares and 1,240 preferred shares, respectively.

<u>Cirrus</u>

a. Cirrus Holdings USA, LLC and Cirrus Allied, LLC have various staffing contracts with their U.S. clients concerning certain rates and conditions, among others. Service income amounted to ₱998.3 million, ₱711.6 million and ₱917.0 million in 2011, 2010 and 2009, respectively.

b. Cirrus has entered into a third party non-cancellable 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, 2011 and 2010, associated with these agreements with terms of one year or more are as follows:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Within one year | ₱ | 7,329,127 | ₱ | 8,753,094 |
| After one year but not more than five years | | 25,651,880 | | 34,154,078 |
| | ₱ | 32,981,007 | ₱ | 42,907,172 |

Rent expense in 2011, 2010 and 2009 amounted to ₱9.8 million, ₱10.1 million and ₱9.8 million, respectively.

c. As discussed in Note 6, on December 10, 2010, Cirrus acquired NT, a company maintaining web domains for nurses and physical therapist, and agreed to pay a maximum total consideration amounting to $1.06 million for the net assets of NT as of purchase date. Of the amount, $0.51 million will be paid by Cirrus provided certain revenue and earnings target are met. To facilitate the transaction, the Company made advances to AI in the amount of $840,000 (₱37.09 million).

<u>ASAC</u>

ASAC enters into a lease agreement for ground handling equipment in the conduct of its operations. The lease agreement is in force for a period of not more than one year unless all parties formally extend the said term. Rent expense charged to operations amounted to ₱0.3 million in 2011 and 2010 and ₱0.1 million in 2009.

<u>IAI</u>

a. On August 23, 2006, IAI entered into a Maintenance Service Plan (MSP) with Honeywell effective for five years for the latter to service 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 engine's actual operating hours or the minimum operating hours, subject to annual escalation. The engine shall be shipped to the United States to undergo repairs and maintenance as necessary, by a Honeywell authorized service center.

b. IAI conducts its operations from leased facilities which include the aircraft hangar and the administrative office. The lease agreement is for a period of two years commencing on September 1, 2009 and is subsequently renewed for another two years upon its termination in 2011. The renewed lease agreement will terminate in August 2013.

The same shall be renewable upon mutual agreement if either party receives no notice of termination. Rent expense recognized in operations amounted to ₱2.1 million in 2011 and 2010.

Future minimum annual rentals payable under this lease are as follows:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Not later than one year | ₱ | **2,142,852** | ₱ | 1,428,568 |
| Later than one year but not later than 5 years | | **1,428,568** | | – |
| | ₱ | **3,571,420** | ₱ | 1,428,568 |

c. On October 28, 2011, IAI's advances from PRI amounting to ₱19,386,746 as of December 31, 2010 were transferred to PIHI. Subsequent to the execution of the agreement, PIHI converted the advances into additional equity in IAI. PIHI subscribed to 5,000 common shares with a par value of ₱100 per share or a total par value of ₱500,000 at an issue price of ₱3,877.3 per share.

SSRLI and PRI

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, treasury, tax and legal services rendered to SSRLI. In addition, the Company also made advances to SSRLI for the latter's operating expense. Due from SSRLI amounted to ₱0.5 million as of December 31, 2010 (see Note 12).

b. SSRLI executed an Operating and Management Agreement (OMA) with Amanresorts Management, B.V. (the Operator of Amanresorts), a company based in Amsterdam, the Netherlands, 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. 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. Total fees related to these agreements amounted to ₱23.4 million and ₱25.0 million in 2011 and 2010, respectively.

As of December 31, 2011, all existing agreements with Amanresorts were already transferred under the name of PRI as a result of the transfer of resort operations (see Note 12).

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 duration of no less than two years and was renewed in February 2008.

As a result of the transfer of resort operations from SSRLI to PRI (see Note 12), the latest renewal of the air service agreement was made between PRI and IAI covering a two-year period from July 1, 2011 to June 30, 2013. The duration of the contract may be extended upon such terms and conditions as may be mutually agreed by both parties.

d. The latest renewal of the lease agreement between SSRLI and IAI for the Guest Lounge and Purchasing Office covers the two-year period from September 2009 to August 2011. As a result of the transfer of resort operations (see Note 12), the lease agreement was renewed by IAI and PRI on September 2011 for a period of two years. The agreement provides that PRI is not allowed to sublease any part of the premises or facilities that it leases. Rent relating to the lease amounted to ₱1.5 million in 2011, ₱1.6 million in 2010 and ₱1.3 million in 2009.

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. As of December 31, 2011, the consultancy contract is still in effect but at a reduced fee.

f. On July 1, 2011, PRI entered into management agreements with the villa owning companies wherein PRI shall provide general maintenance and accounting and administrative services for the villas. PRI shall also be responsible for the marketing and promotion of the villas. In return for these services, PRI shall be entitled to 50% of the net villa rental proceeds. PRI shall also receive reimbursements of costs, with 15% handling fees (except for utilities), incurred in providing services to the villa guests.

As part of the agreement, PRI will also maintain a fund which shall be used for future maintenance requirements of the villas. As of December 31, 2011, the restricted fund amounted to ₱47.1 million, which is included under "Other noncurrent assets" and "Other noncurrent liability" in the consolidated balance sheets (see Note 15).

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 ₱27.0 million and ₱13.8 million as of December 31, 2011 and 2010, respectively (see Note 12). Management fees amounted to ₱34.6 million, ₱34.0 million and ₱25.4 million in 2011, 2010 and 2009, respectively.

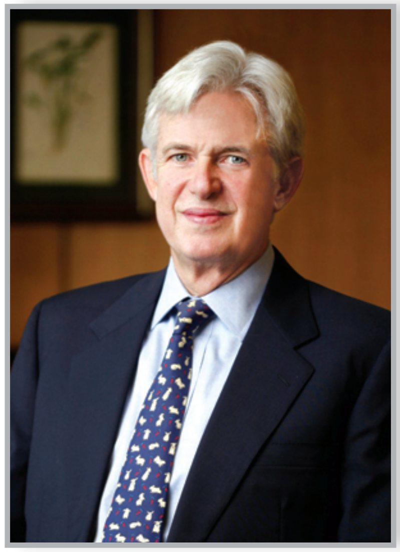
b. Beginning January 2004, PDP Energy entered into a new technical assistance contract with Phelps Dodge International Corporation which provides an annual payment of technical fees amounting to a certain percentage of audited income before tax (VAT inclusive). Technical fees amounted to ₱34.6 million, ₱34.0 million and ₱25.4 million in 2011, 2010 and 2009, respectively. These are included in "Management fee" in the Group's consolidated statements of income.

**30. Other Matters**

a. ASAC is a founding member of the Federation of Aviation Organizations of the Philippines (FEDAVOR) since 1986. In 2005, FEDAVOR won a Supreme Court case against MIAA involving its imposition of higher rates for rental and other services without a public hearing. ASAC accrued its share in FEDAVOR's legal expenses in 2006. In 2009, MIAA filed and subsequently won their motion for reconsideration with the Court of Appeals ruling that all refund have to be coursed through the Commission on Audit. As of December 31, 2011, the refund process has remained pending. Also, ASAC is planning to enter into a new lease contract with MIAA, with IAI as the lessor and ASAC as the sublessor.

b. ASAC is a defendant in labor lawsuits and claims. As of December 31, 2011 and 2010, management has recognized provisions for losses amounting to ₱5.7 million that may be incurred from these lawsuits.

# BOARD OF DIRECTORS



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

**Ernest K. Cuyegkeng**

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

**John L. Gokongwei, Jr.**

**Oscar J. Hilado**

**Jose C. Ibazeta**

**Roberto R. Romulo**

# OFFICERS AND CORPORATE DIRECTORY

## OFFICERS

| | |
|---|---|
| Ernest K. Cuyegkeng | Executive Vice President & Chief Financial Officer |
| Narcisa M. Villaflor | Vice President & Comptroller |
| Lorna P. Kapunan | Corporate Secretary |
| Joshua L. Castro | Executive Assistant & Assistant Corporate Secretary |

## SUBSIDIARIES

A. Soriano Air Corporation
Anscor Consolidated Corporation
Anscor International, Inc.
Anscor Property Holdings, Inc.
Cirrus Allied, LLC
Cirrus Global, Inc.*
Cirrus Holdings USA, LLC
Cirrus Medical Staffing, Inc.
IQ Healthcare Investments Limited
IQ Healthcare Professional Connection, LLC
Island Aviation, Inc.
NurseTogether, LLC
Pamalican Island Holdings, Inc.
Pamalican Resort, Inc.
Seven Seas Resorts and Leisure, Inc.
Sutton Place Holdings, Inc.

## AFFILIATES

Anscor-Casto Travel Corporation
Columbus Technologies, Inc.
DirectWithHotels, Inc.
Enderun Colleges, Inc.
KSA Realty Corporation
Minuet Realty Corporation
Multi-media Telephony, Inc.
New Co, Inc.
PD Energy International Corporation
Phelps Dodge International Philippines, Inc.
Phelps Dodge Philippines Energy Products Corporation
Prople, Inc.
Vicinetum Holdings, Inc.

| | |
|---|---|
| *Office Address* | 7th Floor Pacific Star Building,<br>Makati Ave. cor Gil Puyat Ave. Ext.,<br>1209 Makati City, Philippines |
| *Post Office Box* | 1304 Makati Central Post Office,<br>1252 Makati City, Philippines |
| *Website* | http://www.anscor.com.ph |
| *Telephone Numbers* | 819-02-51 to 70 |
| *Facsimile Number* | 811-50-68 |
| *External Auditors* | SyCip Gorres Velayo & Co. |
| *Stock Transfer Agent* | Stock Transfer Services, Inc.<br>34th Floor, Unit D, Rufino Pacific Tower<br>6784 Ayala Avenue, Makati City |
| *Legal Counsels* | Kapunan Garcia & Castillo<br>Picazo Buyco Tan Fider & Santos<br>Tan Acut Lopez & Pison |

** formerly International Quality Manpower Services, Inc.*

A. SORIANO CORPORATION

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

## COVER SHEET

PW2

SEC Registration Number

A SORIANO CORPORATION

(Company's Full Name)

7/F PACIFIC STAR BLDG.
COR. MAKATI AVE. & G. PUYAT AVE.
MAKATI CITY

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

**MS. NARCISA M. VILLAFLOR**

(Contact Person)

**819-0251**

(Company Telephone Number)

| 12 | 31 | SEC17Q | THIRD WEDNESDAY | 04 | |
|---|---|---|---|---|---|
| *Month* | *Day* | (Form Type) | | *Month* | *Day* |
| (Fiscal Year) | | | | (Annual Meeting) | |

**Not Applicable**

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

## SECURITIES AND EXCHANGE COMMISSION

## SEC FROM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended March 31, 2011

2. Commission identification number: PW-2     3. BIR Tax Identification No. 000-103-216

4. A. SORIANO CORPORATION
   Exact name of issuer as specified in its charter

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

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

7. 7/F Pacific Star Bldg., Gil J. Puyat Ave. corner Makati Avenue, Makati City
   Address of issuer's principal office Postal Code

8. 8190251
   Issuer's telephone number, including area code

9. N/A
   Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common Stock outstanding and amount Of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

…………………………………………………………………………………………………………
…………………………………………………………………………………………………………

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [ x ] No [ ]

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

    Philippine Stock Exchange     Common

SEC Form 17Q
May19, 2011

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thèreunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [ x ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ] No. [ x ]

## PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Financial statements and, if applicable, Pro Forma Financial Statements meeting the requirements of SRC Rule 68, Form and content of Financial Statements, shall be furnished as specified therein.

Please see SEC FORM 17-Q - Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Furnish the information required by Part III, Paragraph (A)(2)(b) of "Annex "C".

Please see SEC FORM 17-Q - Table of Contents

## PART II – OTHER INFORMATION

The issuer may, at its option, report under item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: A. SORIANO CORPORATION

Signature and Title: (Sgd.) JOSHUA CASTRO
Asst. Corporate Secretary

Date: May19, 2011

Principal Financial/Accounting Officer/Controller: (Sgd.) NARCISA M. VILLAFLOR
Signature and Title VP - Comptroller

Date: May19, 2011

SECForm17-Q
May19, 2011

## SEC FORM 17 – Q

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### PART I – FINANCIAL INFORMATION

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

**(In Thousand Pesos)**

| | **2011** | 2010 |
|---|---|---|
| | **March 31** | |
| | (Note1) | December 31 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **1,318,218** | 2,188,124 |
| Fair value through profit and loss (FVPL) investments | **721,502** | 817,657 |
| Receivables | **262,563** | 230,447 |
| Inventories | **71,932** | 15,909 |
| Prepayments and other current assets | **97,861** | 66,280 |
| **Total Current Assets** | **2,472,076** | 3,318,417 |
| **Noncurrent Assets** | | |
| Available for sale (AFS) investments | **7,011,682** | 6,213,533 |
| Investments and advances | **674,404** | 942,753 |
| Investment properties | **216,432** | 260,483 |
| Property, plant and equipment | **894,082** | 143,178 |
| Goodwill | **543,110** | 510,905 |
| Other noncurrent assets | **38,033** | 41,034 |
| **Total Noncurrent Assets** | **9,377,743** | 8,111,886 |
| **TOTAL ASSETS** | **11,849,819** | 11,430,303 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Notes payable | **107,104** | 64,394 |
| Accounts payable and accrued expenses | **353,524** | 257,441 |
| Dividends payable | **134,856** | 134,856 |
| Income tax payable | **11,511** | 3,618 |
| Current portion of long-term debt | **27,087** | 10,960 |
| **Total Current Liabilities** | **634,082** | 471,269 |
| **Noncurrent Liabilities** | | |
| Advances from customer | **2,322** | 22,142 |
| Long-term debt – net of current portion | **86,610** | 10,960 |
| Deferred revenues | **79,397** | 80,143 |
| Deferred income tax | **42,621** | 8,228 |
| Retirement benefits payable | **38,429** | 23,343 |
| **Total Noncurrent Liabilities** | **249,378** | 144,815 |
| **Total Liabilities** | **883,460** | 616,084 |

| | **2011** | 2010 |
|---|---|---|
| | **March 31** (Note 1) | December 31 |
| **Equity Attributable to Equity Holdings of the Parent** | | |
| Capital stock – 1 par value | **2,500,000** | 2,500,000 |
| Additional paid-in capital | **1,574,104** | 1,574,104 |
| Equity reserve on acquisition of minority interest | **(26,357)** | (26,357) |
| Other Reserve | **1,943** | - |
| Cumulative translation adjustment | **(73,782)** | (68,240) |
| Unrealized valuation gains on AFS investments | **2,286,289** | 2,650,947 |
| Retained earnings | **6,217,318** | 5,972,638 |
| | **12,479,516** | 12,603,092 |
| Less cost of shares held by a subsidiary | **1,827,227** | 1,827,024 |
| | **10,652,289** | 10,776,067 |
| **Noncontrolling interests** | **314,070** | 38,151 |
| **Total Equity** | **10,966,359** | 10,814,219 |
| **TOTAL LIABILITIES AND EQUITY** | **11,849,819** | 11,430,303 |

Note1: Included line by line consolidation of assets and liabilities of Seven Seas Resorts and Leisure, Inc. as of March 31, 2011.

## A. SORIANO CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**

**(In Thousand Pesos Except Earnings Per Share)**

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** (Note 2) | 2010 |
| **REVENUES** | | |
| Services | **268,778** | 228,886 |
| Hotel revenue | **37,284** | - |
| Equity in net earnings of associates | **30,547** | 37,561 |
| Interest income | **23,876** | 26,859 |
| Management fee | **9,832** | 8,998 |
| Dividend income | **7,612** | 1,907 |
| | **377,928** | 304,212 |
| **INVESTMENT GAINS (LOSSES)** | | |
| Gain on sale of AFS investments | **359,968** | 361,756 |
| Gain from sale of investment property | **39,886** | - |
| Gain (loss) on increase (decrease) in market values of FVPL investments | **(1,042)** | 20,489 |
| | **398,811** | 382,245 |
| **TOTAL** | **776,739** | 686,457 |
| Cost of services rendered | **(234,766)** | (181,589) |
| Operating expenses | **(130,662)** | (115,632) |
| Foreign exchange loss | **(7,185)** | (57,924) |
| Interest expense | **(796)** | (5,561) |
| Recoveries – net of valuation allowances | **1,706** | 12,097 |
| Other income | **6,623** | 9,152 |
| | **(365,079)** | (339,457) |
| **INCOME BEFORE INCOME TAX** | **411,660** | 346,999 |
| **Provision for (benefit from) income tax – net** | **10,648** | (5,670) |
| **NET INCOME** | **401,012** | 352,669 |
| Attributable to: | | |
| **Equity holdings of the parent** | **400,866** | 349,843 |
| Noncontrolling interests | **146** | 2,826 |
| | **401,012** | 352,669 |
| **EARNINGS PER SHARE – basic, for net income attributable to equity holdings of the parent** | **0.31** | 0.24 |

Note 2: Included line by line consolidation of revenue and expense accounts of Seven Seas Resorts and Leisure, Inc. effective March 1, 2011.

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(In Thousand Pesos)**

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** | 2010 |
| **NET INCOME FOR THE PERIOD** | **401,012** | 352,669 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Gain (losses) on increase (decrease) in market value of AFS investments | **(368,988)** | 545,743 |
| Cumulative translation adjustments | **(5,542)** | (13,674) |
| Income tax effect | **4,331** | (10,388) |
| **OTHER COMPREHENSIVE INCOME** | **(370,199)** | 521,680 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **30,813** | 874,349 |

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(In thousand pesos)**

| | Attributable to equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** | **Additional Paid-in Capital** | **Equity Reserve on Acquisition of Noncontrolling Interest** | **Other Reserve** | **Unrealized Valuation Gains (Loss) on AFS Investments** | **Cumulative Translation Adjustment** | **Retained Earnings** | **Cost of Shares Held by a Subsidiary** | **Noncontrolling Interests** | **Total** |
| Balance at 12/31/2009 | 2,500,000 | 1,574,104 | (26,357) | - | 656,731 | (30,974) | 4,297,532 | (1,517,163) | 35,926 | 7,489,799 |
| Total comprehensive income (loss) for the period | - | - | - | - | 535,355 | (13,674) | 349,843 | - | 2,826 | 874,349 |
| Cash dividends –net of dividends on common shares held by a subsidiary amounting to P106.0 million | - | - | - | - | - | - | (144,047) | - | - | (144,047) |
| Share repurchased during the period | - | - | - | - | - | - | - | (2,979) | - | (2,979) |
| Movement in noncontrolling interests | - | - | - | - | - | - | - | - | (1,464) | (1,464) |
| Balance at 03/31/2010 | 2,500,000 | 1,574,104 | (26,357) | - | 1,192,086 | (44,649) | 4,503,328 | (1,520,143) | 37,288 | 8,215,658 |
| Balance at 12/31/2010 | 2,500,000 | 1,574,104 | (26,357) | - | 2,650,947 | (68,240) | 5,972,638 | (1,827,024) | 38,151 | 10,814,219 |
| Total comprehensive income (loss) for the period | - | - | - | - | (364,658) | (5,542) | 400,866 | - | 146 | 30,199 |
| Cash dividends- net of dividends on common shares held by a subsidiary amounting to P143.8 million | - | - | - | - | - | - | (156,186) | - | - | (156,186) |
| Share repurchased during the period | - | - | - | - | - | - | - | (202) | - | (202) |
| Acquisition of noncontrolling interest | - | - | - | 1,943 | - | - | - | - | 275,601 | 277,544 |
| Movement in noncontrolling interests | - | - | - | - | - | - | - | - | 172 | 172 |
| **Balance at 03/31/2011** | **2,500,000** | **1,574,104** | **(26,357)** | **1,943** | **2,286,289** | **(73,782)** | **6,217,318** | **(1,827,227)** | **314,070** | **10,966,359** |

# A. SORIANO CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(In Thousand Pesos)**

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** (Note 3) | 2010 |
| Income before income tax | **411,660** | 346,999 |
| Adjustment for: | | |
| Depreciation and amortization | **17,272** | 16,321 |
| Foreign exchange loss – net | **7,185** | 57,924 |
| Loss (gain) on decrease (increase) in market values of FVPL investment | **1,042** | (20,489) |
| Interest expense | **796** | 5,561 |
| Gain on sale of AFS investments | **(359,968)** | (361,756) |
| Gain on sale of investment property | **(39,886)** | - |
| Equity in net earnings of associates | **(30,547)** | (37,561) |
| Interest income | **(23,876)** | (26,859) |
| Dividend income | **(7,612)** | (1,907) |
| Gain from fair value adjustment on net assets of acquired subsidiary | **(4,880)** | - |
| Recoveries – net of valuation allowances | **(1,706)** | (12,097) |
| Operating loss before working capital changes | **(30,520)** | (33,863) |
| Decrease (increase) in: | | |
| FVPL investments | **90,719** | 87,987 |
| Receivables | **(4,269)** | (185,817) |
| Inventories | **(8,127)** | (471) |
| Increase (decrease) in: | | |
| Accounts payable & accrued expenses | **(44,099)** | 523 |
| Advances from customers | **(19,820)** | 227 |
| Retirement benefits payable | **318** | - |
| Net cash used in operations | **(15,798)** | (131,414) |
| Interest received | **24,035** | 26,420 |
| Dividend received | **7,612** | 1,907 |
| Interest paid | **(796)** | (5,561) |
| Income taxes paid | **(5,626)** | (317) |
| Net cash flows from (used in) operating activities | **9,428** | (108,965) |

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** (Note 3) | 2010 |
| Proceeds from the sale of : | | |
| AFS investments | **988,574** | 963,335 |
| Investment properties | **111,455** | - |
| Addition to: | | |
| AFS investments | **(1,797,763)** | (859,545) |
| Investment properties | **-** | (2,204) |
| Property and equipment | **(48,487)** | (4,935) |
| Decrease (increase) in: | | |
| Other assets | **40,694** | (11,902) |
| Advances to affiliates | **68,457** | 6,493 |
| Acquisition of subsidiary previously held as investment in associates, net of cash acquired | **(75,124)** | - |
| Net cash flows from (used in) investing activities | **(712,194)** | **91,242** |
| Proceeds from notes payable | **2,710** | 124,731 |
| Payment of: | | |
| Long-term debt | **(12,034)** | (3,596) |
| Dividends | **(156,186)** | - |
| Increase (decrease) in: | | |
| Deferred revenue | **(746)** | (1,883) |
| Noncontrolling interests | **172** | (1,464) |
| Company shares purchased by a subsidiary | **(202)** | (2,979) |
| Net cash flows from (used in) financing activities | **(166,286)** | 114,809 |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **(853)** | (14,388) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(869,905)** | 82,698 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **2,188,124** | 594,527 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **1,318,218** | 677,225 |

Note 3: Cash flow included the one month cash operation of Seven Seas Resorts and Leisure, Inc.

# A. SORIANO CORPORATION

## PARENT COMPANY BALANCE SHEETS

**(In Thousand Pesos)**

| | **2011** | 2010 |
|---|---|---|
| | **March 31** | December 31 |
| **ASSETS** | | |
| **Cash and Cash Equivalents** | **1,146,453** | 2,129,518 |
| **Fair Value through Profit and Loss (FVPL)** | | |
| **Investments** | **714,831** | 810,900 |
| **Available for Sale (AFS) Investments** | **6,839,817** | 6,040,049 |
| **Receivables - net** | **73,852** | 58,636 |
| **Investments and Advances- net** | **2,443,617** | 2,246,514 |
| **Investment Property - net** | **-** | 72,537 |
| **Property and Equipment - net** | **45,672** | 47,641 |
| **Other Assets** | **1,648** | 285 |
| **TOTAL ASSETS** | **11,265,890** | 11,406,079 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Dividends Payable | **134,856** | 134,856 |
| Accounts Payable and Accrued Expenses | **101,468** | 94,119 |
| Due to Affiliates | **210,255** | 66,453 |
| Retirement Benefits Payable | **11,784** | 11,784 |
| **Total Liabilities** | **458,364** | 307,212 |
| **Equity** | | |
| Capital Stock - 1 Par Value | **2,500,000** | 2,500,000 |
| Additional Paid-in Capital | **1,589,800** | 1,589,800 |
| Unrealized Valuation Gains on AFS Investments | **2,251,985** | 2,614,380 |
| Retained Earnings | **4,465,741** | 4,394,687 |
| **Total Equity** | **10,807,526** | 11,098,866 |
| **TOTAL LIABILITIES AND EQUITY** | **11,265,890** | 11,406,079 |

# A. SORIANO CORPORATION

## PARENT COMPANY STATEMENTS OF INCOME

**(In Thousand Pesos Except Earnings Per Share)**

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** | 2010 |
| **REVENUES** | | |
| Interest Income | **22,859** | 25,929 |
| Management fee | **9,434** | 8,035 |
| Dividend income | **7,612** | 38,707 |
| | **39,906** | 72,671 |
| **INVESTMENT GAINS** | | |
| Gain on sale of AFS investments | **359,968** | 360,981 |
| Gain on sale of investment property | **39,886** | - |
| Gains (losses) on increase (decrease) in market values of FVPL investments | **(1,017)** | 20,413 |
| | **398,836** | 381,394 |
| **TOTAL** | **438,742** | 454,065 |
| Operating expenses | **(56,554)** | (42,569) |
| Foreign exchange loss | **(7,827)** | (58,300) |
| Interest expense | **(112)** | (4,738) |
| Other income – net | **1,843** | 12,468 |
| | **(62,650)** | (93,140) |
| **INCOME BEFORE INCOME TAX** | **376,092** | 360,925 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX - NET** | **5,038** | (10,371) |
| **NET INCOME** | **371,054** | 371,296 |
| **Earnings Per Share*** | **0.15** | 0.15 |

* Based on outstanding shares of 2,500,000,000 in 2011 and 2010.

# A. SORIANO CORPORATION

## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

**(In Thousand Pesos)**

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** | 2010 |
| **NET INCOME FOR THE PERIOD** | **371,054** | 371,296 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Gain (loss) on increase (decrease) in market value of AFS investments | **(366,629)** | 546,493 |
| Income tax effect | **4,235** | (10,598) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | **(362,394)** | 535,895 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **8,660** | 907,191 |

# A. SORIANO CORPORATION

## PARENT STATEMENTS OF CHANGES IN EQUITY

**(In Thousand Pesos)**

| | Capital Stock | Additional Paid-in Capital | Unrealized Valuation Gains (Losses) on AFS Investments | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at 12/31/2009 | 2,500,000 | 1,589,800 | 634,073 | 2,977,450 | 7,701,322 |
| Total comprehensive income (loss) for the period | - | - | 535,895 | 371,296 | 907,191 |
| Cash dividends | - | - | - | (250,000) | (250,000) |
| Balance at 03/31/2010 | 2,500,000 | 1,589,800 | 1,169,968 | 3,098,746 | 8,358,513 |

| | | | | | |
|---|---|---|---|---|---|
| Balance at 12/31/2010 | 2,500,000 | 1,589,800 | 2,614,380 | 4,394,687 | 11,098,866 |
| Total comprehensive income (loss) for the period | - | - | (362,394) | 371,054 | 8,660 |
| Cash dividends | - | - | - | (300,000) | (300,000) |
| **Balance at 03/31/2011** | **2,500,000** | **1,589,800** | **2,251,985** | **4,465,741** | **10,807,526** |

## A. SORIANO CORPORATION

**PARENT COMPANY STATEMENTS OF CASH FLOWS**
**(In Thousand Pesos)**

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before tax | **376,092** | 360,925 |
| Adjustment for: | | |
| Net foreign exchange loss | **7,827** | 58,300 |
| Depreciation and amortization | **3,054** | 3,813 |
| Loss (gain) on decrease (increase) in market values of FVPL investments | **1,017** | (20,413) |
| Interest expense | **112** | 4,738 |
| Gain on sale of AFS investments | **(359,968)** | (360,981) |
| Gain on sale of investment property | **(39,886)** | - |
| Interest income | **(22,859)** | (25,929) |
| Dividend income | **(7,612)** | (38,707) |
| Valuation allowance (recoveries) - net | **(1,780)** | (12,263) |
| Operating loss before working capital changes | **(44,002)** | (30,516) |
| Increase in receivables | **(15,217)** | (171,583) |
| Decrease in FVPL investments | **90,658** | 87,842 |
| Increase (decrease) in accounts payable and accrued expenses | **7,350** | (1,565) |
| Net cash generated (used in) operations | **38,789** | (115,822) |
| Interest received | **22,882** | 25,490 |
| Dividend received | **7,612** | 1,907 |
| Interest paid | **(112)** | (4,738) |
| Income tax paid | **(804)** | (227) |
| Net cash flows from (used in) operating activities | **68,368** | (93,390) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from the sale of : | | |
| AFS investments | **988,574** | 955,416 |
| Investment property | **111,455** | - |
| Additions to: | | |
| AFS investments | **(1,795,900)** | (859,545) |
| Long-term investments | **(189,266)** | - |
| Property and equipment | **(119)** | (75) |
| Increase in: | | |
| Advances to affiliates | **(6,057)** | (6,162) |
| Other assets | **(1,363)** | (108) |
| Net cash flows from (used in) investing activities | **(892,676)** | 89,526 |

| | Periods Ended March 31 | |
|---|---|---|
| | **2011** | 2010 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payment of notes payable | **-** | 133,920 |
| Payment of cash dividends | **(300,000)** | - |
| Increase in due to affiliates | **143,802** | (2,877) |
| Net cash flows from (used in) financing activities | **(156,198)** | 131,043 |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **(2,559)** | (15,741) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(983,065)** | 111,439 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **2,129,518** | 474,116 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **1,146,453** | 585,555 |

## 1. Segment Information

Information with regard to the Company's significant business segments are shown below (in thousand pesos):

| | Before Eliminations | | | | | | After Eliminations |
|---|---|---|---|---|---|---|---|
| | US-based Nurse/PT Staffing Co**. | Resort Operation | Other Operations (Note 1) | Holding Co. (Parent) | Total | Eliminations | **Consolidated** |
| **MARCH 31, 2011** | | | | | | | |
| REVENUES | 226,242 | 37,284 | 187,700 | 438,742 | 889,968 | (113,229) | **776,739** |
| NET INCOME | (4,147) | (1,214) | 143,102 | 371,054 | 508,796 | (107,784) | **401,012** |
| | | | | | | | |
| TOTAL ASSETS | 768,660 | 981,715 | 919,800 | 11,265,890 | 13,936,065 | (2,086,245) | **11,849,819** |
| INVESTMENT PORTFOLIO * | - | 90,899 | 852,347 | 9,994,264 | 10,937,510 | (2,313,489) | **8,624,021** |
| PROPERTY, PLANT & EQUIPMENT | 5,708 | 606,470 | 121,026 | 45,672 | 778,877 | 115,205 | **894,082** |
| TOTAL LIABILITIES | 215,316 | 330,591 | 992,226 | 458,364 | 1,996,497 | (1,113,037) | **883,460** |
| | | | | | | | |
| DEPRECIATION AND AMORTIZATION | 1,856 | 6,187 | 6,174 | 3,054 | 17,272 | - | **17,272** |

| | Before Eliminations | | | | | | After Eliminations |
|---|---|---|---|---|---|---|---|
| | US-based Nurse/PT Staffing Co**. | Resort Operation | Other Operations (Note 1) | Holding Co. (Parent) | Total | Eliminations | **Consolidated** |
| **MARCH 31, 2010** | | | | | | | |
| REVENUES | 177,160 | - | 160,437 | 417,265 | 754,862 | (68,405) | **686,457** |
| NET INCOME | (11,268) | - | 94,995 | 334,496 | 418,223 | (65,554) | **352,669** |
| | | | | | | | |
| TOTAL ASSETS | 760,079 | - | 922,360 | 9,338,038 | 11,020,477 | (1,671,617) | **9,348,859** |
| INVESTMENT PORTFOLIO * | - | - | 511,647 | 8,409,696 | 8,921,342 | (1,462,939) | **7,458,403** |
| PROPERTY, PLANT & EQUIPMENT | 7,718 | - | 128,868 | 53,971 | 190,557 | - | **190,557** |
| TOTAL LIABILITIES | 154,955 | - | 887,448 | 1,016,324 | 2,058,728 | (925,526) | **1,133,201** |
| | | | | | | | |
| DEPRECIATION AND AMORTIZATION | 1,835 | - | 10,673 | 3,813 | 16,321 | - | **16,321** |

****** Inclusive of FVPL investments, AFS investments, advances & investments and investment properties.*

******* Excluding IQHPC operations which were consolidated into IQMAN, the latter formed part of other operations.*

***Note 1 Other than Cirrus Global, Inc. (formerly .IQMAN) consolidated operations, also included are the operations of A. Soriano Air Corporation, Anscor International, Inc. and Anscor Property Holdings, Inc.***

- The Company and its subsidiaries' operating businesses are organized and managed separately according to the nature of the products or services offered.
- Nurse staffing segment engages in the contract and temporary staffing and permanent placement of nurses and allied healthcare professional (e.g. physical therapists) in the USA.
- Holding company segment pertains to the operation of the parent company with earnings from income of its financial and operating investment assets.
- Other operations include hangarage, real estate holding and management and manpower services.

## 2. Accounting Policies

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

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended*), Consolidated and Separate Financial Statements*, introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. PAS 27 (amended) requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and 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 PAS 27 (amended) must be applied retrospectively, with certain exceptions.

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

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

- Amendment to PFRS 2, *Share-based Payment - Group Cash settled Share-based Payment Transactions*, clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

*Improvements to PFRSs*

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

*Improvements to PFRSs 2008*

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

*Improvements to PFRSs 2009*

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

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

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

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

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

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 34, *Interim Financial Reporting*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

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

The Group will adopt the following standards and interpretations enumerated below when these become effective subsequent to January 1, 2010. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

*Effective in 2011*

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- PAS 24 (Amended), *Related Party Disclosures*, clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equities*, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished.

- Philippine Interpretation IFRIC 14, *Prepayments of Minimum Funding Requirement*, provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied retrospectively but is deemed to have no impact on the financial statements of the Group.

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

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

*Effective in 2012*

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- PAS 12, *Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets*, will be effective for annual periods beginning on or after 1 January 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures–Transfers of Financial Assets*, will be effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

*Effective in 2013*

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

## 3. 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 Group's other financial instruments include accounts payable and dividends payable and amounts due to affiliates, which arose directly from operations.

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. The Group does not have a customer that accounts for more than 10% of the consolidated revenue.

*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.

*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 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.

*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.

*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.

   *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.

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.

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.

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.

*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 periods ended March 31, 2011 and December 31, 2009.

b. Cirrus' and Cirrus Global, Inc.'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.

   Cirrus Global, Inc. monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet.

   Cirrus Global, Inc. 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.

## 4. Business Combination

In February 2011, Anscor purchased additional 16.3% of Seven Seas Resorts and Liesure, Inc. (SSRLI) from minority shareholders of SSRLI. As a result, the shareholdings of Anscor increased from the present 46% to 62.3% of the total outstanding common and preferred shares of SSRLI and it's therefore consolidated in Anscor balances starting March 1, 2011. SSRLI is the owner of Amanpulo Resort.

The fair value of investment previously held as investment in associates (46% stake) at the acquisition date using the discount rate of 13.5% amounted to P304.0 million.

The total consideration was allocated to assets acquired and liabilities assumed on a provisional assessment of fair value. Adjustments to the provisional amounts will be determined within one year from the date of acquisition.

The fair values of the identifiable assets and liabilities of SSRLI as of February 28, 2011 were:

| | **Fair Value Recognized on Acquisition (in millions)** |
|---|---|
| Cash and cash equivalents | P 114.1 |
| Trade and other receivables | 119.4 |
| Inventories | 47.9 |
| Property development in progress | 38.0 |
| Property and equipment | 680.7 |
| Land held for future development | 28.5 |
| Prepayments and other assets | 67.3 |
| **Total assets** | **1,095.9** |
| Short-term debt | 40.0 |
| Accounts payable and accrued expenses | 138.3 |
| Income tax payable | 7.1 |
| Long-term debt | 103.8 |
| Deferred tax liability | 34.6 |
| Other liabilities | 41.1 |
| **Net assets** | **731.0** |
| Less: Noncontrolling interest | (275.6) |
| **Balance** | **455.4** |
| **Goodwill arising from the acquisition** | **37.9** |
| **Total consideration** | **P 493.3** |

The cost of the combination was P493.7 million broken down as follows (in millions):

| | |
|---|---|
| Cash consideration (16.3%) | P 189.3 |
| Fair value of investment previously held as investment in associates (46%) | 304.0 |
| **Total consideration** | **P 493.3** |

5. **Financial Condition**

The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.0% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group as of March 31, 2011 versus December 31, 2010.

***Cash and Cash Equivalents***

The decrease in cash and cash equivalents can be attributed to net cash flows used in investing and financing activities total of P883.4 million which included additional AFS investments and property and equipment; and payment of dividends.

(Please see attached consolidated cash flow statements for detailed analysis of cash movements.)

***Fair Value Through Profit and Loss (FVPL) Investments***

The decrease in the account can be attributed to the net sale for the period of about P90.7 million. The market value of foreign denominated investment in bonds, stocks and funds slightly decreased by P1.0 million vs. December 31, 2010 market values.

***Receivables***

The increase in receivables was mainly due consolidation of SSRLI balances as of March 31, 2011.

***Inventories***

Inventories increased by P55.2 million, one of the reasons was the consolidation of SSRLI inventories. Also, minimal purchases were made in 2011 for spare parts and supplies needed by the aviation subsidiary.

***Prepayments and Other Current Assets***

Change in this account can be attributed mainly to the consolidation of SSRLI balances. Expended cash deposits related to acquisition of new aircraft engine of the aviation subsidiary partially offset the increase in account by P23.5 million.

***Investments and Advances***

By consolidating SSRLI, investments and advances decreased by P299.2 million, the booked value of the 46% holdings of Anscor in SSRLI held as investment in associate as of February 28, 2011.

The decrease in investments and advances was offset by equity earnings of associates of about P30.5 million for the first quarter of 2011.

***Available for Sale (AFS) Investments***

Change in the account can be attributed mainly to the net additions that were mostly in bonds, equity funds and traded equities amounting to P1.2 billion. There was a decrease of about P364.9 million in market value of AFS investments with a corresponding decrease in the unrealized valuation gain in the balance sheet's equity portion. Foreign exchange loss from translation of foreign currency-denominated AFS investments amounted to P6.0 million.

***Investment Properties***

The parent company sold the 34th floor of Enterprise Center with a book value of P71.6 million as of February 28, 2011 which resulted to reduction in the investment properties account.

The reduction in the account was offset by the consolidation of SSRLI balances by about P28.5 million.

Depreciation for the period amounted to P1.0 million.

***Property, Plant and Equipment - net***

The consolidation of SSRLI increases the property, plant and equipment by P603.5 million. As required by the new accounting standard for business combination, when Anscor increased its stake in SSRLI from 46% to 62.3%, the net assets of SSRLI were valued at P765.6 million using discounted cash flow from operations (including future PPE acquisition) for the next 10 years, reduced by its book value of P650.4 million as of February 28, 2011, resulting in an upward adjustment in fair value attributable to Property, plant and equipment amounting to P115.2 million.

Depreciation charged to operations amounted to P16.3 million. Additions to property and equipment amounted to P48.5 million.

***Goodwill***

The provisional goodwill that arises from the acquisition of SSRLI amounted to P37.9 million. This goodwill calculation is subject to review by the external auditors at year end.

The goodwill from US-based staffing business decreased by P5.7 million due to foreign exchange loss of the peso equivalent of the dollar investment.

***Notes Payable***

The increase in the account was mainly due to consolidation of SSRLI balances as of March 31, 2011.

***Income Tax Payable***
Movement in the account was attributable to income taxes for the 1st quarter of 2011 by the group and the consolidation of SSRLI balances as of March 31, 2011.

***Current Portion of Long-term Debt***
The consolidation of SSRLI balances increased the current portion of long-term debt.

***Deferred Income Tax Liability***
Deferred tax effect of the fair value adjustment on property, plant and equipment of SSRLI amounted to P34.6 million (30% of P115.3 million).

***Unrealized valuation gains on AFS investments (equity portion)***
The decrease in market values of AFS investments from December 31, 2010 to March 31, 2011 amounted P364.7 million, net of deferred income taxes. When the assets are sold, the gain or loss is realized and will be reflected in the consolidated statements of income.

***Cumulative Translation Adjustment***
This account includes translation adjustments of Anscor International, Inc., Cirrus Medical Staffing, Inc. and Cirrus Global, Inc. (formerly IQMAN).

***Noncontrolling interests***
Increase in noncontrolling interests was mainly due to share of minority shareholders on net assets of SSRLI as of March 31, 2011.

***Others***
There were no commitments for major capital expenditures in 2011.

## 6. Results of Operation

Management is not aware of any known trends, events or uncertainties except for political and market uncertainties that may have material impact on the Company's recurring revenues and profits.

*The following are the key performance indicators for the Parent Company (In thousand pesos except earnings per share and market price per share):*

| | **Periods ended March 31** | |
|---|---|---|
| | ***2011*** | ***2010*** |
| *Revenues (excluding investment gains or losses)* | *39,906* | *72,671* |
| *Investment Gains* | *398,836* | *381,394* |
| *Net Income* | *376,092* | *360,925* |
| *Earnings Per Share* | *0.15* | *0.15* |
| | | |
| *Market Price Per Share (PSE)* | *3.33* | *2.10* |

**The discussions below were based on the consolidated results of the Company and its subsidiaries.**

***Revenues***

This year's consolidated gross revenues of P776.7 million was 13.1% higher than last year's revenue of P686.5 million. The increase in gross revenues was mainly due improved service revenues of Cirrus group and inclusion of SSRLI's P37.3 million hotel revenues for the period March 1 to 31, 2011. Also, the parent company posted slight increase in investment gains of about P16.6 million.

***Cost of Services Rendered***

Increase in cost of services rendered was mainly attributable to higher cost of services of nurse staffing business (as a result of improved revenues) and consolidation of SSRLI cost of services for the period March 1 to 31, 2011.

***Operating Expenses***

Operating expenses increased as a result of consolidation of SSRLI operating expenses for the period March 1 to 31, 2011.

***Valuation Allowances***

As a result of recovery in market values of some AFS investments mostly from bonds, previously booked provisions were reversed.

***Foreign Exchange Loss***
Due to the appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss.

***Interest Expense***
The Group reported lower charges for interest expense in 2011 resulting from payment of the parent company of its loan. Despite the pick up in the consolidated balance sheet of SSRLI loans/debt, the interest expense that was considered only pertained to March 1 to 31, 2011, effectivity of consolidation of income statement accounts of SSRLI.

***Other Income***
Other income reported in 2010 pertains mainly to reversal of previously accrued expense by Cirrus Inc.

***Provision for (benefit from) Income Tax***
The current provision for income tax of the group increased due to consolidation of SSRLI‘s income tax expense of P3.1 million for the period March 1 to 31, 2011. The parent company setup provision for deferred income tax liability on uncollected management fee during the year and wrote off the tax benefit on foreign exchange loss.

***Noncontrolling Interests***
Decrease in noncontrolling interests was mainly due to share of minority shareholders on reduced losses of Cirrus Global, Inc. and Cirrus Medical Staffing, Inc. for the period ended March 31, 2011.

**7. Cash Flows**

Management has no knowledge of known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

**8. Financial information**

- There is neither a change in composition of the registrant, no business combination nor any restructuring.
- There are no seasonality or cyclicality trends in the business that would have material effect on the Company's result of operations and financial condition.

In the interim period:

- The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.0% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group.

- No issuance or repayment of equity securities.

- The parent company has not repurchased its equity securities but its 100%-owned subsidiary, Anscor Consolidated Corporation, purchased 65 thousand Anscor shares amounting P0.2 million during the first quarter of 2011 and todate owns 1,198,531,093 shares of Anscor.

- No contingent assets or liabilities since the last annual balance sheet date.

- No material contingencies and any event or transactions that are material to the understanding of the operating results of the current interim period.

- No events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.

- No material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the company with unconsolidated entities of other persons created during the reporting period.

## 9. Subsidiaries and Affiliates

***Phelps Dodge Philippines (PDP)***

The following are the key performance indicators for Phelps Dodge Philippines (In thousand pesos except volume and earnings per share):

| | **Periods Ended March 31** | |
|---|---:|---:|
| | ***2011*** | *2010* |
| *Volume sold (MT)* | **2,831** | 2,537 |
| *Revenues* | **1,527,306** | 1,156,863 |
| *Marginal Income* | **170,915** | 142,959 |
| *Operating Income* | **100,029** | 75,800 |
| *Net Income* | **63,876** | 51,003 |

PDP's 2011 volume of deliveries netted to 11.58% higher as compared to 2010 due to the increase in sales of PD Energy International, the PEZA Company intended for export of low and medium voltage power cables to GC Australia (172MT of 2010 vs. 688MT of 2011). Domestic Sales volume was lower by 8.5%, however it contributed higher margins due to higher metal price as compared to same period of last year with an average selling price per kilograms of P456 and P539.50 for 2010 and 2011, respectively.

PDP posted a net income of P63.9 million for the first quarter of 2011, P12.8 million higher than the P51.0 million net income realized last year for the same period.

***Seven Seas' Amanpulo Resort*** ended up with an occupancy rate of 48.4% for this period, lower than the 2010 average occupancy rate of 51.4%. Average room rate was slightly lower at US$1,047, compared to last year's average of US$1,068. Total hotel revenues amounted to P141.8 million, down by P9.4 million from last year's revenues of P151.2 million. Gross operating profit (GOP) of P93.3 million, decreased versus 2010's GOP by 12.2%. Cancellations of booking from the Japanese market and the Tsunami scare unfavorably affected the occupancy and business volume for period.

Seven Seas reported a net income of P18.2 million, significantly lower than last year's net profit of P37.3million.

**Cirrus Group**

*Cirrus Medical Staffing, Inc.* registered $5.1 million revenue in the first quarter of 2011, a 34% increase vis-à-vis the same period last year. The increase in revenue is driven mainly by the therapy business, boasting a 36% growth from its core business. Nursing business grew 7% compared to first quarter of 2010.

Cirrus is re-aligning its business strategy to take advantage of the improving US market. Unemployment rates have been at its lowest at 8.8% since February of 2008. In March, overall temporary staffing grew by 17%. Staffing Industry analysts' project that travel nursing will grow 7% in 2011 and 15% in 2012. Allied health services are projected to grow 4% and 10% in 2011 and 2012, respectively.

# COVER SHEET

P W 2

SEC Registration Number

A SORIANO CORPORATION

(Company's Full Name)

7/F PACIFIC STAR BLDG.
COR. MAKATI AVE. & G. PUYAT AVE.
MAKATI CITY

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

**MS. NARCISA M. VILLAFLOR**

(Contact Person)

**819-0251**

(Company Telephone Number)

| 1 2 | 3 1 | S E C 17 Q | THIRD WEDNESDAY | 0 4 | |
|---|---|---|---|---|---|
| *Month* | *Day* | (Form Type) | | *Month* | *Day* |
| (Fiscal Year) | | | | (Annual Meeting) | |

**Not Applicable**

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

## SECURITIES AND EXCHANGE COMMISSION

## SEC FROM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended June 30, 2011

2. Commission identification number: PW-2 3. BIR Tax Identification No. 000-103-216

A. SORIANO CORPORATION

4. Exact name of issuer as specified in its charter

Philippines

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7/F Pacific Star Bldg., Gil J. Puyat Ave. corner Makati Avenue, Makati City

7. Address of issuer's principal office Postal Code

8190251

8. Issuer's telephone number, including area code

N/A

9. Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common Stock outstanding and amount Of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

11. Are any or all of the securities listed on a Stock Exchange?

Yes [ x ] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange Common

SEC Form 17Q
August 11, 2011

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [ x ]   No   [   ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ]   No. [ x ]

## PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Financial statements and, if applicable, Pro Forma Financial Statements meeting the requirements of SRC Rule 68, Form and content of Financial Statements, shall be furnished as specified therein.

Please see SEC FORM 17-Q - Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Furnish the information required by Part III, Paragraph (A)(2)(b) of "Annex "C".

Please see SEC FORM 17-Q - Table of Contents

## PART II – OTHER INFORMATION

The issuer may, at its option, report under item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: A. SORIANO CORPORATION

Signature and Title: (Sgd.) JOSHUA CASTRO
Asst. Corporate Secretary

Date: August 11, 2011

Principal Financial/Accounting Officer/Controller:
Signature and Title

(Sgd.) NARCISA M. VILLAFLOR
VP – Comptroller

Date: August 11, 2011

SECForm17-Q
August 11, 2011

## SEC FORM 17 – Q

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### PART I – FINANCIAL INFORMATION

## A. SORIANO CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**

**(In Thousand Pesos)**

| | **2011** | 2010 |
|---|---|---|
| | **June 30** (Note 1) | December 31 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **1,188,456** | 2,188,124 |
| Fair value through profit and loss (FVPL) investments | **688,576** | 817,657 |
| Receivables | **280,378** | 230,447 |
| Inventories | **78,355** | 15,909 |
| Prepayments and other current assets | **107,390** | 66,280 |
| **Total Current Assets** | **2,343,154** | 3,318,417 |
| **Noncurrent Assets** | | |
| Available for sale (AFS) investments | **7,732,911** | 6,213,533 |
| Investments and advances | **655,858** | 942,753 |
| Investment properties | **216,432** | 260,483 |
| Property, plant and equipment | **884,604** | 143,178 |
| Goodwill | **610,725** | 510,905 |
| Other noncurrent assets | **26,560** | 41,034 |
| **Total Noncurrent Assets** | **10,127,090** | 8,111,886 |
| **TOTAL ASSETS** | **12,470,245** | 11,430,303 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Notes payable | **128,154** | 64,394 |
| Accounts payable and accrued expenses | **299,129** | 257,441 |
| Dividends payable | **134,856** | 134,856 |
| Income tax payable | **6,081** | 3,618 |
| Current portion of long-term debt | **5,416** | 10,960 |
| **Total Current Liabilities** | **573,637** | 471,269 |
| **Noncurrent Liabilities** | | |
| Advances from customer | **192** | 22,142 |
| Long-term debt – net of current portion | **96,433** | 10,960 |
| Deferred revenues | **79,594** | 80,143 |
| Deferred income tax | **42,416** | 8,228 |
| Retirement benefits payable | **32,397** | 23,343 |
| **Total Noncurrent Liabilities** | **251,032** | 144,815 |
| **Total Liabilities** | **824,669** | 616,084 |

| | 2011 | 2010 |
|---|---|---|
| | **June 30** (Note 1) | December 31 |
| **Equity Attributable to Equity Holdings of the Parent** | | |
| Capital stock - 1 par value | **2,500,000** | 2,500,000 |
| Additional paid-in capital | **1,574,104** | 1,574,104 |
| Unrealized valuation gains on AFS investments | **2,653,334** | 2,650,947 |
| Cumulative translation adjustment | **(70,406)** | (68,240) |
| Equity reserve on acquisition of minority interest | **(26,357)** | (26,357) |
| Other Reserve | **2,868** | - |
| Retained earnings | **6,524,856** | 5,972,638 |
| | **13,158,400** | 12,603,092 |
| Less cost of shares held by a subsidiary | **1,830,762** | 1,827,024 |
| | **11,327,638** | 10,776,067 |
| **Noncontrolling interests** | **317,938** | 38,151 |
| **Total Equity** | **11,645,576** | 10,814,219 |
| **TOTAL LIABILITIES AND EQUITY** | **12,470,245** | 11,430,303 |

Note1: Included line by line consolidation of assets and liabilities of Seven Seas Resorts and Leisure, Inc. as of June 30, 2011.

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

**(In Thousand Pesos Except Earnings Per Share)**

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** (Note 2) | 2010 | **2011** (Note 2) | 2010 |
| **REVENUES** | | | | |
| Services | **562,316** | 433,640 | **293,538** | 204,754 |
| Dividend income | **179,054** | 89,156 | **171,441** | 87,249 |
| Hotel revenue | **167,880** | - | **130,597** | |
| Interest income | **63,101** | 51,185 | **39,225** | 24,326 |
| Equity in net earnings of associates | **50,549** | 65,236 | **20,002** | 27,675 |
| Management fees | **18,652** | 17,019 | **8,820** | 8,021 |
| | **1,041,551** | 656,236 | **663,623** | 352,024 |
| **INVESTMENT GAINS** | | | | |
| Gain on sale of AFS investments | **467,501** | 712,477 | **107,533** | 350,721 |
| Gain from sale of investment properties | **39,886** | - | **-** | |
| Gain (Loss) on increase (decrease) in market values of FVPL investments | **(1,016)** | 3,588 | **26** | (16,901) |
| | **506,370** | 716,065 | **107,559** | 333,820 |
| | **1,547,921** | 1,372,301 | **771,182** | 685,845 |
| Cost of services rendered | **(503,317)** | (340,462) | **(268,551)** | (158,873) |
| Operating expenses | **(326,207)** | (199,154) | **(195,544)** | (83,522) |
| Foreign exchange gain (loss) | **(4,069)** | (40,352) | **3,116** | 17,572 |
| Interest expense | **(3,389)** | (10,727) | **(2,593)** | (5,166) |
| Recoveries (valuation allowances) - net | **6,651** | - | **4,945** | (12,097) |
| Other income (expense) | **18,540** | 3,568 | **11,917** | (5,584) |
| | **(811,790)** | (587,128) | **(446,711)** | (247,670) |
| **INCOME BEFORE INCOME TAX** | **736,131** | 785,174 | **324,471** | 438,174 |
| **PROVISION FOR INCOME TAX - net** | **23,874** | 24,152 | **13,226** | 29,821 |
| **NET INCOME** | **712,257** | 761,022 | **311,245** | 408,353 |
| Attributable to: | | | | |
| **Equity holdings of the parent** | **708,404** | 757,429 | **307,538** | 407,586 |
| Minority interest | **3,853** | 3,593 | **3,707** | 767 |
| | **712,257** | 761,022 | **311,245** | 408,353 |
| **EARNINGS PER SHARE - basic, for net income attributable to equity holdings of the parent** | **0.54** | 0.58 | **0.24** | 0.31 |

Note 2: Included line by line consolidation of revenue and expense accounts of Seven Seas Resorts and Leisure, Inc. effective March 1, 2011.

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(In Thousand Pesos)**

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **NET INCOME FOR THE PERIOD** | **712,257** | 761,022 | **311,245** | 408,353 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Gain (loss) on increase (decrease) in market value of AFS investments | **(9,040)** | 1,286,232 | **359,949** | 740,489 |
| Cumulative translation adjustments | **(2,166)** | 2,258 | **3,376** | 15,933 |
| Income tax effect | **11,427** | 16,236 | **7,096** | 26,624 |
| **OTHER COMPREHENSIVE INCOME** | **222** | 1,304,726 | **370,421** | 783,046 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **712,479** | 2,065,749 | **681,666** | 1,191,399 |

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(In thousand pesos)**

| | Attributable to equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** | **Additional Paid-in Capital** | **Equity Reserve on Acquisition of Noncontrolling Interest** | **Other Reserve** | **Unrealized Valuation Gains (Loss) on AFS Investments** | **Cumulative Translation Adjustment** | **Retained Earnings** | **Cost of Shares Held by a Subsidiary** | **Noncontrolling Interests** | **Total** |
| Balance at 12/31/2009 | 2,500,000 | 1,574,104 | (26,357) | - | 656,731 | (30,974) | 4,297,532 | (1,517,163) | 35,926 | 7,489,799 |
| Total comprehensive income for the period | - | - | - | - | 1,302,468 | 2,258 | 757,429 | - | 3,593 | 2,065,748 |
| Cash dividends –net of dividends on common shares held by a subsidiary amounting to P106.0 million | - | - | - | - | - | - | (144,048) | - | - | (144,047) |
| Share repurchased during the period | - | - | - | - | - | - | - | (305,836) | - | (305,836) |
| Movement in noncontrolling interests | - | - | - | - | - | - | - | - | 6 | 6 |
| Balance at 06/30/2010 | 2,500,000 | 1,574,104 | (26,357) | - | 1,959,199 | (28,716) | 4,910,913 | (1,822,999) | 39,525 | 9,105,669 |
| | | | | | | | | | | |
| Balance at 12/31/2010 | 2,500,000 | 1,574,104 | (26,357) | - | 2,650,947 | (68,240) | 5,972,638 | (1,827,024) | 38,151 | 10,814,219 |
| Total comprehensive income (loss) for the period | - | - | - | - | 2,387 | (2,166) | 708,404 | - | 3,853 | 712,479 |
| Cash dividends- net of dividends on common shares held by a subsidiary amounting to P143.8 million | - | - | - | - | - | - | (156,186) | - | - | (156,186) |
| Share repurchased during the period | - | - | - | - | - | - | - | (3,737) | - | (3,737) |
| Acquisition of noncontrolling interest | - | - | - | 2,868 | - | - | - | - | 275,601 | 278,470 |
| Movement in noncontrolling interests | - | - | - | - | - | - | - | - | 332 | 332 |
| **Balance at 06/30/2011** | **2,500,000** | **1,574,104** | **(26,357)** | **2,868** | **2,653,334** | **(70,406)** | **6,524,856** | **(1,830,762)** | **317,938** | **11,645,576** |

**A. SORIANO CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousand Pesos)**

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** (Note 3) | 2010 | **2011** (Note 3) | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | **736,131** | 785,174 | **324,471** | 438,174 |
| Adjustment for: | | | | |
| Depreciation and amortization | **46,976** | 26,874 | **29,705** | 10,552 |
| Foreign exchange loss (gain) | **4,069** | 40,352 | **(3,116)** | (17,572) |
| Interest expense | **3,389** | 10,727 | **2,593** | 5,166 |
| Gain on sale of AFS investments | **(467,501)** | (712,477) | **(107,533)** | (350,721) |
| Dividend income | **(179,054)** | (89,156) | **(171,441)** | (87,249) |
| Interest income | **(63,101)** | (51,185) | **(39,225)** | (24,326) |
| Equity in net earnings of associates | **(50,549)** | (65,236) | **(20,002)** | (27,675) |
| Gain on sale of investment properties | **(39,886)** | - | **-** | - |
| Valuation allowances (recoveries) - net | **(6,651)** | - | **(4,945)** | 12,097 |
| Gain from fair value adjustment on net assets of acquired subsidiary | **(4,880)** | - | **-** | - |
| Loss (gain) on decrease (increase) in market values of FVPL investments | **1,016** | (3,588) | **(26)** | 16,901 |
| Operating income (loss) before working capital changes | **(20,040)** | (58,515) | **10,480** | (24,652) |
| Decrease (increase) in: | | | | |
| FVPL investments | **124,257** | 108,142 | **33,538** | 20,156 |
| Receivables | **(20,976)** | 7,274 | **(16,707)** | 193,091 |
| Inventories | **(14,549)** | (2,335) | **(6,423)** | (1,864) |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | **(98,494)** | (1,674) | **(54,395)** | (2,197) |
| Retirement benefits payable | **(5,713)** | - | **(6,031)** | - |
| Advances from customers | **(21,950)** | 619 | **(2,130)** | 392 |
| Net cash generated from (used in) operations | **(57,464)** | 53,511 | **(41, 667)** | 184,926 |
| Dividend received | **224,654** | 121,156 | **217,041** | 119,249 |
| Interest received | **62,836** | 50,107 | **38,800** | 23,687 |
| Interest paid | **(3,389)** | (10,727) | **(2,593)** | (5,166) |
| Income taxes paid | **(17,316)** | (1,030) | **(11,690)** | (714) |
| Net cash flows from operating activities | **209,320** | 213,017 | **199,892** | 321,982 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisition of subsidiary, net of cash acquired | **(141,759)** | | **(66,635)** | - |
| Proceeds from the sale of : | | | | |
| AFS investments | **2,080,826** | 2,052,664 | **1,092,252** | 1,089,330 |
| Investment properties | **111,455** | - | **-** | - |
| Addition to: | | | | |
| AFS investments | **(3,141,666)** | (1,583,184) | **(1,343,903)** | (723,639) |
| Property and equipment | **(68,713)** | (6,194) | **(135,431)** | (1,259) |
| Investments properties | **-** | (2,204) | **-** | - |
| Decrease (increase) in: | | | | |
| Other assets | **43,563** | (28,013) | **2,869** | (16,110) |
| Advances to affiliates | **61,406** | 11,904 | **(7,052)** | 5,411 |
| Net cash flows from (used in) investing activities | **(1,054,890)** | 444,974 | **(457,901)** | 353,732 |

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** (Note 3) | 2010 | **2011** (Note 3) | 2010 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payment of notes payable | **23,761** | (136,128) | **21,050** | (260,859) |
| Payment of: | | | | |
| Long-term debt | **(23,883)** | (3,669) | **(11,848)** | (73) |
| Dividends | **(156,186)** | (144,048) | **-** | (144,048) |
| Company shares purchased by a subsidiary | **(3,737)** | (305,836) | **(3,535)** | (302,857) |
| Increase (decrease) in: | | | | |
| Deferred revenue | **(548)** | 201 | **197** | 2,084 |
| Minority interest | **(1,323)** | 6 | **(1,495)** | 1,471 |
| Net cash flows from (used in) financing activities | **(161,916)** | (589,473) | **4,370** | (704,283) |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **7,818** | (21,623) | **8,671** | (7,235) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(999,668)** | 46,894 | **(244,968)** | (35,803) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **2,188,124** | 594,527 | **1,433,424** | 677,225 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **1,188,456** | 641,422 | **1,188,456** | 641,422 |

Note 3: Cash flow included the four months cash operation of Seven Seas Resorts and Leisure, Inc.

# A. SORIANO CORPORATION

## PARENT COMPANY BALANCE SHEETS

**(In Thousand Pesos)**

| | **2011** | 2010 |
|---|---|---|
| | **June 30** | December 31 |
| **ASSETS** | | |
| **Cash and Cash Equivalents** | **1,038,730** | 2,129,518 |
| **Fair Value through Profit and Loss (FVPL) Investments** | **682,023** | 810,900 |
| **Available for Sale (AFS) Investments** | **7,557,912** | 6,040,049 |
| **Receivables - net** | **63,970** | 58,636 |
| **Investments and Advances- net** | **2,539,704** | 2,246,514 |
| **Investment Property - net** | **-** | 72,537 |
| **Property and Equipment - net** | **43,618** | 47,641 |
| **Other Assets** | **792** | 285 |
| **TOTAL ASSETS** | **11,926,748** | 11,406,079 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Notes Payable | **134,856** | 134,856 |
| Dividends Payable | **68,404** | 94,119 |
| Accounts Payable and Accrued Expenses | **206,234** | 66,453 |
| Due to Affiliates | **11,784** | 11,784 |
| **Total Liabilities** | **421,278** | 307,212 |
| **Equity** | | |
| Capital Stock - 1 Par Value | **2,500,000** | 2,500,000 |
| Additional Paid-in Capital | **1,589,800** | 1,589,800 |
| Unrealized Valuation Gains on AFS Investments | **2,619,443** | 2,614,380 |
| Retained Earnings | **4,796,228** | 4,394,687 |
| **Total Equity** | **11,505,470** | 11,098,866 |
| **TOTAL LIABILITIES AND EQUITY** | **11,926,748** | 11,406,079 |

## A. SORIANO CORPORATION

### PARENT COMPANY STATEMENTS OF INCOME

**(In Thousand Pesos Except Earnings Per Share)**

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **REVENUES** | | | | |
| Dividend income | **224,654** | 121,156 | **217,041** | 82,449 |
| Interest Income | **60,869** | 49,348 | **38,009** | 23,419 |
| Management fees | **17,735** | 15,097 | **8,300** | 7,062 |
| | **303,257** | 185,601 | **263,351** | 112,930 |
| **INVESTMENT GAINS** | | | | |
| Gain on sale of AFS investments | **467,501** | 711,702 | **107,533** | 350,721 |
| Gain on sale of investment property | **39,886** | - | **-** | - |
| Gains (losses) on increase (decrease) in market values of FVPL investments | **(863)** | 3,526 | **154** | (16,887) |
| | **506,523** | 715,228 | **107,687** | 333,835 |
| | **809,780** | 900,830 | **371,038** | 446,765 |
| Operating expenses | **(104,709)** | (73,102) | **(48,156)** | (30,533) |
| Foreign exchange gain (loss) | **(6,557)** | (39,330) | **1,270** | 18,970 |
| Interest expense | **(284)** | (9,393) | **(172)** | (4,655) |
| Other income (expense) | **15,746** | 282 | **13,903** | (12,185) |
| | **(95,804)** | (121,543) | **(33,154)** | (28,402) |
| **INCOME BEFORE INCOME TAX** | **713,976** | 779,287 | **337,884** | 418,362 |
| **PROVISION FOR INCOME TAX – NET** | **12,436** | 15,946 | **7,397** | 26,317 |
| **NET INCOME** | **701,541** | 763,341 | **330,487** | 392,045 |
| **Earnings Per Share*** | **0.28** | 0.31 | **0.13** | 0.16 |

* Based on outstanding shares of 2,500,000,000 in 2011 and 2010.

# A. SORIANO CORPORATION

## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

**(In Thousand Pesos)**

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **NET INCOME FOR THE PERIOD** | **701,541** | 763,341 | **330,487** | 392,045 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Gain (loss) on increase (decrease) in market value (AFS) investments | **(6,091)** | 1,281,880 | **360,538** | 735,387 |
| Income tax effect | **11,154** | 15,719 | **6,919** | 26,317 |
| **OTHER COMPREHENSIVE INCOME** | **5,063** | 1,297,599 | **367,458** | 761,703 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **706,604** | 2,060,940 | **697,944** | 1,153,749 |

# A. SORIANO CORPORATION

## PARENT STATEMENTS OF CHANGES IN EQUITY

**(In Thousand Pesos)**

| | Capital Stock | Additional Paid-in Capital | Unrealized Valuation Gains on AFS Investments | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at 12/31/2009 | 2,500,000 | 1,589,800 | 634,073 | 2,977,450 | 7,701,322 |
| Cash dividends | - | - | - | (250,000) | (250,000) |
| Comprehensive income for the period | - | - | 1,297,599 | 763,341 | 2,060,940 |
| Balance at 06/30/2010 | 2,500,000 | 1,589,800 | 1,931,671 | 3,490,791 | 9,512,262 |
| | | | | | |
| Balance at 12/31/2010 | 2,500,000 | 1,589,800 | 2,614,380 | 4,394,687 | 11,098,866 |
| Cash dividends | - | - | - | (300,000) | (300,000) |
| Comprehensive income for the period | - | - | 5,063 | 701,541 | 706,604 |
| **Balance at 06/30/2011** | **2,500,000** | **1,589,800** | **2,619,443** | **4,796,228** | **11,505,470** |

# A. SORIANO CORPORATION

## PARENT COMPANY STATEMENTS OF CASH FLOWS

**(In Thousand Pesos)**

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before tax | **713,976** | 779,287 | **337,884** | 418,362 |
| Adjustment for: | | | | |
| Net foreign exchange loss (gain) | **6,557** | 39,330 | **(1,270)** | (18,970) |
| Depreciation and amortization | **5,152** | 7,427 | **2,098** | 3,614 |
| Loss (gain) on decrease ( increase) in market values of FVPL investment | **863** | (3,526) | **(154)** | 16,887 |
| Interest expense | **284** | 9,393 | **172** | 4,655 |
| Gain on sale of AFS investments | **(467,501)** | (711,702) | **(107,533)** | (350,721) |
| Dividend income | **(224,654)** | (121,156) | **(217,041)** | (82,449) |
| Interest income | **(60,869)** | (49,348) | **(38,009)** | (23,419) |
| Gain on sale of investment property | **(39,886)** | - | **-** | - |
| Provision for valuation allowances (recoveries) - net | **(6,897)** | - | **(5,117)** | 12,263 |
| Operating loss before working capital changes | **(72,973)** | (50,295) | **(28,971)** | (19,778) |
| Decrease(increase) in receivables | **(5,334)** | 21,364 | **9,882** | 192,947 |
| Decrease in FVPL investments | **124,257** | 108,159 | **33,599** | 20,317 |
| Increase (decrease) in accounts payable and accrued expenses | **(25,715)** | 1,853 | **(33,065)** | (3,418 |
| Net cash generated (used in) operations | **20,234** | 81,081 | **(18,555)** | 196,904 |
| Dividend received | **224,654** | 121,156 | **217,041** | 119,249 |
| Interest received | **60,330** | 48,270 | **37,448** | 22,780 |
| Interest paid | **(284)** | (9,393) | **(172)** | 4,655) |
| Income tax paid | **(1,281)** | (227 | **(478)** | - |
| Net cash flows from operating activities | **303,653** | 240,887 | **235,285** | 334,277 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from the sale of : | | | | |
| AFS investments | **2,080,826** | 2,036,676 | **1,092,252** | 1,081,259 |
| Investment property | **111,455** | - | **-** | - |
| Additions to: | | | | |
| AFS investments | **(3,136,094)** | (1,552,130) | **(1,340,194)** | (692,585) |
| Long-term investments | **(255,901)** | - | **(66,635)** | - |
| Property and equipment | **(162)** | (75) | **(43)** | - |
| Increase in: | | | | |
| Advances to affiliates | **(35,509)** | (101,716) | **(29,452)** | (95,554) |
| Other assets | **(507)** | (131) | **856** | (22) |
| Net cash flows from (used in) investing activities | **(1,235,893)** | 382,625 | **(343,217)** | 293,098 |

| | Periods Ended June 30 | | Quarters Ended June 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payment of notes payable | **-** | (128,451) | **-** | (262,371) |
| Payment of cash dividends | **(300,000)** | (250,000) | **-** | (250,000) |
| Increase (decrease) in due to affiliates | **139,781** | (126,622) | **(4,021)** | (123,745) |
| Net cash flows used in financing activities | **(160,219)** | (505,073) | **(4,021)** | (636,116) |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **1,671** | (21,976) | **4,230** | (6,235) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,090,788)** | 96,463 | **(107,723)** | (14,976) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **2,129,518** | 474,116 | **1,146,453** | 585,555 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **1,038,730** | 570,579 | **1,038,730** | 570,579 |

## 1. Segment Information

Information with regard to the Company's significant business segments are shown below (in thousand pesos):

| | Before Eliminations | | | | | | **After Eliminations** |
|---|---|---|---|---|---|---|---|
| | US-based Nurse/PT Staffing Co**. | Resort Operation | Other Operations (Note 1) | Holding Co. (Parent) | Total | Eliminations | **Consolidated** |
| **JUNE 30, 2011** | | | | | | | |
| REVENUES | 473,434 | 167,880 | 235,471 | 809,780 | 1,686,565 | (138,644) | **1,547,921** |
| NET INCOME | (3,867) | 4,389 | 141,980 | 701,541 | 844,043 | (131,786) | **712,257** |
| TOTAL ASSETS | 813,304 | 914,971 | 933,391 | 11,926,748 | 14,588,415 | (2,118,170) | **12,470,245** |
| INVESTMENT PORTFOLIO * | 0 | 64,445 | 767,170 | 10,779,639 | 11,611,254 | (2,317,477) | **9,293,778** |
| PROPERTY, PLANT & EQUIPMENT | 8,434 | 594,571 | 122,776 | 43,618 | 769,398 | 115,205 | **884,604** |
| TOTAL LIABILITIES | 258,732 | 257,319 | 1,050,988 | 421,278 | 1,988,317 | (1,163,648) | **824,669** |
| DEPRECIATION AND AMORTIZATION | 3,674 | 25,278 | 12,872 | 5,152 | 46,976 | - | **46,976** |

| | Before Eliminations | | | | | After Eliminations |
|---|---|---|---|---|---|---|
| | US-based Nurse/PT Staffing Co**. | Other Operations (Note 1) | Holding Co. (Parent) | Total | Eliminations | **Consolidated** |
| **JUNE 30, 2010** | | | | | | |
| REVENUES | 335,185 | 209,033 | 900,830 | 1,445,048 | (72,746) | **1,372,301** |
| NET INCOME | (30,145) | 96,937 | 763,341 | 830,133 | (69,111) | **761,022** |
| | | | | | | |
| TOTAL ASSETS | 761,014 | 720,756 | 9,895,889 | 11,377,658 | (1,540,655) | **9,837,003** |
| INVESTMENT PORTFOLIO * | - | 511,111 | 9,177,610 | 9,688,721 | (1,538,459) | **8,150,262** |
| PROPERTY, PLANT & EQUIPMENT | 7,908 | 122,998 | 51,807 | 182,714 | - | **182,714** |
| TOTAL LIABILITIES | 159,366 | 887,087 | 383,626 | 1,430,079 | (698,746) | **731,333** |
| | | | | | | |
| DEPRECIATION AND AMORTIZATION | 7,427 | 15,663 | 4,526 | 26,874 | - | **26,874** |

**** Inclusive of FVPL investments, AFS investments, advances & investments and investment properties.***

***** Excluding IQHPC operations which were consolidated into IQMAN, the latter formed part of other operations.***

***Note 1 Other than Cirrus Global, Inc. (formerly .IQMAN) consolidated operations, also included are the operations of A. Soriano Air Corporation, Anscor International, Inc. and Anscor Property Holdings, Inc.***

- The Company and its subsidiaries' operating businesses are organized and managed separately according to the nature of the products or services offered.
- Nurse staffing segment engages in the contract and temporary staffing and permanent placement of nurses and allied healthcare professional (e.g. physical therapists) in the USA.
- Holding company segment pertains to the operation of the parent company with earnings from income of its financial and operating investment assets.
- Other operations include hangarage, real estate holding and management and manpower services.

## 2. Accounting Policies

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

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended*), Consolidated and Separate Financial Statements*, introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. PAS 27 (amended) requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and 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 PAS 27 (amended) must be applied retrospectively, with certain exceptions.

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

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

- Amendment to PFRS 2, *Share-based Payment - Group Cash settled Share-based Payment Transactions*, clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

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

*Improvements to PFRSs 2008*
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

*Improvements to PFRSs 2009*
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

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

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

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

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

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 34, *Interim Financial Reporting*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

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

The Group will adopt the following standards and interpretations enumerated below when these become effective subsequent to January 1, 2010. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

*Effective in 2011*

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- PAS 24 (Amended), *Related Party Disclosures*, clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equities*, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished.

- Philippine Interpretation IFRIC 14, *Prepayments of Minimum Funding Requirement*, provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied retrospectively but is deemed to have no impact on the financial statements of the Group.

*Improvements to PFRSs 2010*

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

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

*Effective in 2012*

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- PAS 12, *Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets*, will be effective for annual periods beginning on or after 1 January 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures–Transfers of Financial Assets*, will be effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

*Effective in 2013*

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

## 3. 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 Group's other financial instruments include accounts payable and dividends payable and amounts due to affiliates, which arose directly from operations.

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. The Group does not have a customer that accounts for more than 10% of the consolidated revenue.

*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.

*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 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.

*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.

*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.

   *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.

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.

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.

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.

*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 periods ended June 30, 2011 and December 31, 2010.

b. Cirrus' and Cirrus Global, Inc.'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.

Cirrus Global, Inc. monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet.

Cirrus Global, Inc. 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.

**4. Business Combination**

In February 2011, Anscor purchased additional 16.3% of Seven Seas Resorts and Liesure, Inc. (SSRLI) from minority shareholders of SSRLI. As a result, the shareholdings of Anscor increased from the present 46% to 62.3% of the total outstanding common and preferred shares of SSRLI and it's therefore consolidated in Anscor balances starting March 1, 2011. SSRLI is the owner of Amanpulo Resort.

The fair value of investment previously held as investment in associates (46% stake) at the acquisition date using the discount rate of 13.5% amounted to P304.0 million.

The total consideration was allocated to assets acquired and liabilities assumed on a provisional assessment of fair value. Adjustments to the provisional amounts will be determined within one year from the date of acquisition.

The fair values of the identifiable assets and liabilities of SSRLI as of February 28, 2011 were:

| | **Fair Value Recognized on Acquisition (in millions)** |
|---|---|
| Cash and cash equivalents | P 114.1 |
| Trade and other receivables | 119.4 |
| Inventories | 47.9 |
| Property development in progress | 38.0 |
| Property and equipment | 680.7 |
| Land held for future development | 28.5 |
| Prepayments and other assets | 67.3 |
| **Total assets** | **1,095.9** |
| Short-term debt | 40.0 |
| Accounts payable and accrued expenses | 138.3 |
| Income tax payable | 7.1 |
| Long-term debt | 103.8 |
| Deferred tax liability | 34.6 |
| Other liabilities | 41.1 |
| **Net assets** | **731.0** |
| Less: Noncontrolling interest | (275.6) |
| **Balance** | **455.4** |
| **Goodwill arising from the acquisition** | **104.5** |
| **Total consideration** | **P 559.9** |

The cost of the combination was P559.9 million broken down as follows (in millions):

| | |
|---|---|
| Cash consideration (16.3%) | P 255.9 |
| Fair value of investment previously held as investment in associates (46%) | 304.0 |
| **Total consideration** | **P 559.9** |

## 5. Financial Condition

The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.0% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group as of June 30, 2011 versus December 31, 2010.

***Cash and Cash Equivalents***

The decrease in cash and cash equivalents can be attributed to net cash flows used in investing and financing activities total of P1.2 billion which included additional AFS investments and property and equipment; and payment of dividends. Cash generated from operating activities amounted to P209.3 million

(Please see attached consolidated cash flow statements for detailed analysis of cash movements.)

***Fair Value Through Profit and Loss (FVPL) Investments***

The decrease in the account can be attributed to the net sale for the period of about P124.3 million. The market value of foreign denominated investment in bonds, stocks and funds slightly decreased by P1.0 million vs. December 31, 2010 market values.

***Receivables***

The increase in receivables was mainly due consolidation of SSRLI balances as of June 30, 2011.

***Inventories***

Inventories increased by P62.4 million, one of the reasons was the consolidation of SSRLI inventories. Also, minimal purchases were made in 2011 for spare parts and supplies needed by the aviation subsidiary.

***Prepayments and Other Current Assets***

Change in this account can be attributed mainly to the consolidation of SSRLI balances. Expended cash deposits related to acquisition of new aircraft engine of the aviation subsidiary partially offset the increase in account by P23.5 million.

***Investments and Advances***

By consolidating SSRLI, investments and advances decreased by P299.2 million, the booked value of the 46% holdings of Anscor in SSRLI held as investment in associate as of February 28, 2011.

The decrease in investments and advances was offset by equity earnings of associates amounting to P50.5 million for the first six months of 2011.

***Available for Sale (AFS) Investments***

Change in the account can be attributed mainly to the net additions that were mostly in bonds, equity funds and traded equities amounting to P1.5 billion. There was a decrease of about P7.0 million in market value of AFS investments. Foreign exchange loss from translation of foreign currency-denominated AFS investments amounted to P7.3 million.

***Investment Properties***

The parent company sold the 34$^{th}$ floor of Enterprise Center with a book value of P71.6 million as of February 28, 2011 which resulted to reduction in the investment properties account.

The reduction in the account was offset by the consolidation of SSRLI balances by about P28.5 million.

Depreciation for the period amounted to P1.0 million.

***Property, Plant and Equipment - net***

The consolidation of SSRLI increases the property, plant and equipment by P603.5 million. As required by the new accounting standard for business combination, when Anscor increased its stake in SSRLI from 46% to 62.3%, the net assets of SSRLI were valued at P765.6 million using discounted cash flow from operations (including future PPE acquisition) for the next 10 years, reduced by its book value of P650.4 million as of February 28, 2011, resulting in an upward adjustment in fair value attributable to Property, plant and equipment amounting to P115.2 million.

Depreciation charged to operations amounted to P46.0 million. Additions to property and equipment amounted to P68.7 million.

***Goodwill***

The provisional goodwill that arises from the acquisition of SSRLI amounted to P104.5 million. This goodwill calculation is subject to review by the external auditors at year end. This explains the increase in the account.

The goodwill from US-based staffing business decreased by P4.7 million due to foreign exchange loss of the peso equivalent of the dollar investment.

***Notes Payable***

The increase in the account was mainly due to consolidation of SSRLI balances as of June 30, 2011.

***Income Tax Payable***

Movement in the account was attributable to income taxes for the first semester of 2011 by the group and the consolidation of SSRLI balances as of June 30, 2011.

***Current Portion of Long-term Debt***

Payment of loan by a subsidiary decreased the current portion of long-term debt.

***Deferred Income Tax Liability***

Deferred tax effect of the fair value adjustment on property, plant and equipment of SSRLI amounted to P34.6 million (30% of P115.3 million).

***Unrealized valuation gains on AFS investments (equity portion)***

The increase in market values of AFS investments from December 31, 2010 to June 30, 2011 amounted P2.4 million, net of deferred income taxes. When the assets are sold, the gain or loss is realized and will be reflected in the consolidated statements of income.

***Cumulative Translation Adjustment***

This account includes translation adjustments of Anscor International, Inc., Cirrus Medical Staffing, Inc. and Cirrus Global, Inc. (formerly IQMAN).

***Noncontrolling interests***

Increase in noncontrolling interests was mainly due to share of minority shareholders on net assets of SSRLI as June 30, 2011.

***Others***

There were no commitments for major capital expenditures in 2011.

## 6. Results of Operation

Management is not aware of any known trends, events or uncertainties except for political and market uncertainties that may have material impact on the Company's recurring revenues and profits.

*The following are the key performance indicators for the Parent Company (In thousand pesos except earnings per share and market price per share):*

| | Periods ended June 30 | |
|---|---|---|
| | ***2011*** | ***2010*** |
| *Revenues (excluding investment gains or losses)* | *303,257* | *185,601* |
| *Investment Gains* | *506,523* | *715,228* |
| *Net Income* | *701,541* | *763,341* |
| *Earnings Per Share* | *0.28* | *0.31* |
| | | |
| *Market Price Per Share (PSE)* | *3.33* | *2.32* |

**The discussions below were based on the consolidated results of the Company and its subsidiaries.**

***Revenues***

This year's consolidated gross revenues of P1.5 billion was 12.8% higher than last year's revenue of P1.4 million. The increase in gross revenues was mainly due improved service revenues of Cirrus group and inclusion of SSRLI's P167.9 million hotel revenues for the period March 1 to June 30, 2011.

***Cost of Services Rendered***

Increase in cost of services rendered was mainly attributable to higher cost of services of nurse staffing business (as a result of improved revenues) and consolidation of SSRLI cost of services for the period March 1 to June 30, 2011.

***Operating Expenses***

Operating expenses increased as a result of consolidation of SSRLI operating expenses for the period March 1 to June 30, 2011.

***Recoveries (Valuation Allowances) - net***

As a result of recovery in market values of some AFS investments mostly from bonds, previously booked provisions were reversed.

***Foreign Exchange Loss***

Due to the appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss.

***Interest Expense***

The Group reported lower charges for interest expense in 2011 resulting from payment of the parent company of its loan. Despite the pick up in the consolidated balance sheet of SSRLI loans/debt, the interest expense that was considered only pertained to March 1 to June 30, 2011, as the effectivity of consolidation of income statement accounts of SSRLI was March 1, 2011.

***Other Income***

Other income reported in 2011 pertains mainly to gain from fair value adjustment of net assets of acquired subsidiary and reversal of long outstanding deposit payable by the Parent.

***Provision for Income Tax - net***

The current provision for income tax of the group increased due to consolidation of SSRLI's income tax expense of P6.1 million for the period March 1 to June 30, 2011. The parent company setup provision for deferred income tax liability on unrealized gain from increase in market value of FVPL investments and uncollected management fee during the year and wrote off the tax benefit on foreign exchange loss.

***Noncontrolling Interests***

Increase in noncontrolling interests was mainly due to share of minority shareholders on reduced losses of Cirrus Global, Inc. and Cirrus Medical Staffing, Inc. and the share of minority shareholders on income of SSRLI from March 1 to June 30, 2011.

**7. Cash Flows**

Management has no knowledge of known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

**8. Financial information**

- There is neither a change in composition of the registrant, no business combination nor any restructuring.
- There are no seasonality or cyclicality trends in the business that would have material effect on the Company's result of operations and financial condition.

In the interim period:

- The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.0% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group.

- No issuance or repayment of equity securities.

- The parent company has not repurchased its equity securities but its 100%-owned subsidiary, Anscor Consolidated Corporation, purchased 1.2 million Anscor shares amounting P3.7 million during the first six months of 2011 and todate owns 1,199,541,093 shares of Anscor.

- No contingent assets or liabilities since the last annual balance sheet date.

- No material contingencies and any event or transactions that are material to the understanding of the operating results of the current interim period.

- No events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.

- No material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the company with unconsolidated entities of other persons created during the reporting period.

## 9. Subsidiaries and Affiliates

***Phelps Dodge Philippines (PDP)***

The following are the key performance indicators for Phelps Dodge Philippines (In thousand pesos except volume and earnings per share):

| | **Periods Ended June 30** | |
|---|---|---|
| | ***2011*** | *2010* |
| *Volume sold (MT)* | | |
| *Domestic* | **4,453** | 4,781 |
| *Export* | **1,506** | 524 |
| *Total* | **5,959** | 5,305 |
| | | |
| *Revenue* | **3,223,523** | 2,437,263 |
| *Marginal Income* | **310,789** | 287,766 |
| *Net Income* | **115,632** | 114,177 |

PDP's 2011 volume of deliveries netted to 12.33% higher as compared to 2010 due to the increase in sales of PD Energy International, the PEZA Company intended for export of low and medium voltage power cables to General Cable Australia (172MT of 2010 vs. 688MT of 2011). Domestic Sales volume was lower by 6.9%, however it contributed higher margins due to higher metal price as compared to same period of last year with an average selling price per kilograms of P539.50 versus the P456 for 2010.

PDP posted a net income of P115.6 million for the first six months of 2011, P1.5 million higher than the P114.2 million net income realized last year for the same period.

***Seven Seas' Amanpulo Resort*** ended up with an occupancy rate of 47.9% for this period, lower than the 2010 average occupancy rate of 50.9%. Average room rate was slightly higher at US$981, compared to last year's average of US$979. Total hotel revenues amounted to P272.4 million, down by P4.7 million from last year's revenues of P277.1 million. Gross operating profit (GOP) of P94.7 million, decreased versus 2010's GOP by 10.7%. Cancellations of booking from the Japanese market and the Tsunami scare unfavorably affected the occupancy and business volume for period.

Seven Seas reported a net income of P23.8 million, lower than last year's net profit of P35.3million. Appreciation of the peso vis a vis US dollar and low occupancy contributed to decrease in net profits.

**Cirrus Group**

*Cirrus Medical Staffing, Inc.* registered $10.7 million revenue as of June 2011, a 32% increase vis-à-vis the same period last year. Total revenue including the website/community division is $10.8 million. The Nursing division increased its revenues by 28% while the Therapy division boasts a 35% increase.

Cirrus is re-aligning its business strategy to take advantage of the improving US market. Unemployment rates have been at its lowest at 8.8% since February of 2008. Staffing Industry analysts' project that travel nursing will grow 7% in 2011 and 15% in 2012. Allied health services are projected to grow 4% and 10% in 2011 and 2012, respectively.

# COVER SHEET

P W 2

SEC Registration Number

A SORIANO CORPORATION

(Company's Full Name)

7/F PACIFIC STAR BLDG.
COR. MAKATI AVE. & G. PUYAT AVE.
MAKATI CITY

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

**MS. NARCISA M. VILLAFLOR**

(Contact Person)

**819-0251**

(Company Telephone Number)

| 1 2 | 3 1 |
|---|---|
| *Month* | *Day* |

(Fiscal Year)

S E C 17 Q

(Form Type)

THIRD WEDNESDAY

| 0 4 | |
|---|---|
| *Month* | *Day* |

(Annual Meeting)

**Not Applicable**

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

## SECURITIES AND EXCHANGE COMMISSION

## SEC FROM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2011

2. Commission identification number: PW-2   3. BIR Tax Identification No. 000-103-216

   A. SORIANO CORPORATION
4. Exact name of issuer as specified in its charter

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

6. Industry Classification Code: (SEC Use Only)

   7/F Pacific Star Bldg., Gil J. Puyat Ave. corner Makati Avenue, Makati City
7. Address of issuer's principal office   Postal Code

   8190251
8. Issuer's telephone number, including area code

   N/A
9. Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common Stock outstanding and amount Of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [ x ] No [ ]

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

    Philippine Stock Exchange   Common

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [ x ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ] No. [ x ]

## PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Financial statements and, if applicable, Pro Forma Financial Statements meeting the requirements of SRC Rule 68, Form and content of Financial Statements, shall be furnished as specified therein.

Please see SEC FORM 17-Q - Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Furnish the information required by Part III, Paragraph (A)(2)(b) of "Annex "C".

Please see SEC FORM 17-Q - Table of Contents

## PART II – OTHER INFORMATION

The issuer may, at its option, report under item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: A. SORIANO CORPORATION

Signature and Title: (Sgd.) JOSHUA CASTRO
Asst. Corporate Secretary

Date: November 14, 2011

Principal Financial/Accounting Officer/Controller: (Sgd.) NARCISA M. VILLAFLOR
Signature and Title VP – Comptroller

Date: November 14, 2011

SECForm17-Q
November 14, 2011

## SEC FORM 17 – Q

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### PART I – FINANCIAL INFORMATION

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

**(In Thousand Pesos)**

| | **2011** | 2010 |
|---|---|---|
| | **September 30** (Note 1) | December 31 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **611,048** | 2,188,124 |
| Fair value through profit and loss (FVPL) investments | **630,988** | 817,657 |
| Receivables | **340,970** | 230,447 |
| Inventories | **65,453** | 15,909 |
| Prepayments and other current assets | **64,488** | 66,280 |
| **Total Current Assets** | **1,712,947** | 3,318,417 |
| **Noncurrent Assets** | | |
| Available for sale (AFS) investments | **7,674,241** | 6,213,533 |
| Investments and advances | **669,058** | 942,753 |
| Investment properties | **216,432** | 260,483 |
| Property, plant and equipment | **904,636** | 143,178 |
| Goodwill | **612,704** | 510,905 |
| Other noncurrent assets | **34,503** | 41,034 |
| **Total Noncurrent Assets** | **10,111,574** | 8,111,886 |
| **TOTAL ASSETS** | **11,824,521** | 11,430,303 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Notes payable | **140,168** | 64,394 |
| Accounts payable and accrued expenses | **289,752** | 257,441 |
| Dividends payable | **134,856** | 134,856 |
| Income tax payable | **1,592** | 3,618 |
| Current portion of long-term debt | **11,522** | 10,960 |
| **Total Current Liabilities** | **577,891** | 471,269 |
| **Noncurrent Liabilities** | | |
| Advances from customer | **-** | 22,142 |
| Long-term debt – net of current portion | **89,880** | 10,960 |
| Deferred revenues | **79,770** | 80,143 |
| Deferred income tax | **40,459** | 8,228 |
| Retirement benefits payable | **33,138** | 23,343 |
| **Total Noncurrent Liabilities** | **243,247** | 144,815 |
| **Total Liabilities** | **821,137** | 616,084 |

| | 2011 | 2010 |
|---|---|---|
| | **September 30** (Note 1) | December 31 |
| **Equity Attributable to Equity Holdings of the Parent** | | |
| Capital stock - 1 par value | **2,500,000** | 2,500,000 |
| Additional paid-in capital | **1,574,104** | 1,574,104 |
| Unrealized valuation gains on AFS investments | **1,998,960** | 2,650,947 |
| Cumulative translation adjustment | **(67,166)** | (68,240) |
| Equity reserve on acquisition of minority interest | **(26,357)** | (26,357) |
| Other Reserve | **1,603** | - |
| Retained earnings | **6,549,238** | 5,972,638 |
| | **12,530,382** | 12,603,092 |
| Less cost of shares held by a subsidiary | **1,834,349** | 1,827,024 |
| | **10,696,033** | 10,776,067 |
| **Noncontrolling interests** | **307,351** | 38,151 |
| **Total Equity** | **11,003,384** | 10,814,219 |
| **TOTAL LIABILITIES AND EQUITY** | **11,824,521** | 11,430,303 |

***Note1:*** ***Included line by line consolidation of assets and liabilities of Seven Seas Resorts and Leisure, Inc. as of September 30, 2011.***

## A. SORIANO CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**
**(In Thousand Pesos Except Earnings Per Share)**

| | Periods Ended September 30 | | Quarters Ended September 30 | |
|---|---|---|---|---|
| | **2011 (Note 2)** | 2010 | **2011** | 2010 |
| **REVENUES** | | | | |
| Services | **860,833** | 633,896 | **298,518** | 200,256 |
| Hotel revenues | **260,759** | - | **92,879** | - |
| Dividend income | **180,844** | 106,033 | **1,790** | 16,877 |
| Interest income | **87,385** | 76,277 | **24,284** | 25,092 |
| Equity in net earnings of associates | **71,605** | 90,270 | **21,055** | 25,034 |
| Management fee | **27,256** | 26,056 | **8,604** | 9,037 |
| | **1,488,682** | 932,533 | **447,131** | 276,296 |
| **INVESTMENT GAINS** | | | | |
| Gain on sale of AFS investments | **547,017** | 1,385,490 | **79,517** | 673,013 |
| Gain on sale of investment properties | **39,886** | - | **-** | - |
| Gain (loss) on increase (decrease) in market values of FVPL investments | **(12,614)** | 26,597 | **(11,598)** | 23,009 |
| | **574,289** | 1,412,087 | **67,919** | 696,022 |
| | **2,062,971** | 2,344,620 | **515,049** | 972,318 |
| Cost of services rendered | **(752,965)** | (505,353) | **(249,648)** | (164,891) |
| Operating expenses | **(518,553)** | (280,217) | **(192,346)** | (81,063) |
| Foreign exchange loss | **(16,325)** | (70,417) | **(12,256)** | (30,064) |
| Interest expense | **(3,363)** | (12,948) | **26** | (2,221) |
| Recoveries (valuation allowances) -net | **8,354** | (392) | **1,703** | (392) |
| Other income (expense) | **12,654** | 2,839 | **(5,887)** | (729) |
| | **(1,270,199)** | (866,487) | **(458,408)** | (279,360) |
| **INCOME BEFORE INCOME TAX** | **792,772** | 1,478,133 | **56,641** | 692,959 |
| **Provision for (benefit from) income tax - net** | **66,834** | 494 | **42,960** | (23,658) |
| **NET INCOME** | **725,938** | 1,477,639 | **13,681** | 716,617 |
| Attributable to: | | | | |
| **Equity holdings of the parent** | **732,786** | 1,472,698 | **24,382** | 715,268 |
| Minority interest | **(6,849)** | 4,941 | **(10,702)** | 1,348 |
| | **725,938** | 1,477,639 | **13,681** | 716,617 |
| **EARNINGS PER SHARE - basic, for net income attributable to equity holdings of the parent** | **0.56** | 1.13 | **0.02** | 0.55 |

# A. SORIANO CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In Thousand Pesos)**

| | **Periods Ended September 30** | | **Quarters Ended September 30** | |
|---|---|---|---|---|
| | **2011 (Note 2)** | 2010 | **2011** | 2010 |
| **NET INCOME FOR THE PERIOD** | **725,938** | 1,477,639 | 324,926 | 716,617 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Gain (loss) on increase (decrease) in market value of AFS investments | **(706,122)** | 1,510,380 | (337,134) | 224,149 |
| Cumulative translation adjustments | **1,074** | (34,496) | 6,616 | (36,754) |
| Income tax effect | **54,135** | (6,002) | 49,804 | (22,238) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | **(650,913)** | 1,469,882 | (280,713) | 165,156 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **75,025** | 2,947,521 | 44,212 | 881,772 |

***Note 2: Included line by line consolidation of revenue and expense accounts of Seven Seas Resorts and Leisure, Inc. effective March 1, 2011.***

# A. SORIANO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(In thousand pesos)**

| | Attributable to equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Reserve on Acquisition of Noncontrolling Interest | Other Reserve | Unrealized Valuation Gains (Loss) on AFS Investments | Cumulative Translation Adjustment | Retained Earnings | Cost of Shares Held by a Subsidiary | Noncontrolling Interests | Total |
| Balance at 12/31/2009 | 2,500,000 | 1,574,104 | (26,357) | - | 656,731 | (30,974) | 4,297,532 | (1,517,163) | 35,926 | 7,489,799 |
| Total comprehensive income for the period | - | - | - | - | 1,504,378 | (34,496) | 1,472,698 | - | 4,941 | 2,947,521 |
| Cash dividends –net of dividends on common shares held by a subsidiary amounting to P106.0 million | - | - | - | - | - | - | (144,048) | - | - | (144,047) |
| Share repurchased during the period | - | - | - | - | - | - | - | (309,591) | - | (309,591) |
| Movement in noncontrolling interests | - | - | - | - | - | - | - | - | 340 | 340 |
| Balance at 09/30/2010 | 2,500,000 | 1,574,104 | (26,357) | - | 2,161,109 | (65,470) | 5,626,181 | (1,826,754) | 41,207 | 9,105,669 |
| | | | | | | | | | | |
| Balance at 12/31/2010 | 2,500,000 | 1,574,104 | (26,357) | - | 2,650,947 | (68,240) | 5,972,638 | (1,827,024) | 38,151 | 10,814,219 |
| Total comprehensive income (loss) for the period | - | - | - | - | (651,987) | (1,074) | 732,786 | - | (6.849) | 75,025 |
| Cash dividends- net of dividends on common shares held by a subsidiary amounting to P143.8 million | - | - | - | - | - | - | (156,186) | - | - | (156,186) |
| Share repurchased during the period | - | - | - | - | - | - | - | (7,324) | - | (7,324) |
| Acquisition of noncontrolling interest | - | - | - | 1,603 | - | - | - | - | 275,601 | 277,204 |
| Movement in noncontrolling interests | - | - | - | - | - | - | - | - | 447 | 447 |
| **Balance at 09/30/2011** | **2,500,000** | **1,574,104** | **(26,357)** | **1,603** | **1,998,960** | **(67,166)** | **6,549,238** | **(1,834,349)** | **307,351** | **11,003,384** |

**A. SORIANO CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousand Pesos)**

| | Periods Ended September 30 | | Quarters Ended September 30 | |
|---|---|---|---|---|
| | **2011** (Note 3) | 2010 | **2011** (Note 3) | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | **792,772** | 1,478,133 | **56,641** | 692,959 |
| Adjustment for: | | | | |
| Depreciation and amortization | **76,749** | 40,585 | **29,773** | 13,712 |
| Foreign exchange loss | **16,325** | 70,417 | **12,256** | 30,064 |
| Loss (gain) on decrease (increase) in market values of FVPL investments | **12,614** | (26,597) | **11,598** | (23,009) |
| Interest expense | **3,363** | 12,948 | **(26)** | 2,221 |
| Gain on sale of AFS investments | **(547,017)** | (1,385,490) | **(79,517)** | (673,013) |
| Dividend income | **(180,844)** | (106,033) | **(1,790)** | (16,877) |
| Interest income | **(87,385)** | (76,277) | **(24,284)** | (25,092) |
| Equity in net earnings of associates | **(71,605)** | (90,270) | **(21,055)** | (25,034) |
| Gain on sale of investment properties | **(39,886)** | - | **-** | - |
| Valuation allowances (recoveries) - net | **(8,354)** | 392 | **(1,703)** | 392 |
| Gain from fair value adjustment on net assets of acquired subsidiary | **(4,880)** | - | **-** | - |
| Operating loss before working capital changes | **(38,147)** | (82,193) | **(18,107)** | (23,678) |
| Decrease (increase) in: | | | | |
| FVPL investments | **174,803** | (50,382) | **50,546** | (158,524) |
| Receivables | **(81,146)** | (922,913) | **(60,170)** | (930,187) |
| Inventories | **(1,648)** | (4,169) | **12,901** | (1,834) |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | **(107,871)** | (8,145) | **(9,377)** | (6,471) |
| Retirement benefits payable | **(4,973)** | - | **740** | - |
| Advances from customers | **(22,142)** | (2,400) | **(192)** | (3,019) |
| Net cash used in operations | **(81,123)** | (1,070,202) | **(23,659)** | (1,123,714) |
| Dividend received | **226,444** | 138,033 | **1,790** | 16,877 |
| Interest received | **87,149** | 73,595 | **24,313** | 23,488 |
| Interest paid | **(3,363)** | (12,948) | **26** | (2,221) |
| Income taxes paid | **(24,122)** | (4,352) | **(6,806)** | (3,321) |
| Net cash flows from (used in) operating activities | **204,984** | (875,874) | **(4,336)** | (1.088,891) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisition of subsidiary, net of cash acquired | **(141,759)** | - | **-** | - |
| Proceeds from the sale of : | | | | |
| AFS investments | **2,889,257** | 4,199,614 | **808,431** | 2,146,950 |
| Investment properties | **111,455** | - | **-** | - |
| Addition to: | | | | |
| AFS investments | **(4,515,752)** | (2,373,663) | **(1,374,086)** | (790,479) |
| Property and equipment | **(118,518)** | (12,325) | **(49,805)** | (6,131) |
| Investments properties | **-** | (2,204) | **-** | - |
| Decrease (increase) in: | | | | |
| Other assets | **77,256** | (21,306) | **33,693** | 6,707 |
| Advances to affiliates | **69,261** | 10,297 | **7,855** | (1,607) |
| Net cash flows from (used in) investing activities | **(1,628,801)** | 1,800,414 | **(573,911)** | 1,355,440 |

| | Periods Ended September 30 | | Quarters Ended September 30 | |
|---|---|---|---|---|
| | **2011** (Note 3) | 2010 | **2011** (Note 3) | 2010 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payment of notes payable | **35,775** | (285,265) | **12,014** | (149,137) |
| Payment of: | | | | |
| Long-term debt | **(24,329)** | (9,968) | **(446)** | (6,299) |
| Dividends | **(156,186)** | (144,048) | **-** | - |
| Company shares purchased by a subsidiary | **(7,324)** | (309,591) | **(3,587)** | (3,755) |
| Increase (decrease) in: | | | | |
| Deferred revenue | **(373)** | (4,212) | **175** | (4,413) |
| Minority interest | **447** | 340 | **1,770** | 334 |
| Net cash flows from (used in) financing activities | **(151,990)** | (752,744) | **9,926** | (163,270) |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **(1,269)** | (71,842) | **(9,087)** | (50,219) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,577,076)** | 99,954 | **(577,408)** | 53,059 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **2,188,124** | 594,527 | **1,188,456** | 641,422 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **611,048** | 694,481 | **611,048** | 694,481 |

***Note 3: Cash flow included the seven months cash operation of Seven Seas Resorts and Leisure, Inc. since March 1, 2011.***

# A. SORIANO CORPORATION

## PARENT COMPANY BALANCE SHEETS

**(In Thousand Pesos)**

| | 2011 | 2010 |
|---|---|---|
| | **September 30** | December 31 |
| **ASSETS** | | |
| **Cash and Cash Equivalents** | **507,020** | 2,129,518 |
| **Fair Value through Profit and Loss (FVPL) Investments** | **624,461** | 810,900 |
| **Available for Sale (AFS) Investments** | **7,491,261** | 6,040,049 |
| **Receivables - net** | **72,430** | 58,636 |
| **Investments and Advances- net** | **2,560,737** | 2,246,514 |
| **Investment Property - net** | **-** | 72,537 |
| **Property and Equipment - net** | **41,557** | 47,641 |
| **Other Assets** | **852** | 285 |
| **TOTAL ASSETS** | **11,298,318** | 11,406,079 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Dividends Payable | **134,856** | 134,856 |
| Accounts Payable and Accrued Expenses | **70,595** | 94,119 |
| Due to Affiliates | **201,910** | 66,453 |
| Retirement Benefits Payable | **11,784** | 11,784 |
| **Total Liabilities** | **419,145** | 307,212 |
| **Equity** | | |
| Capital Stock - 1 Par Value | **2,500,000** | 2,500,000 |
| Additional Paid-in Capital | **1,589,800** | 1,589,800 |
| Unrealized Valuation Gains on AFS Investments | **1,969,652** | 2,614,380 |
| Retained Earnings | **4,819,721** | 4,394,687 |
| **Total Equity** | **10,879,173** | 11,098,866 |
| **TOTAL LIABILITIES AND EQUITY** | **11,298,318** | 11,406,079 |

## A. SORIANO CORPORATION

### PARENT COMPANY STATEMENTS OF INCOME

**(In Thousand Pesos Except Earnings Per Share)**

| | Periods Ended September 30 | | Quarters Ended September 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **REVENUES** | | | | |
| Dividend income | **226,444** | 137,891 | **1,790** | 16,735 |
| Interest Income | **84,116** | 73,549 | **23,247** | 24,201 |
| Management fees | **26,170** | 23,181 | **8,435** | 8,084 |
| | **336,729** | 234,621 | **33,473** | 49,020 |
| **INVESTMENT GAINS** | | | | |
| Gain on sale of AFS investments | **547,017** | 1,384,715 | **79,517** | 673,013 |
| Gain on sale of investment property | **39,886** | - | **-** | - |
| Gains (losses) on increase (decrease) in market values of FVPL investments | **(12,414)** | 26,605 | **(11,551)** | 23,078 |
| | **574,489** | 1,411,320 | **67,966** | 696,092 |
| | **911,219** | 1,645,941 | **101,439** | 745,111 |
| Operating expenses | **(134,711)** | (102,587) | **(30,002)** | (29,485) |
| Foreign exchange loss | **(13,259)** | (71,076) | **(6,702)** | (31,746) |
| Interest expense | **(508)** | (10,901) | **(225)** | (1,508) |
| Other income – net | **15,809** | 444 | **63** | 161 |
| | **(132,669)** | (184,121) | **(36,865)** | (62,578) |
| **INCOME BEFORE INCOME TAX** | **778,550** | 1,461,820 | **64,574** | 682,533 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX – NET** | **53,516** | (5,189) | **41,080** | (21,134) |
| **NET INCOME** | **725,034** | 1,467,009 | **23,493** | 703,668 |
| **Earnings Per Share*** | **0.29** | 0.59 | **0.01** | 0.28 |

* Based on outstanding shares of 2,500,000,000 in 2011 and 2010.

# A. SORIANO CORPORATION

## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

**(In Thousand Pesos)**

| | Periods Ended September 30 | | Quarters Ended September 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **NET INCOME FOR THE PERIOD** | **725,034** | 1,467,009 | 353,980 | 703,668 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Gain (loss) on increase (decrease) in market value (AFS) investments | **(696,624)** | 1,501,134 | (329,995) | 219,254 |
| Income tax effect | **51,897** | (6,364) | 47,662 | (22,084) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | **(644,727)** | 1,494,769 | (282,333) | 197,171 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **80,307** | 2,961,778 | 71,647 | 900,838 |

# A. SORIANO CORPORATION

## PARENT STATEMENTS OF CHANGES IN EQUITY

**(In Thousand Pesos)**

| | Capital Stock | Additional Paid-in Capital | Unrealized Valuation Gains on AFS Investments | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at 12/31/2009 | 2,500,000 | 1,589,800 | 634,073 | 2,977,450 | 7,701,322 |
| Cash dividends | - | - | - | (250,000) | (250,000) |
| Comprehensive income for the period | - | - | 1,494,769 | 1,467,009 | 2,961,778 |
| Balance at 09/30/2010 | 2,500,000 | 1,589,800 | 2,128,842 | 4,194,459 | 10,413,101 |
| | | | | | |
| Balance at 12/31/2010 | 2,500,000 | 1,589,800 | 2,614,380 | 4,394,687 | 11,098,866 |
| Cash dividends | - | - | - | (300,000) | (300,000) |
| Comprehensive income for the period | - | - | (644,727) | 725,034 | 80,307 |
| **Balance at 09/30/2011** | **2,500,000** | **1,589,800** | **1,969,652** | **4,819,721** | **10,879,173** |

# A. SORIANO CORPORATION

## PARENT COMPANY STATEMENTS OF CASH FLOWS

**(In Thousand Pesos)**

| | Periods Ended September 30 | | Quarters Ended September 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before tax | **778,550** | 1,461,820 | **64,574** | 682,533 |
| Adjustment for: | | | | |
| Net foreign exchange loss | **13,259** | 71,076 | **6,702** | 31,746 |
| Loss (gain) on decrease ( increase) in market values of FVPL investment | **12,414** | (26,605) | **11,551** | (23,078) |
| Depreciation and amortization | **7,233** | 11,125 | **2.081** | 3,698 |
| Interest expense | **508** | 10,901 | **225** | 1,508 |
| Gain on sale of AFS investments | **(547,017)** | (1,384,715) | **(79,517)** | (673,013) |
| Dividend income | **(226,444)** | (137,891) | **(1,790)** | (16,735) |
| Interest income | **(84,116)** | (73,549) | **(23,247)** | (24,201) |
| Gain on sale of investment property | **(39,886)** | - | **-** | - |
| Operating loss before working capital changes | **(85,499)** | (67,837) | **(12,525)** | (17,543) |
| Increase in receivables | **(13,794)** | (924,113) | **(8,460)** | (945,478) |
| Decrease (increase) in FVPL investments | **174,803** | (50,723) | **50,546** | (158,882) |
| Increase (decrease) in accounts payable and accrued expenses | **(23,524)** | (2,594) | **2,191** | (4,447) |
| Net cash generated (used in) operations | **51,986** | (1,045,267) | **31,752** | (1,126,349) |
| Dividend received | **226,444** | 137,891 | **1,790** | 16,735 |
| Interest received | **83,469** | 70,866 | **23,138** | 22,596 |
| Interest paid | **(508)** | (10,901) | **(225)** | (1,508) |
| Income tax paid | **(1,619)** | (1,176) | **(338)** | (949) |
| Net cash flows from used in) operating activities | **359,771** | (848,588) | **56,118** | (1,089,475) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from the sale of : | | | | |
| AFS investments | **2,884,139** | 4,183,626 | **803,314** | 2,146,950 |
| Investment property | **111,455** | | **-** | |
| Additions to: | | | | |
| AFS investments | **(4,496,182)** | (2,342,609) | **(1,360,087)** | (790,479) |
| Long-term investments | **(255,901)** | | **-** | - |
| Property and equipment | **(182)** | (174) | **(20)** | (99) |
| Increase in: | | | | |
| Advances to affiliates | **(58,322)** | (109,594) | **(22,813)** | (7,878) |
| Other assets | **(567)** | (220) | **(60)** | (89) |
| Net cash flows from (used in) investing activities | **(1,815,559)** | 1,731,030 | **(579,667)** | 1,348,405 |

| | Periods Ended September 30 | | Quarters Ended September 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payment of notes payable | **-** | (278,451) | **-** | (150,000) |
| Payment of cash dividends | **(300,000)** | (250,000) | **-** | 0 |
| Increase (decrease) in due to affiliates | **135,457** | (126,968) | **(4,324)** | (346) |
| Net cash flows used in financing activities | **(164,543)** | (655,419) | **(4,324)** | (150,346) |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **(2,167)** | (74,037) | **(3,838)** | (52,062) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,622,498)** | 152,986 | **(531,710)** | 56,523 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **2,129,518** | 474,116 | **1,038,730** | 570,579 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **507,020** | 627,102 | **507,020** | 627,102 |

## 1. Segment Information

Information with regard to the Company's significant business segments are shown below (in thousand pesos):

| | Before Eliminations | | | | | | After Eliminations |
|---|---|---|---|---|---|---|---|
| | US-based Nurse/PT Staffing Co**. | Resort Operation (Note 2) | Other Operations (Note 1) | Holding Co. (Parent) | Total | Eliminations | **Consolidated** |
| **SEPTEMBER 30, 2011** | | | | | | | |
| REVENUES | 745,976 | 260,759 | 278,537 | 911,219 | 2,196,491 | (133,520) | **2,062,971** |
| NET INCOME (LOSS) | (4,703) | (22,032) | 139,111 | 725,034 | 837,410 | (111,472) | **725,938** |
| | | | | | | | |
| TOTAL ASSETS | 811,663 | 894,113 | 937,043 | 11,298,318 | 13,941,137 | (2,116,615) | **11,824,521** |
| INVESTMENT PORTFOLIO * | - | 70,290 | 770,966 | 10,676,459 | 11,517,715 | (2,326,997) | **9,190,720** |
| PROPERTY, PLANT & EQUIPMENT | 7,829 | 598,466 | 141,579 | 41,557 | 789,430 | 115,205 | **904,636** |
| TOTAL LIABILITIES | 257,310 | 264,147 | 1,064,664 | 419,145 | 2,005,266 | (1,184,129) | **821,137** |
| | | | | | | | |
| DEPRECIATION AND AMORTIZATION | 4,278 | 44,881 | 20,357 | 7,233 | 76,749 | - | **76,749** |

| | Before Eliminations | | | | | After Eliminations |
|---|---|---|---|---|---|---|
| | US-based Nurse/PT Staffing Co**. | Other Operations (Note 1) | Holding Co. (Parent) | Total | Eliminations | **Consolidated** |
| **SEPTEMBER 30, 2010** | | | | | | |
| REVENUES | 506,305 | 240,100 | 1,645,941 | 2,392,346 | (47,726) | **2,344,620** |
| NET INCOME | (39,052) | 97,352 | 1,467,009 | 1,525,309 | (47,670) | **1,477,639** |
| | | | | | | |
| TOTAL ASSETS | 713,837 | 709,670 | 10,629,158 | 12,052,665 | (1,511,580) | **10,541,085** |
| INVESTMENT PORTFOLIO * | - | 520,867 | 8,910,938 | 9,431,805 | (1,517,800) | **7,914,005** |
| PROPERTY, PLANT & EQUIPMENT | 5,333 | 121,591 | 49,660 | 176,584 | - | **176,584** |
| TOTAL LIABILITIES | 152,004 | 851,466 | 216,058 | 1,219,528 | (662,463) | **557,065** |
| | | | | | | |
| DEPRECIATION AND AMORTIZATION | 6,136 | 23,325 | 11,125 | 40,585 | - | **40,585** |

**** Inclusive of FVPL investments, AFS investments, advances & investments and investment properties.***

***** Excluding IQHPC operations which were consolidated into IQMAN, the latter formed part of other operations.***

***Note 1 Other than Cirrus Global, Inc. (formerly IQMAN) consolidated operations, also included are the operations of A. Soriano Air Corporation, Anscor International, Inc. and Anscor Property Holdings, Inc.***

***Note 2 Included the seven months (since March 1, 2011 when majority interest was acquired) operation of Seven Seas Resorts and Leisure, Inc.***

- The Company and its subsidiaries' operating businesses are organized and managed separately according to the nature of the products or services offered.
- Nurse staffing segment engages in the contract and temporary staffing and permanent placement of nurses and allied healthcare professional (e.g. physical therapists) in the USA.
- Holding company segment pertains to the operation of the parent company with earnings from income of its financial and operating investment assets.
- Other operations include hangarage, real estate holding and management and manpower services.

## 2. Accounting Policies

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

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended*), Consolidated and Separate Financial Statements*, introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. PAS 27 (amended) requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and 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 PAS 27 (amended) must be applied retrospectively, with certain exceptions.

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

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

- Amendment to PFRS 2, *Share-based Payment - Group Cash settled Share-based Payment Transactions*, clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

*Improvements to PFRSs*

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

*Improvements to PFRSs 2008*

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

*Improvements to PFRSs 2009*

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

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

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

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

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

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 34, *Interim Financial Reporting*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

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

The Group will adopt the following standards and interpretations enumerated below when these become effective subsequent to January 1, 2010. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

*Effective in 2011*

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- PAS 24 (Amended), *Related Party Disclosures*, clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equities*, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished.

- Philippine Interpretation IFRIC 14, *Prepayments of Minimum Funding Requirement*, provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied retrospectively but is deemed to have no impact on the financial statements of the Group.

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

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

*Effective in 2012*
- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- PAS 12, *Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets*, will be effective for annual periods beginning on or after 1 January 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures–Transfers of Financial Assets*, will be effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

*Effective in 2013*

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

## 3. 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 Group's other financial instruments include accounts payable and dividends payable and amounts due to affiliates, which arose directly from operations.

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. The Group does not have a customer that accounts for more than 10% of the consolidated revenue.

*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.

*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 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.

*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.

*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.

   *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.

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.

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.

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.

*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 periods ended September 30, 2011 and December 31, 2010.

b. Cirrus' and Cirrus Global, Inc.'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.

Cirrus Global, Inc. monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet.

Cirrus Global, Inc. 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.

## 4. Business Combination

In February 2011, Anscor purchased additional 16.3% of Seven Seas Resorts and Liesure, Inc. (SSRLI) from minority shareholders of SSRLI. As a result, the shareholdings of Anscor increased from the present 46% to 62.3% of the total outstanding common and preferred shares of SSRLI and it's therefore consolidated in Anscor balances starting March 1, 2011. SSRLI is the owner of Amanpulo Resort.

The fair value of investment previously held as investment in associates (46% stake) at the acquisition date using the discount rate of 13.5% amounted to P304.0 million.

The total consideration was allocated to assets acquired and liabilities assumed on a provisional assessment of fair value. Adjustments to the provisional amounts will be determined within one year from the date of acquisition.

The fair values of the identifiable assets and liabilities of SSRLI as of February 28, 2011 were:

| | Fair Value Recognized on Acquisition (in millions) |
|---|---|
| Cash and cash equivalents | P 114.1 |
| Trade and other receivables | 119.4 |
| Inventories | 47.9 |
| Property development in progress | 38.0 |
| Property and equipment | 680.7 |
| Land held for future development | 28.5 |
| Prepayments and other assets | 67.3 |
| **Total assets** | **1,095.9** |
| Short-term debt | 40.0 |
| Accounts payable and accrued expenses | 138.3 |
| Income tax payable | 7.1 |
| Long-term debt | 103.8 |
| Deferred tax liability | 34.6 |
| Other liabilities | 41.1 |
| **Net assets** | **731.0** |
| Less: Noncontrolling interest | (275.6) |
| **Balance** | **455.4** |
| **Goodwill arising from the acquisition** | **104.5** |
| **Total consideration** | **P 559.9** |

The cost of the combination was P559.9 million broken down as follows (in millions):

| | |
|---|---|
| Cash consideration (16.3%) | P 255.9 |
| Fair value of investment previously held as investment in associates (46%) | 304.0 |
| **Total consideration** | **P 559.9** |

## 5. Financial Condition

The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.0% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group as of September 30, 2011 versus December 31, 2010.

***Cash and Cash Equivalents***

The decrease in cash and cash equivalents can be attributed to net cash flows used in investing and financing activities total of P1.8 billion which included additional AFS investments and property and equipment; and payment of dividends. Cash generated from operating activities amounted to P205.0 million

(Please see attached consolidated cash flow statements for detailed analysis of cash movements.)

***Fair Value Through Profit and Loss (FVPL) Investments***

The decrease in the account can be attributed to the net sale for the period of about P174.8 million. The market value of foreign denominated investment in bonds, stocks and funds decreased by P12.6 million vs. December 31, 2010 market values.

***Receivables***

The increase in receivables was mainly due consolidation of SSRLI balances as of September 30, 2011.

***Inventories***

Inventories increased by P49,5 million, one of the reasons was the consolidation of SSRLI inventories. Also, minimal purchases were made in 2011 for spare parts and supplies needed by the aviation subsidiary.

***Prepayments and Other Current Assets***

Change in the account balance can be attributed mainly to the net reduction in refundable/miscellaneous deposits by the air transport subsidiary.

***Investments and Advances***

By consolidating SSRLI, investments and advances decreased by P299.2 million, the booked value of the 46% holdings of Anscor in SSRLI held as investment in associate as of February 28, 2011.

The decrease in investments and advances was offset by equity earnings of associates amounting to P71.6 million for the three quarters of 2011.

***Available for Sale (AFS) Investments***

Change in the account can be attributed mainly to the net additions that were mostly in bonds, equity funds and traded equities amounting to P1.6 billion. There was a decrease of about P706.1 million in market value of AFS investments. Foreign exchange loss from translation of foreign currency-denominated AFS investments amounted to P14.0 million.

***Investment Properties***

The parent company sold the 34th floor of Enterprise Center with a book value of P71.6 million as of February 28, 2011 which resulted to reduction in the investment properties account.

The reduction in the account was offset by the consolidation of SSRLI balances by about P28.5 million.

Depreciation for the period amounted to P1.0 million.

***Property, Plant and Equipment - net***

The consolidation of SSRLI increases the property, plant and equipment by P598.5 million. As required by the new accounting standard for business combination, when Anscor increased its stake in SSRLI from 46% to 62.3%, the net assets of SSRLI were valued at P765.6 million using discounted cash flow from operations (including future PPE acquisition) for the next 10 years, reduced by its book value of P650.4 million as of February 28, 2011, resulting in an upward adjustment in fair value attributable to property, plant and equipment amounting to P115.2 million.

Depreciation charged to operations amounted to P75.8 million. Additions to property and equipment amounted to P118.5 million.

***Goodwill***

The provisional goodwill that arises from the acquisition of SSRLI amounted to P104.5 million. This goodwill calculation is subject to review by the external auditors at year end. This explains the increase in the account.

The goodwill from US-based staffing business, amounting to P510.9 million as of December 31, 2010 decreased by P2.7 million due to foreign exchange loss of the peso equivalent of the dollar investment.

***Other Noncurrent Assets***

Change in the account balance can be attributed mainly to the net reduction in deposits and clearing accounts by the air transport subsidiary.

***Notes Payable***

The increase in the account was mainly due to consolidation of SSRLI balances as of September 30, 2011.

***Accounts Payable and Accrued Expenses***

The changed in the account was mainly due to consolidation of SSRLI balances as of September 30, 2011.

***Income Tax Payable***

Movement in the account was attributable to income tax payment made by the group for the first six months of 2011 offset by the provision for income for the period ended September 30, 2011.

***Advances from Customer***

The 2010 balance was a related party transaction between the Aviation subsidiary and Seven Seas. For 2011, the whole amount was eliminated during the consolidation since Seven Seas is already a subsidiary of Anscor.

***Long-term debt***

The account balance increased as a result of the consolidation of SSRLI balances as of September 30, 2011.

***Retirement benefits payable***

The increase in the account was due to consolidation of SSRLI balances as of September 30, 2011.

***Deferred Income Tax Liability***

Deferred tax effect of the fair value adjustment on property, plant and equipment of SSRLI amounted to P34.6 million (30% of P115.3 million).

***Unrealized valuation gains on AFS investments (equity portion)***

The decrease in market values of AFS investments from December 31, 2010 to September 30, 2011 amounted P652.0 million, net of deferred income taxes. When the assets are sold, the gain or loss is realized and will be reflected in the consolidated statements of income.

***Cumulative Translation Adjustment***

This account includes translation adjustments of Anscor International, Inc., Cirrus Medical Staffing, Inc. and Cirrus Global, Inc. (formerly IQMAN)**.**

***Noncontrolling interests***

Increase in noncontrolling interests was mainly due to share of minority shareholders on net assets of SSRLI as September 30, 2011.

***Others***

There were no commitments for major capital expenditures in 2011.

## 6. Results of Operation

Management is not aware of any known trends, events or uncertainties except for political and market uncertainties that may have material impact on the Company's recurring revenues and profits.

*The following are the key performance indicators for the Parent Company (In thousand pesos except earnings per share and market price per share):*

| | Periods ended September 30 | |
|---|---|---|
| | ***2011*** | ***2010*** |
| *Revenues (excluding investment gains or losses)* | *336,729* | *234,621* |
| *Investment Gains* | *574,489* | *1,411,320* |
| *Net Income* | *725,034* | *1,467,009* |
| *Earnings Per Share* | *0.29* | *0.59* |
| | | |
| *Market Price Per Share (PSE)* | *3.20* | *3.12* |

**The discussions below were based on the consolidated results of the Company and its subsidiaries.**

***Revenues***
This year's consolidated gross revenues of P2.1 billion was 12.0% lower than last year's revenue of P2.3 billion. The gain from sale of AFS investments was significantly lower compared to the gain reported the same period last year. This reduction in revenues was partially offset by improved service revenues of Cirrus group and inclusion of SSRLI's P260.8 million hotel revenues for the period March 1 to September 30, 2011.

***Cost of Services Rendered***
Increase in cost of services rendered was mainly attributable to higher cost of services of nurse staffing business (as a result of improved revenues) and consolidation of SSRLI cost of services for the period March 1 to September 30, 2011.

***Operating Expenses***
Operating expenses increased as a result of consolidation of SSRLI operating expenses for the period March 1 to September 30, 2011.

***Recoveries (Valuation Allowances) - net***
As a result of recovery in market values of some AFS investments mostly from bonds, previously booked provisions were reversed.

***Foreign Exchange Loss***

Due to the appreciation of peso vis-à-vis US dollar and euro, the peso value of foreign currency-denominated investments of the Group decreased which resulted to foreign exchange loss.

***Interest Expense***

The Group reported lower charges for interest expense in 2011 resulting from payment of the parent company of its loan. Despite the pick up in the consolidated balance sheet of SSRLI's loans/debt, the interest expense that was considered only pertained to March 1 to September 30, 2011, as the effectivity of consolidation of income statement accounts of SSRLI was March 1, 2011.

***Other Income***

Other income reported in 2011 pertains mainly to gain from fair value adjustment of net assets of acquired subsidiary and forfeiture of rental deposit from lessee by the parent company.

***Provision for Income Tax - net***

The current provision for income tax of the group increased due to consolidation of SSRLI's income tax expense of P8.4 million for the period March 1 to September 30, 2011. The parent company sets up provision for deferred income tax liability on uncollected management fee during the year and wrote off the tax benefit on unrealized foreign exchange loss and unrealized loss from decrease in market value of AFS investments.

***Noncontrolling Interests***

Increase in noncontrolling interests was mainly due to share of minority shareholders on reduced losses of Cirrus Global, Inc. and Cirrus Medical Staffing, Inc. and the share of minority shareholders on results of SSRLI from March 1 to September 30, 2011.

**7. Cash Flows**

Management has no knowledge of known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

## 8. Financial information

- There is neither a change in composition of the registrant, no business combination nor any restructuring.
- There are no seasonality or cyclicality trends in the business that would have material effect on the Company's result of operations and financial condition.

In the interim period:

- The consolidation of SSRLI balances due to increase of Anscor's shareholdings from 46.0% to 62.30% changed the composition of assets, liabilities, equity, net income and cash flows in the consolidated financial statements reported by the Group.
- No issuance or repayment of equity securities.
- The parent company has not repurchased its equity securities but its 100%-owned subsidiary, Anscor Consolidated Corporation, purchased 2.2 million Anscor shares amounting P7.3 million during the nine months of 2011 and todate owns 1,200,661,093 shares of Anscor.
- No contingent assets or liabilities since the last annual balance sheet date.
- No material contingencies and any event or transactions that are material to the understanding of the operating results of the current interim period.
- No events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.
- No material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the company with unconsolidated entities of other persons created during the reporting period.

## 9. Subsequent Events

a. The Board of Directors of Anscor, in its meeting held on October 11, 2011, approved a cash dividend of Twelve Centavos (P0.12) per share payable on November 21, 2011 to all stockholders of record as of October 26, 2011.

b. On October 24, 2011, Anscor International, Inc., a wholly owned subsidiary of Anscor invested US$3.0 million (P131.25 million) in P.E Media Holdings LLC (PEMH), a Delaware limited liability company. PEMH owns social media companies with a goal of creating a safe on-line environment for "Tweens" (children 13 years old and under).

## 10. Subsidiaries and Affiliates

***Phelps Dodge Philippines (PDP)***

The following are the key performance indicators for Phelps Dodge Philippines (In thousand pesos except volume and earnings per share):

| | Periods Ended September 30 | |
|---|---:|---:|
| | ***2011*** | *2010* |
| *Volume sold (MT)* | | |
| *Domestic* | **6,775** | 7,345 |
| *Export* | **2,245** | 813 |
| *Total* | **9,020** | 8,158 |
| | | |
| *Revenue* | **4,867,884** | 3,753,431 |
| *Marginal Income* | **463,188** | 443,394 |
| *Net Income* | **168,271** | 169,159 |

PDP's 2011 volume of deliveries netted to 10.6% higher as compared to 2010 due to the increase in sales of PD Energy International, the PEZA Company intended for export of low and medium voltage power cables to General Cable Australia (813MT of 2010 vs. 2,245MT of 2011). Domestic Sales volume was lower by 7.8%, however it contributed higher margins due to higher average selling prices attributable to the increased cost of metal as compared to the first nine months of 2010.

PDP posted a net income of P168.3 million for the nine months of 2011, slightly lower than the P169.2 million net income realized last year for the same period.

***Seven Seas' Amanpulo Resort*** ended up with an occupancy rate of 46.02% for this period, lower than the 2010 average occupancy rate of 47.58%. Average room rate at US$902.00, almost the same level as last year. Total hotel revenues amounted to P365.3million, lower by P1.8 million from last year's revenues of P367.1 million. Gross operating profit (GOP) of P99.1 million, decreased versus 2010's GOP by 20.7%. Cancellations of booking from the Japanese market and the Tsunami scare unfavorably affected the occupancy and business volume for the period.

Seven Seas reported a net loss of P2.6 million for nine months of 2011. Higher depreciation expense, appreciation of the peso vis a vis US dollar and low occupancy contributed to net loss.

**Cirrus Group**

*Cirrus Medical Staffing, Inc.* registered $17 million revenue as of September 2011, a 53% increase vis-à-vis the same period last year. Total revenue including the website/community division is $17.2 million. The Nursing and Therapy divisions increased their revenues by 57% and 51%, respectively.

Cirrus is re-aligning its business strategy to take advantage of the improving US market. Unemployment rates have been at its lowest at 8.8% since February of 2008. In March, overall temporary staffing grew by 17%. Staffing Industry analysts' project that travel nursing will grow 7% in 2011 and 15% in 2012. Allied health services are projected to grow 4% and 10% in 2011 and 2012, respectively.

*Cirrus, Global, Inc. (formerly International Quality Manpower Services, Inc.)* reported a net loss for nine months of 2011. The company's operations have been restricted due to the delayed processing of EB-3 immigrant visas for nurses destined for employment in the U.S.

A. Soriano Corporation has the following direct/indirect subsidiaries/associates as of December 31, 2011:

| Company | % of Ownership | Business | Jurisdiction |
|---|---|---|---|
| A. Soriano Air Corporation | 100% | Service/Rental | Philippines |
| Pamalican Island Holdings, Inc. | 62% | Holding Company | Philippines |
| Island Aviation, Inc. | 62% | Air Transport | Philippines |
| Anscor Consolidated Corporation | 100% | Holding Company | Philippines |
| Anscor International, Inc. | 100% | Holding Company | British Virgin Island |
| IQ Healthcare Investments Limited | 100% | Manpower Services | British Virgin Island |
| Cirrus Medical Staffing, Inc. | 94% | Manpower Services | USA |
| Cirrus Holdings USA, LLC | 94% | Manpower Services | USA |
| Cirrus Allied, LLC (formerly MDI Medicals, LLC) | 94% | Manpower Services | USA |
| NurseTogether, LLC | 94% | Online Community Management | USA |
| Anscor Property Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Makatwiran Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Makisig Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Malikhain Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Akapulko Holdings, Inc. | 100% | Real Estate Holding | Philippines |
| Sutton Place Holdings, Inc. | 100% | Holding Company | Philippines |
| Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.) | 93% | Manpower Services | Philippines |
| IQ Healthcare Professional Connection, LLC | 93% | Manpower Services | Houston, Texas, USA |
| Seven Seas Resorts and Leisure, Inc. * | 62% | Villa Project Development | Philippines |
| Pamalican Resort, Inc. | 62% | Resort Operations | Philippines |
| New Co, Inc. | 45% | Real Estate | Philippines |
| AFC Agribusiness Corporation | 45% | Real Estate | Philippines |
| Anscor-Casto Travel Corporation | 44% | Travel Agency | Philippines |
| Phelps Dodge International Philippines, Inc. | 40% | Holding Company | Philippines |
| Minuet Realty Corporation | 60% | Landholding | Philippines |
| Phelps Dodge Philippines Energy Products Corporation | 40% | Wire Manufacturing | Philippines |
| PD Energy International Corporation | 40% | Wire Manufacturing | Philippines |
| Vicinetum Holdings, Inc. | 27% | Holding Company | Philippines |
| Columbus Technologies, Inc. | 27% | Holding Company | Philippines |
| Multi-media Telephony, Inc. | 27% | Broadband Services | Philippines |
| Enderun Colleges, Inc. | 20% | Culinary School | Philippines |
| Prople, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-bpo, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-kpo, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| Prople-contents, Inc. | 20% | Business Processing & Outsourcing | Philippines |
| DirectWithHotels, Inc. | 16% | Online Hotel Reservation | Philippines |
| KSA Realty Corporation | 11% | Realty | Philippines |

Cirrus Medical Staffing, Inc.
and Subsidiaries
*(A Subsidiary of IQ Healthcare Investment Ltd.)*

Consolidated Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

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

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors
Cirrus Medical Staffing, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Cirrus Medical Staffing, Inc. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cirrus Medical Staffing, Inc. and subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-1 (Group A),
February 2, 2012, valid until February 1, 2015
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174818, January 2, 2012, Makati City

February 16, 2012

## CIRRUS MEDICAL STAFFING, INC. AND SUBSIDIARIES
**(A Subsidiary of IQ Healthcare Investment Ltd.)**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | **$216,951** | $544,803 |
| Trade and other receivables (Note 5) | **3,835,735** | 2,711,719 |
| Prepaid expenses and other current assets (Note 6) | **223,384** | 245,774 |
| **Total Current Assets** | **4,276,070** | 3,502,296 |
| **Noncurrent Assets** | | |
| Property and equipment (Note 7) | **145,771** | 140,586 |
| Goodwill (Note 8) | **13,937,537** | 13,934,878 |
| Deferred income tax assets - net (Note 16) | **976,641** | 959,646 |
| Other noncurrent assets (Note 9) | **47,044** | 118,713 |
| **Total Noncurrent Assets** | **15,106,993** | 15,153,823 |
| **TOTAL ASSETS** | **$19,383,063** | $18,656,119 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade payables and other liabilities (Note 10) | **$1,597,101** | $1,303,233 |
| Loans payable (Note 11) | **479,864** | 208,838 |
| **Total Current Liabilities** | **2,076,965** | 1,512,071 |
| **Noncurrent Liability** | | |
| Contingent liability - net of current portion (Note 8) | **–** | 223,582 |
| Advances from a related party (Note 15) | **3,490,000** | 2,990,000 |
| **Total Noncurrent Liabilities** | **3,490,000** | 3,213,582 |
| **Total Liabilities** | **5,566,965** | 4,725,653 |
| **Equity** (Note 12) | | |
| Capital stock | **16** | 16 |
| Additional paid-in capital | **15,513,309** | 15,513,309 |
| Deficit | **(1,697,227)** | (1,582,859) |
| **Total Equity** | **13,816,098** | 13,930,466 |
| **TOTAL LIABILITIES AND EQUITY** | **$19,383,063** | $18,656,119 |

*See accompanying Notes to Consolidated Financial Statements.*

## CIRRUS MEDICAL STAFFING, INC. AND SUBSIDIARIES
**(A Subsidiary of IQ Healthcare Investment Ltd.)**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **SERVICE REVENUES** | **$23,054,395** | $15,774,020 |
| **COST OF SERVICES** (Note 13) | **(17,805,346)** | (12,058,936) |
| **GROSS PROFIT** | **5,249,049** | 3,715,084 |
| **OPERATING EXPENSES** (Note 14) | **(5,246,588)** | (4,853,289) |
| **OTHER INCOME (CHARGES)** | | |
| Interest expense (Notes 11 and 15) | **(181,090)** | (111,635) |
| Interest income | **1,335** | 141 |
| Others - net | **45,931** | 408,867 |
| **LOSS BEFORE INCOME TAX** | **(131,363)** | (840,832) |
| **BENEFIT FROM INCOME TAX** (Note 16) | **(16,995)** | (323,142) |
| **NET LOSS** | **(114,368)** | (517,690) |
| **OTHER COMPREHENSIVE INCOME** | **–** | – |
| **TOTAL COMPREHENSIVE LOSS** | **($114,368)** | ($517,690) |

*See accompanying Notes to Consolidated Financial Statements.*

## CIRRUS MEDICAL STAFFING, INC. AND SUBSIDIARIES
**(A Subsidiary of IQ Healthcare Investment Ltd.)**

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | Capital Stock | Additional Paid-in Capital | Deficit | Total |
|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 2009** | **$16** | **$15,500,984** | **($1,065,169)** | **$14,435,831** |
| Increase in capital (Note 12) | – | 12,325 | – | 12,325 |
| Total comprehensive loss for the year | – | – | (517,690) | (517,690) |
| **BALANCE AT DECEMBER 31, 2010** | **16** | **15,513,309** | **(1,582,859)** | **13,930,466** |
| Total comprehensive loss for the year | – | – | (114,368) | (114,368) |
| **BALANCE AT DECEMBER 31, 2011** | **$16** | **$15,513,309** | **($1,697,227)** | **$13,816,098** |

*See accompanying Notes to Consolidated Financial Statements.*

**CIRRUS MEDICAL STAFFING, INC. AND SUBSIDIARIES**
**(A Subsidiary of IQ Healthcare Investment Ltd.)**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before income tax | **($131,363)** | ($840,832) |
| Adjustments for: | | |
| Interest expense (Notes 11 and 15) | **181,090** | 111,635 |
| Depreciation and amortization (Notes 7, 9 and 14) | **137,226** | 175,999 |
| Gain from reversal of contingent consideration (Note 8) | **(132,868)** | – |
| Provision for impairment loss (Notes 5 and 14) | **33,621** | 15,980 |
| Interest income | **(1,335)** | (141) |
| Operating income (loss) before working capital changes | **86,371** | (537,359) |
| Increase (decrease) in: | | |
| Trade and other receivables | **(1,160,296)** | (732,683) |
| Prepaid expenses and other current assets | **22,390** | (101,196) |
| Other noncurrent assets | **–** | (13,384) |
| Increase (decrease) in trade payables and other liabilities | **45,454** | (43,899) |
| Net cash used in operating activities | **(1,006,081)** | (1,428,521) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of: | | |
| Property and equipment (Note 7) | **(53,455)** | (33,542) |
| Computer software (Note 9) | **(17,287)** | (9,514) |
| NurseTogether, LLC, net of cash acquired (Note 8) | **–** | (545,652) |
| Interest received | **1,335** | 141 |
| Net cash used in investing activities | **(69,407)** | (588,567) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Advances from a related party (Note 15) | **500,000** | 840,000 |
| Availment of loans payable (Note 11) | **479,864** | 208,838 |
| Payment of loans payable (Note 11) | **(208,838)** | – |
| Interest expense paid | **(23,390)** | (4,635) |
| Net cash generated from financing activities | **747,636** | 1,044,203 |
| **NET DECREASE IN CASH** | **(327,852)** | (972,885) |
| **CASH AT BEGINNING OF YEAR** | **544,803** | 1,517,688 |
| **CASH AT END OF YEAR** | **$216,951** | $544,803 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information and Authorization for Issuance of Consolidated Financial Statements

Corporate Information

Cirrus Medical Staffing, Inc., formerly Medtivia, Inc. (Medtivia), was incorporated on July 7, 2007 in the State of Delaware and is a 91.9% owned subsidiary of A. Soriano Corporation (ANSCOR), a Philippine holding company, thru IQ Healthcare Investment Ltd. (IQHIL). Medtivia was established to become the primary acquisition vehicle and holding company of ANSCOR investments in the United States (US).

On January 19, 2008, ANSCOR, through Medtivia, entered into a Purchase Agreement for the acquisition of all the outstanding equity interests in Cirrus Holdings USA, LLC and its affiliate, Cirrus Medical Staffing, LLC (collectively, Cirrus LLC). IQHIL provided the funding for the acquisition through a promissory note issued by Medtivia. Subsequent to the acquisition, Medtivia was renamed to Cirrus Medical Staffing, Inc. in March 2008. Cirrus Holdings USA, LLC is engaged in the contract of temporary staffing and permanent placement of nurses and other allied healthcare professionals in the US.

Cirrus Holdings USA, LLC recruits nurses and other allied healthcare professionals and places them on assignments of variable lengths and in permanent positions at acute-care hospitals and other healthcare facilities throughout the US. Cirrus staffing services are marketed to two distinct groups: (1) healthcare professionals and (2) hospitals and healthcare facilities.

On July 18, 2008, ANSCOR, through Cirrus Medical Staffing, Inc. entered into a Purchase Agreement for the acquisition of all the outstanding membership units in Cirrus Allied, LLC (formerly MDI Medical, LLC), which is a Georgia limited liability company providing temporary staffing services of allied healthcare professional in the US.

Cirrus Allied, LLC specializes in the placement of travel therapists and therapist assistants, focusing in Physical Therapy, Occupational Therapy and Speech Language Pathology. Cirrus Allied, LLC recruits therapists and assistants and places them on contracts at variable lengths with hospitals, skilled nursing facilities, home health and clinics throughout the US.

On December 10, 2010, Cirrus Medical Staffing, Inc. entered into a Purchase Agreement for the acquisition of all the outstanding membership units in NurseTogether, LLC (NT), which is a Florida limited liability company engaged in the ownership and management of healthcare professional online communities.

Cirrus Medical Staffing, Inc., Cirrus Holdings USA, LLC, Cirrus Allied, LLC and NurseTogether, LLC complement one another and are collectively called Cirrus (or the "Company"). They will be presented as the consolidated financial statements of Cirrus Medical Staffing, Inc. and subsidiaries.

Authorization for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Company as of and for the years ended December 31, 2011 and 2010 were authorized for issue by the Company's Board of Directors (BOD) on February 16, 2012.

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

Basis of Preparation

The consolidated financial statements of the Company have been prepared on a historical basis and are presented in United States Dollars (USD), which is the Company's functional and presentation currency. Amounts are presented to the nearest dollar unless otherwise stated.

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance 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 amended PFRS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) and amendments to existing Philippine Accounting Standards (PAS) and PFRS effective January 1, 2011. Unless otherwise indicated, the adoption of these changes did not significantly affect the Company's financial statements.

- Amendment to PAS 24, *Related Party Disclosures*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

*Improvements to PFRS Issued in 2010*

The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of these amendments did not significantly impact the financial position or performance of the Company.

- PFRS 7, *Financial Instruments: Disclosures*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements*, clarifies that an entity may present an analysis of each component of other comprehensive income either maybe in the statement of changes in equity or in the notes to the financial statements.

The following interpretation and amendments to PAS and interpretations did not have any significant impact on the accounting policies, financial position or performance of the Company:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
- Amendment to PAS 34, *Interim Financial Reporting*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2011

The Company will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS to have a significant impact on the financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

*Effective in 2012*

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and will have no impact on the Company's financial position or performance.

- Amendment to PAS 12, *Income Taxes - Deferred Taxes*: *Recovery of Underlying Assets*, introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. The amendments also introduce the requirements that deferred tax on non-depreciable assets measured using the revaluation model on property, plant and equipment should always be measured on a sale basis.

*Effective in 2013*

- Amendments to PAS 1, *Financial Statement Presentation*, improve how we present components of other comprehensive income. The new requirements are effective for annual periods beginning on or after July 1, 2012.

- Amendment to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

- PFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard defines control when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. PFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation - Special Purpose Entities* and PAS 27. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements in PAS 27. Earlier application is permitted.

- PAS 27, *Separate Financial Statements* (as revised in 2011), as a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PFRS 11, *Joint Arrangements*, supersedes PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. This standard describes the accounting for joint arrangements with joint control. Further, proportionate consolidation is not permitted for joint ventures under the new definition of a joint venture. Earlier application is permitted.

- PAS 28, *Investment in Associates and Joint Ventures* (as revised in 2011), as a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 12, *Disclosures of Involvement with Other Entities*, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Earlier application is permitted.

- PFRS 13, *Fair Value Measurement*, establishes new guidance on fair value measurement and disclosures. Earlier application is permitted.

*Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective in 2015*

- PFRS 9, *Financial Instruments*, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39. The approach in this new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

  The Company decided not to early adopt PFRS 9 for its 2011 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2011 do not reflect the impact of the said standard.

  The Company shall conduct another impact evaluation in early 2012 using the consolidated financial statements for the year ended December 31, 2011. Given the amendments on PFRS 9, *Financial Instruments*, the Company at present, does not plan to early adopt in 2012 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

  The Company's receivables, deposits, accounts payable and accrued expenses, loans payable and advances may be affected by the adoption of this standard.

*Effectivity date to be determined*

- Philippine Interpretation IFRIC 15, *Agreements 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. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

## 3. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Cirrus Medical Staffing, Inc. and wholly-owned subsidiaries, Cirrus Holdings USA, LLC, Cirrus Allied, LLC and NurseTogether, LLC.

Subsidiaries are consolidated from the date of acquisition, being the date on which control is transferred to the Company 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, are eliminated in full.

Cash
Cash includes cash in banks.

Financial Instruments
*Date of recognition*
Financial instruments within the scope of PAS 39 are recognized in the consolidated statement of financial position when the Company 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 using trade date accounting. Derivatives are also recognized on a trade date basis.

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

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

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

*"Day 1" difference*
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data which is not observable was used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

*Financial assets and financial liabilities at FVPL*
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if these are acquired for the purposes of selling and repurchasing in the near term.

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, 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 statement of financial position at fair value. Subsequent changes in fair value are recognized in profit or loss. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

As of December 31, 2011 and 2010, the Company has no financial assets and financial liabilities designated as at FVPL.

*HTM investments*
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company’s management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in profit or loss when the HTM investments are derecognized and impaired, as well as through the amortization process.

The effects of restatement on foreign currency-denominated HTM investments are also recognized in profit or loss.

The Company has no HTM investments as of December 31, 2011 and 2010.

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

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest 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. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2011 and 2010, the Company's loans and receivables include cash, trade and other receivables and deposits.

*AFS financial assets*
AFS financial assets are those nonderivative financial assets which are designated as such or do not qualify to be classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are classified as current assets if management intends to sell these financial assets within 12 months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

After initial measurement, AFS financial assets are measured at fair value, with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognized in profit or loss. Accounting for the movement in equity is presented in the consolidated statement of changes in equity.

The Company has no AFS financial assets as of December 31, 2011 and 2010.

*Other financial liabilities*
Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability.

The liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

Other financial liabilities are classified as current liabilities if maturity is within the normal operating cycle of the Company and it does not have unconditional right to defer settlement of the liability for at least 12 months from the end of reporting period. Otherwise, these are classified as noncurrent liabilities.

As of December 31, 2011 and 2010, the Company's other financial liabilities include trade payables and other liabilities, loans payable, contingent liability and advances from a related party.

Derecognition of Financial Assets and Liabilities
*Financial assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset expire;
- the Company retains the right to receive cash flows from the asset, but has assumed as obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

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

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, th asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liabilities*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

<u>Impairment of Financial Assets</u>
The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables carried at amortized cost, the Company first assesses whether an objective evidence of impairment (such as the probability of insolvency or significant financial difficulties of the debtor) exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company 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.

If there is an objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying value of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. If in case the receivable has been proven to have no realistic prospect of future recovery, any allowance provided for such receivable is written off against the carrying value of the impaired receivable. Interest income continues to be recognized based on the original effective interest rate of the asset. 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. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

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

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization and impairment in value, if any.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditure for additions, major improvements and renewals are capitalized, expenditure for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which generally range from three to seven years.

Leasehold improvements are amortized over the term of the lease or the estimated useful life of five years, whichever is shorter.

Depreciation or amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that it is classified as held for sale) and the date the asset is derecognized.

The estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each end of reporting period to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

Software
Acquired computer software licenses are capitalized on the basis of the cost incurred to acquire and install the specific software. Software licenses are included in “other noncurrent assets” account in the consolidated statement of financial position. Costs associated with maintaining computer software are expensed as incurred. Capitalized costs are amortized on a straight-line basis over the estimated useful life of three years.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business

combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in operating expenses.

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

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statements of comprehensive income. After initial recognition goodwill is not amortized but instead is measured at cost less any accumulated impairment losses. In accordance with PAS 38, *Intangible Assets*, these assets are reviewed for impairment annually with any related losses recognized in earnings when incurred.

*Business combinations prior to January 1, 2010*
Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

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

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

Provisions and Contingencies
Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of its present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, where the time value of money is material, long-term provisions are discounted to their present value using a pre-tax rate that reflects market assessments and the risks specific to the obligation.

Provisions are reviewed at each end of reporting period and adjusted to reflect its current best estimate.

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

<u>Equity</u>
Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Deficit includes all current and prior period operating results as disclosed in profit or loss.

<u>Revenue and Cost Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company has assessed its revenue arrangements against specific criteria in order to determine if it is acting as the principal or agent and concluded that it is acting as the principal in all arrangements. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from services consists primarily of temporary staffing revenue. Revenue is recognized when services are rendered.

Revenue on permanent placements is recognized when the candidate starts with the contracting facility. The Company does not, in the ordinary course of business, give refunds. If a candidate leaves a permanent placement within a relatively short period of time, it is customary for the Company to provide a replacement at no additional cost.

Revenue from contractual services consists of jobs filled by subcontractors. The Company contracts with other staffing companies to provide the travelers to fill the jobs for the Company. These staffing companies are called subcontractors. Subcontractors are paid based on agreed terms at a percentage of the invoice.

Cost and expenses are recognized in profit or loss upon utilization of the service or at the date they are incurred. Finance costs are reported on an accrual basis.

<u>Leases</u>
Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating leases are recognized as expense in profit or loss on a straight-line basis over the term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Impairment of Nonfinancial Assets
The Company's property and equipment and software are subject to impairment testing. The individual asset's cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Income Taxes
The Company accounts for income taxes under PAS 12, *Income Taxes*, equivalent of FASB Statement No. 109, *Accounting for Income Taxes*, except for the recognition of deferred income tax assets. Under FASB Statement No. 109, deferred income tax assets are recognized in full and a valuation allowance is recognized to reduce the deferred income tax assets to an amount that is "more likely than not" to be realized.

*Deferred Income Tax*
Deferred income tax assets and deferred income tax liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and the carryforward benefits of unused tax credits to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax credits can be utilized.

The carrying amount of deferred income tax assets is reviewed at each end of reporting period and reduced to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits 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 expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of reporting period.

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

## 4. Significant Accounting Judgments, Estimates and Assumptions

The Company's consolidated financial statements are prepared in accordance with PFRS which require management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes.

Judgment

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

*Determination of the Company's functional currency*

The Company has determined that its functional currency is the USD which is the currency of the primary environment in which the Company operates.

*Classification of financial instruments*

The Company classifies a financial instrument, or its components, on initial recognition in accordance with the substance of the contractual arrangement and the definitions of a financial asset or financial liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

Financial assets are classified as financial assets at FVPL, HTM financial assets, loans and receivables and AFS financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities.

The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at the end of each reporting period.

*Classification of leases*

The Company has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or financial lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. The Company has determined that the risks and rewards of ownership are with the lessor, and thus, accounted for these leases as operating leases.

Rent expense included as part of "Operating expenses" in the consolidated statements of comprehensive income for the years ended December 31, 2011 and 2010 amounted to $231,591 and $223,692, respectively (see Notes 14 and 17).

Estimates and Assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities follow:

*Impairment of trade and other receivables*

Allowance is made for specific and groups of accounts where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Trade and other receivables amounted to $3,835,735 and $2,711,719 as of December 31, 2011 and 2010, net of allowance for impairment of $70,099 and $36,478, respectively (see Note 5).

*Estimation of useful lives of property and equipment and software*
The Company estimates the useful lives of property and equipment and software based on the period over which the 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, estimation of the useful lives is based on collective assessment of industry practice, 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. A reduction in the estimated useful lives of property and equipment and software would increase recorded operating expenses and decrease noncurrent assets.

Property and equipment, net of accumulated depreciation and amortization, amounted to $145,771 and $140,586 as of December 31, 2011 and 2010, respectively (see Note 7).

Software, net of accumulated amortization, amounted to $26,660 and $98,329 as of December 31, 2011 and 2010, respectively (see Note 9).

*Recognition of deferred income tax assets*
The Company reviews the carrying amounts of deferred income tax assets at each end of reporting date and reduces the amounts to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Company recognized deferred income tax assets amounting to $976,641 and $959,646 as of December 31, 2011 and 2010, respectively (see Note 16).

*Impairment of property and equipment and software*
Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of nonfinancial assets is discussed in detail in Note 3. Management believes that the cost reflected in the consolidated financial statements is appropriate and reasonable.

The Company has no impairment losses on its property and equipment and software in 2011 and 2010.

*Impairment of goodwill*
During the fourth quarter of 2011 and 2010, the Company performed its annual impairment testing and determined there was no impairment of goodwill as of December 31, 2011 and 2010. The impairment test requires the Company to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. The Company estimates the fair value of its reporting units using a discounted cash flow methodology.

Goodwill amounted to $13,937,537 and $13,934,878 as of December 31, 2011 and 2010, respectively (see Note 8).

*Estimation of contingent consideration*
Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets

the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

On December 10, 2010, as part of the provisional purchase price allocation for its acquisition of NT, the Company identified an element of contingent consideration with a fair value of $332,868. Subsequently, in May 2011, the Company and the Members of NT agreed to amend the earn-out provisions of the Purchase Agreement decreasing the amount of contingent consideration to $150,000 which is classified under "Trade payables and other liabilities" in the consolidated statements of financial position (see Notes 8 and 10). The resulting decrease in contingent liability of $132,868 is taken up in profit or loss.

## 5. Trade and Other Receivables

Trade and other receivables consist of the following:

| | **2011** | 2010 |
|---|---:|---:|
| Trade | **$3,868,615** | $2,720,721 |
| Advances to employees | **9,253** | 10,676 |
| Others | **27,966** | 16,800 |
| | **3,905,834** | 2,748,197 |
| Allowance for impairment | **70,099** | 36,478 |
| | **$3,835,735** | $2,711,719 |

A reconciliation of the allowance for impairment at beginning and end of 2011 and 2010 is shown below:

| | **2011** | 2010 |
|---|---:|---:|
| Balance at beginning of year | **$36,478** | $21,912 |
| Impairment loss during the year (Note 14) | **33,621** | 15,980 |
| Write-off of trade receivables | **–** | (1,414) |
| Balance at end of year | **$70,099** | $36,478 |

All of the Company's trade receivables have been reviewed for indicators of impairment. Those that were identified as impaired were fully provided with allowance for impairment while those that are not covered by allowance for impairment were considered current and of good quality.

## 6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

| | **2011** | 2010 |
|---|---:|---:|
| Prepaid insurance | **$58,423** | $110,766 |
| Prepaid rent | **54,283** | 46,589 |
| Deposits | **48,942** | 42,365 |
| Prepaid advertising | **8,288** | 12,539 |
| Others | **53,448** | 33,515 |
| | **$223,384** | $245,774 |

## 7. Property and Equipment

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2011 and 2010 are shown below:

| | 2011 | | | |
|---|---|---|---|---|
| | **Computer and Office Equipment** | **Furniture and Fixtures** | **Leasehold Improvements** | **Total** |
| **Cost** | | | | |
| Beginning balances | **$196,354** | **$54,489** | **$17,353** | **$268,196** |
| Additions | **47,967** | **5,488** | **–** | **53,455** |
| Ending balances | **244,321** | **59,977** | **17,353** | **321,651** |
| **Accumulated Depreciation and Amortization** | | | | |
| Beginning balances | **91,685** | **21,427** | **14,498** | **127,610** |
| Depreciation and amortization (Note 14) | **38,868** | **8,796** | **606** | **48,270** |
| Ending balances | **130,553** | **30,223** | **15,104** | **175,880** |
| **Net Book Value** | **$113,768** | **$29,754** | **$2,249** | **$145,771** |

| | 2010 | | | |
|---|---|---|---|---|
| | Computer and Office Equipment | Furniture and Fixtures | Leasehold Improvements | Total |
| **Cost** | | | | |
| Beginning balances | $163,362 | $53,939 | $17,353 | $234,654 |
| Additions | 32,992 | 550 | – | 33,542 |
| Ending balances | 196,354 | 54,489 | 17,353 | 268,196 |
| **Accumulated Depreciation and Amortization** | | | | |
| Beginning balances | 58,100 | 12,801 | 1,399 | 72,300 |
| Depreciation and amortization (Note 14) | 33,585 | 8,626 | 13,099 | 55,310 |
| Ending balances | 91,685 | 21,427 | 14,498 | 127,610 |
| **Net Book Value** | $104,669 | $33,062 | $2,855 | $140,586 |

## 8. Goodwill

As of December 31, 2011 and 2010, the Company had goodwill amounting to $13,937,537 and $13,934,878, respectively, from acquisitions discussed below:

### Cirrus Holdings USA, LLC and Cirrus Medical Staffing, LLC

On January 19, 2008, the Company completed the acquisition of all of the outstanding membership units of Cirrus Holdings USA, LLC and Cirrus Medical Staffing, LLC for approximately $13.5 million cash paid at closing, including $2.5 million which was held in escrow to cover any post-closing liabilities. The purchase price was subject to a working capital adjustment of approximately $255,000 that was settled in May 2008. The Company financed this acquisition using proceeds from a loan from ANSCOR thru IQHIL.

The acquisition has been accounted for using the purchase method. The results of Cirrus Holdings USA, LLC and Cirrus Medical Staffing, LLC operations have been included in the consolidated profit or loss since the date of acquisition, in accordance with PAS 27, *Consolidated and Separate Financial Statements*.

The purchase price was allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition, utilizing unaudited financial statements and an independent third party appraisal.

The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of acquisition:

| | |
|---|---|
| Current assets: | |
| Cash | $83,320 |
| Accounts receivable | 2,567,803 |
| Other current assets | 113,715 |
| Total current assets | 2,764,838 |
| Property and equipment | 63,170 |
| Goodwill | 11,921,172 |
| Total assets acquired | 14,749,180 |
| Current liabilities - accounts payable and accrued expenses | (424,606) |
| Total consideration paid | $14,324,574 |

The excess of purchase price over the fair value of net tangible and intangible assets acquired was recorded as goodwill, which is expected to be deductible for tax purposes. Additional direct acquisition costs of approximately $555,500 were incurred during the year ended December 31, 2008, and are included as “Goodwill” in the consolidated statements of financial position.

In 2009, as covered by the escrow agreement, the Company collected unidentified collections from the previous seller representing refunds to old debtors amounting to $36,936. The remittances resulted to the same amount of decrease in Goodwill as of December 31, 2009.

**Cirrus Allied, LLC**

On July 19, 2008, the Company completed the acquisition of all of the outstanding membership units of Cirrus Allied, LLC for approximately $2.0 million cash paid at closing, including $200,000 which was held in escrow to cover any post-closing liabilities. The purchase price was subject to a working capital adjustment of approximately $4,300 that was settled with a payment to the Company in the fourth quarter of 2008. The Company financed this acquisition using proceeds from a loan from ANSCOR.

The acquisition has been accounted for using the purchase method. The results of Cirrus Allied, LLC operations have been included in the consolidated profit or loss since the date of acquisition, in accordance with PAS 27.

The purchase price was allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition, utilizing unaudited financial statements and an independent third party appraisal.

The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of acquisition:

| | |
|---|---|
| Current assets: | |
| Cash | $8,942 |
| Trade and other receivables | 1,124,261 |

(Forward)

| | |
|---|---|
| Other current assets | $44,982 |
| Total current assets | 1,178,185 |
| Goodwill | 1,170,115 |
| Total assets acquired | 2,348,300 |
| Current liabilities - trade payables and other current liabilities | (148,944) |
| Total consideration paid | $2,199,356 |

The excess of purchase price over the fair value of net tangible and intangible assets acquired was recorded as goodwill, which is expected to be deductible for tax purposes. Additional direct acquisition costs of approximately $194,900 were incurred during the year ended December 31, 2008 and are included as "Goodwill" in the consolidated statements of financial position.

**NurseTogether, LLC**

On December 10, 2010, the Company completed the acquisition of all of the outstanding membership units of NurseTogether, LLC (NT) for a maximum total consideration of $1,060,000. Of the amount, $550,000 was paid to the owners and the remaining $510,000 is to be paid out by the Company subject to revenue and earnings target within the earn-out period of two years from December 31, 2010. As part of the purchase price allocation for its acquisition of NT, the Company identified an element of contingent consideration amounting to $510,000. Earn-out payments to the members shall be made through wire transfer to an account designated by the members within 45 days from the date NT meets the applicable revenue and earnings conditions.

The fair value of the contingent consideration at the acquisition date using the discount rate of 5% amounted to $332,868 with a current portion amounting to $109,286 included in "Trade payables and other liabilities". In May 2011, the Company and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to $138,868. The gain arising from reversal of contingent liability was taken up in profit or loss.

The purchase price was initially allocated to assets acquired and liabilities assumed based on a provisional assessment of fair values as of the date of acquisition. In 2011, the fair value of accounts receivable was determined to be lower by $2,659. This increased Goodwill by the same amount as of December 31, 2011.

The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of acquisition:

| | |
|---|---|
| Current assets: | |
| Cash | $4,348 |
| Trade and other receivables | 6,132 |
| Other current assets | 576 |
| Total current assets acquired | 11,056 |
| Goodwill | 880,527 |
| Total assets acquired | 891,583 |
| Current liabilities: | |
| Accounts payable | (3,715) |
| Deferred revenue | (5,000) |
| Total current liabilities assumed | (8,715) |
| Total consideration paid including contingent consideration | $882,868 |

The excess of purchase price over the fair value of net tangible and intangible assets acquired was recorded as goodwill, which is expected to be deductible for tax purposes.

*Impairment analysis*
The recoverable amount of the goodwill was estimated 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 11.25% in 2011 and 2010. In 2011 and 2010, the cash flows beyond the ten-year period are extrapolated using a growth rate that is consistent with the expected average growth rate for the industry.

Goodwill is allocated to the group of cash generating unit which is identified at the consolidated level. The Company operates in the same line of business and is controlled and managed by the same set of management team and supported by one back office group. The Company also cross-sell between clients and presents all of services as a whole offering. The recoverable amount of the investment cost is assessed at the consolidated level.

Key assumptions used in value-in-use calculations in 2011 and 2010 follow:

*Cash flow projection*
Cash flow projections are based on the Company'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 the Company which started in 2010.

9. **Other Noncurrent Assets**

Other noncurrent assets consist of the following:

| | **2011** | 2010 |
|---|---|---|
| Software | **$26,660** | $98,329 |
| Deposits | **20,384** | 20,384 |
| | **$47,044** | $118,713 |

A reconciliation of the carrying amounts at the beginning and end of 2011 and 2010 of software is shown below:

| | **2011** | 2010 |
|---|---|---|
| **Cost:** | | |
| Beginning balances | **$376,821** | $367,307 |
| Additions | **17,287** | 9,514 |
| Ending balances | **394,108** | 376,821 |
| **Accumulated Amortization:** | | |
| Beginning balances | **278,492** | 157,803 |
| Amortization (Note 14) | **88,956** | 120,689 |
| Ending balances | **367,448** | 278,492 |
| **Net Book Value** | **$26,660** | $98,329 |

## 10. **Trade Payables and Other Liabilities**

| | **2011** | 2010 |
|---|---|---|
| Trade payables | **$260,299** | $216,970 |
| Interest payable (Note 15) | **376,131** | 218,431 |
| Wages payable | **282,138** | 325,601 |
| Accrued expenses | **255,174** | 399,852 |
| Contingent liability (Note 8) | **150,000** | 109,286 |
| Others | **273,359** | 33,093 |
| | **$1,597,101** | $1,303,233 |

## 11. **Loans Payable**

The Company has a $1.50 million and $1.45 million line-of-credit as of December 31, 2011 and 2010, respectively, with Fifth Third Bank with interest payable monthly at the bank's prime rate and is secured by accounts receivables. Loans payable availed by the Company as of December 31, 2011 and 2010 amounted to $479,864 and $208,838, respectively. Interest expense in 2011 and 2010 amounted to $23,390 and $4,135, respectively.

There is $1.02 million and $1.24 million available on this line-of-credit as at December 31, 2011 and 2010, respectively.

## 12. **Equity**

Paid-up Capital as of December 31, 2011 and 2010 follows:

| | |
|---|---|
| Preferred stock, $0.01 par value | |
| Authorized - 100,000 shares | |
| Issued and outstanding - nil | $– |
| Common stock, $0.01 par value | |
| Authorized - 2,500 shares | |
| Issued and outstanding - 1,579 shares in 2011 and 2010 | 16 |
| Additional paid-in capital | 15,513,309 |
| | $15,513,325 |

In March 2010, the Company issued 28 common shares at a par value of $.01 per share. Total cost of issued shares amounted to $12,325.

## 13. **Cost of Services**

| | **2011** | 2010 |
|---|---|---|
| Salaries, wages and employee benefits | **$13,045,637** | $9,761,316 |
| Subcontracting costs | **2,037,489** | 446,618 |

(Forward)

| | **2011** | 2010 |
|---|---|---|
| Insurance | **$960,765** | $729,061 |
| Housing costs | **879,198** | 706,228 |
| Association dues and other costs | **507,657** | 280,091 |
| Transportation and travel | **214,879** | 132,094 |
| Website content design and maintenance | **159,721** | 3,528 |
| | **$17,805,346** | $12,058,936 |

14. **Operating Expenses**

| | **2011** | 2010 |
|---|---|---|
| Salaries, wages and employee benefits | **$2,960,013** | $2,503,909 |
| Commissions | **642,665** | 529,155 |
| Professional fees (Note 15) | **428,374** | 530,716 |
| Insurance | **252,148** | 201,094 |
| Rent (Note 17) | **231,591** | 223,692 |
| Depreciation and amortization (Notes 7 and 9) | **137,226** | 175,999 |
| Transportation and travel | **128,872** | 77,833 |
| Advertising | **103,823** | 227,988 |
| Communications | **72,714** | 81,675 |
| International processing cost (Note 15) | **52,325** | 118,762 |
| Taxes and licenses | **38,730** | 42,448 |
| Office supplies | **34,770** | 18,858 |
| Impairment loss (Note 5) | **33,621** | 15,980 |
| Representation and entertainment | **26,708** | 8,217 |
| Training and development | **23,452** | 32,688 |
| Shipping and delivery expenses | **18,579** | 15,177 |
| Others | **60,977** | 49,098 |
| | **$5,246,588** | $4,853,289 |

15. **Related Party Transactions**

In December 2008, in the ordinary course of business, Cirrus Holdings USA, LLC entered into a service agreement with an affiliate, IQ Healthcare Professional Connection LLC (IQHPC). IQHPC is a subsidiary of Cirrus Global, Inc. (formerly International Quality Manpower Services, Inc.), a 93.15% owned company of ANSCOR. Under the service agreement between IQHPC and Cirrus Holdings USA, LLC, IQHPC shall provide services for the deployment to the US of selected international nurses and physical therapists. International processing cost recorded as part of “Operating expenses” account in the consolidated statements of comprehensive income for the year ended December 31, 2011 and 2010 amounted to $52,325 and $118,762, respectively.

In the ordinary course of business, the Company obtains cash advances from its parent company, ANSCOR, to finance its working capital requirements. Promissory notes are issued with five year maturities from the date of each respective advance bearing interest rates comparable with the market rates at the time of its issuance. Outstanding balance of the advances amounted to $3,490,000 and $2,990,000 as of December 31, 2011 and 2010. The additional advance in 2011 amounting to $500,000 was primarily used for the working capital requirements of the Company.

Interest payable from the promissory notes as of December 31, 2011 and 2010 amounted to $376,131 and $218,431, respectively, which are presented as part of "Trade payables and other liabilities" account in the consolidated statements of financial position. Interest expense amounted to $157,700 in 2011 and $107,500 in 2010.

In October 2010, the Company terminated the contract with a related party for managing the US operations including client expansion and potential acquisition activities. Payments made to the related party are included in "Operating expenses" under professional fees in the consolidated statements of comprehensive income (see Note 14).

## 16. **Income Taxes**

Benefit from (provision for) income tax for the years ended December 31 consists of the following deferred income taxes from:

| | **2011** | 2010 |
|---|---|---|
| Federal | **$39,070** | $309,391 |
| State | **(22,075)** | 13,751 |
| | **$16,995** | $323,142 |

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for income tax purposes. The income tax effects of the temporary differences, representing deferred income tax assets and liabilities, result principally from the following at December 31:

| | **2011** | 2010 |
|---|---|---|
| Net operating losses | **$2,135,950** | $1,878,277 |
| Goodwill amortization | **(1,285,713)** | (966,972) |
| Accruals | **172,082** | 107,295 |
| Depreciation | **(66,019)** | (66,944) |
| Bad debts | **20,340** | 7,990 |
| | **$976,640** | $959,646 |

As of December 31, 2011, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately $5.7 million which will begin to expire in the year 2026. As of December 31, 2010, net operating loss carryforwards for federal and state income tax purposes of approximately $4.9 million which will begin to expire in the year 2025.

Since no materially significant uncertain tax positions exist, the Company recorded no unrecognized tax benefits at December 31, 2011. The Company is currently not under audit in any federal or state jurisdictions for the current open years 2009, 2010 and 2011.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of sufficient future taxable profits during the periods in which those temporary differences become deductible. Based upon current taxable income and projections of future taxable profits over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences based on facts and circumstances known as of December 31, 2011 and 2010.

Actual income tax benefit differs from income tax expense calculated by applying the U.S. federal statutory corporate rate of 34% to loss before provisions for income taxes as follows for the year ended December 31, 2011 and 2010:

| | **2011** | 2010 |
|---|---|---|
| Benefit at federal statutory rate | **($44,663)** | ($285,883) |
| State taxes, net of federal benefit | **24,120** | (38,656) |
| Other items, net | **3,548** | 1,397 |
| | **($16,995)** | ($323,142) |

17. **Lease Commitments**

The Company has entered into a third party non-cancelable operating lease agreements for the rental of office spaces and equipment. The leases have terms ranging up to 6 years and 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, 2011 and 2010, associated with these agreements with terms of one year or more are approximately as follows:

| | **2011** | 2010 |
|---|---|---|
| Within one year | **$167,179** | $199,660 |
| After one year but not more than five years | **585,125** | 779,062 |
| | **$752,304** | $978,722 |

Rent expense in 2011 and 2010 amounted to $231,591 and $223,692, respectively (see Note 14).

18. **Financial Instruments and Risk Management Objectives and Policies**

Financial Instruments

The following table summarizes the carrying values and fair values of the financial assets and financial liabilities as of December 31:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| **Financial Assets - Loans and receivables** | | | | |
| Cash | **$216,951** | **$216,951** | $544,803 | $544,803 |
| Trade and other receivables (Note 5) | **3,835,735** | **3,835,735** | 2,711,719 | 2,711,719 |
| Deposits (Notes 6 and 9) | **69,326** | **69,326** | 62,749 | 62,749 |
| **Total Financial Assets** | **$4,122,012** | **$4,122,012** | $3,319,271 | $3,319,271 |
| **Financial Liabilities - Other financial liabilities** | | | | |
| Current: | | | | |
| Trade payables and other liabilities* (Note 10) | **$1,211,410** | **$1,211,410** | $1,164,073 | $1,164,073 |
| Contingent liability (Notes 8 and 10) | **150,000** | **147,074** | 109,286 | 106,606 |
| Loans payable | **479,864** | **479,864** | 208,838 | 208,838 |

(Forward)

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| Noncurrent: | | | | |
| Contingent liability- net of current portion (Note 8) | **$–** | **$–** | **$223,582** | **$218,099** |
| Advances from a related party (Note 15) | **3,490,000** | **3,490,000** | **2,990,000** | **2,990,000** |
| **Total Financial Liabilities** | **$5,331,274** | **$5,328,348** | **$4,695,779** | **$4,687,616** |

* *Excluding nonfinancial liabilities amounting to $235,691 and $29,874 as of December 31, 2011 and December 31, 2010, respectively and current portion of contingent liability amounting to $150,000 as of December 31, 2011 and $109,286 as of December 31, 2010.*

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

*Financial assets and financial liabilities*
Due to the short-term nature of the transactions, the fair value of cash, trade and other receivables, trade payables and other liabilities and loans payable approximate the carrying amount as of end of reporting period.

The fair value of long term deposits was based on the present value of estimated future cash flows using the interest rate prevailing as of the reporting period. The carrying value of the long term deposits approximates its fair value.

Fair value of the contingent liability is determined by discounting the sum of future cash flows using prevailing market rate for instruments with similar maturities of 1.97% and 2.49% as of December 31, 2011 and 2010, respectively.

The fair value of advances from a related party approximates the carrying value as the interest rates they carry approximate the interest rate on comparable instruments in the market.

Risk Management Objectives and Policies
The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with its parent company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below:

*Credit risk*
The Company's exposure to credit risk is limited to the carrying amount of financial assets recognized at the end of reporting period, as summarized below:

| | **2011** | 2010 |
|---|---|---|
| Cash | **$216,951** | $544,803 |
| Trade and other receivables - net (Note 5) | **3,835,735** | 2,711,719 |
| Deposits (Notes 6 and 9) | **69,326** | 62,749 |
| | **$4,122,012** | $3,319,271 |

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

Where available at reasonable cost, reports on customers and other counterparties are obtained and used.

The following tables provide the credit quality and age analysis of the Company's financial assets according to the Company's credit ratings of debtors as of December 31, 2011 and 2010, respectively:

*December 31, 2011*

| | **Neither Past due nor Impaired** | **Age Analysis of Past Due but not Impaired** | | | | **Past due and Impaired** | **Total** |
|---|---|---|---|---|---|---|---|
| | | **<30 Days** | **30-60 Days** | **61-90 Days** | **91-120 Days** | | |
| Cash | **$216,951** | **$–** | **$–** | **–$** | **$–** | **$–** | **$216,951** |
| Receivables: | | | | | | | |
| Trade | **2,169,438** | **739,917** | **244,956** | **211,468** | **502,836** | **70,099** | **3,938,714** |
| Nontrade: | | | | | | | |
| Advances to employees | **9,253** | **–** | **–** | **–** | **–** | **–** | **9,253** |
| Others | **27,966** | **–** | **–** | **–** | **–** | **–** | **27,966** |
| Deposits | **69,326** | **–** | **–** | **–** | **–** | **–** | **69,326** |
| | **$2,492,934** | **$739,917** | **$244,956** | **$211,468** | **$502,836** | **$70,099** | **$4,262,210** |

*December 31, 2010*

| | Neither Past due nor Impaired | Age Analysis of Past Due but not Impaired | | | | Past due and Impaired | Total |
|---|---|---|---|---|---|---|---|
| | | <30 Days | 30-60 Days | 61-90 Days | 91-120 Days | | |
| Cash | $544,803 | $– | $– | $– | $– | $– | $544,803 |
| Receivables: | | | | | | | |
| Trade | 2,137,168 | 404,849 | 113,762 | 28,464 | – | 36,478 | 2,720,721 |
| Nontrade: | | | | | | | |
| Advances to employees | 10,676 | – | – | – | – | – | 10,676 |
| Others | 16,800 | – | – | – | – | – | 16,800 |
| Deposits | 62,749 | – | – | – | – | – | 62,749 |
| | $2,772,196 | $404,849 | $113,762 | $28,464 | $– | $36,478 | $3,355,749 |

The credit quality of financial instruments is managed by the Company using internal credit ratings. Financial instruments classified under "Neither past due nor impaired" include high grade credit quality instruments because there were few or no history of default on the agreed terms. "Past due but not impaired" are items with history of frequent default nevertheless the amount due are still collectible. Lastly, "Past due and impaired" are those that are long outstanding and has been provided with allowance for probable losses.

*Liquidity risk*

The Company's objective is to be able to finance its working capital requirements and capital expenditures. To cover the Company's financing requirements, the Company uses internally-generated funds and proceeds from debt. Projected and actual cash flow information are regularly evaluated to ensure it meets these requirements.

Funding for long-term liquidity needs is additionally secured by an adequate amount of credit facilities and obtaining advances from related parties.

*Financial Assets*

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected dates the assets will be realized.

*Financial Liabilities*
The maturity grouping is based on the remaining period for the end of the reporting period to the contractual maturity date.

*December 31, 2011*

| | Up to a year | 1 to 3 years | 3 to 5 years | Total |
|---|---|---|---|---|
| Cash | **$216,951** | **$–** | **$–** | **$216,951** |
| Trade receivables | **3,798,516** | **–** | **–** | **3,798,516** |
| Non-trade receivables | **37,219** | **–** | **–** | **37,219** |
| Deposits | **48,942** | **–** | **20,384** | **69,326** |
| Total financial assets | **4,101,628** | **–** | **20,384** | **4,122,012** |
| Trade accounts payable and other liabilities* | **1,211,410** | **–** | **–** | **1,211,410** |
| Contingent liability - current | **150,000** | **–** | **–** | **150,000** |
| Loans payable | **479,864** | **–** | **–** | **479,864** |
| Contingent liability - noncurrent | **–** | **–** | **–** | **–** |
| Advances from a related party | **–** | **2,990,000** | **500,000** | **3,490,000** |
| Total financial liabilities | **1,841,274** | **2,990,000** | **500,000** | **5,331,274** |
| Liquidity position (gap) | **$2,260,354** | **($2,990,000)** | **($479,616)** | **($1,209,262)** |

* *Excluding nonfinancial liabilities amounting to $235,691 and current portion of contingent liability amounting to $150,000 as of December 31, 2011.*

*December 31, 2010*

| | Up to a year | 1 to 3 years | 3 to 5 years | Total |
|---|---|---|---|---|
| Cash | $544,803 | $– | $– | $544,803 |
| Trade receivables | 2,684,243 | – | – | 2,684,243 |
| Non-trade receivables | 27,476 | – | – | 27,476 |
| Deposits | 42,365 | – | 20,384 | 62,749 |
| Total financial assets | 3,298,887 | – | 20,384 | 3,319,271 |
| Trade accounts payable and other liabilities* | 1,164,073 | – | – | 1,164,073 |
| Contingent liability – current | 109,286 | – | – | 109,286 |
| Loans payable | 212,514 | – | – | 212,514 |
| Contingent liability - noncurrent | – | 223,582 | – | 223,582 |
| Advances from a related party | – | 2,449,000 | 924,000 | 3,373,000 |
| Total financial liabilities | 1,485,873 | 2,672,582 | 924,000 | 5,082,455 |
| Liquidity position (gap) | $1,813,014 | ($2,672,582) | ($903,616) | ($1,763,184) |

* *Excluding nonfinancial liabilities amounting to $29,874 and current portion of contingent liability amounting to $109,286 as of December 31, 2010.*

*Operating and regulatory risk*
The Company is accredited by the The Joint Commission, a private sector, US-based, not-for-profit organization. This accreditation significantly influences the Company's credentialing and documentation processes for the traveling healthcare professionals. The Joint Commission accreditation is deemed as the Gold Seal of Standards for healthcare staffing companies and provides license to transact business with hospitals and association requiring The Joint Commission accreditation. Any changes on the accreditation rules and regulations may adversely affect the Company's credentialing and operating procedures and ability to staff qualified healthcare professionals. The Company manages its exposure to such risks by conducting internal audits and monitoring new rules and regulations from The Joint Commission.

With respect to its international business segment, the Company is subject to regulations by the US State Department for the immigration of nurses and temporary work visa of therapists to the US. These governmental regulations significantly influence the Company's ability to deploy nurses and therapists in the US. The Company manages its exposure to such risks by actively monitoring legal and regulatory pronouncements issued by the US State Department.

## 19. Capital Management

The Company's capital management objectives are:

- To ensure the Company's 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.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. It sets the amount of capital in proportion to its overall financing structure, i.e., equity and financing liabilities. It manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risks characteristic of the underlying business.

There have been no changes to the Company's capital management objectives, policies and procedures during the years ended December 31, 2011 and 2010.

## ANSCOR INTERNATIONAL INC.
## STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **ASSETS** | | |
| **Cash and Cash Equivalents** | **$ 7,554** | $ 19,626 |
| **Available-for-Sale (AFS) Investments** (Notes 3, 4 and 5) | **11,892,904** | 1,637,500 |
| **Receivables** | **58,930** | 58,930 |
| **Investments and Advances** (Note 3, 4 and 6) | **18,367,131** | 17,709,431 |
| **Other Assets** | **5,469** | 5,469 |
| **TOTAL ASSETS** | **$ 30,331,988** | $ 19,430,955 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Accounts payable and accrued expenses | **$ 339,116** | $ 325,046 |
| Due to Stockholders (Note 7) | **24,876,110** | 14,021,621 |
| Total Liabiities | **25,215,225** | 14,346,667 |
| **Equity** | | |
| Capital stock | **1** | 1 |
| Retained Earnings | **5,116,761** | 5,084,287 |
| **Total Equity** | **5,116,762** | 5,084,288 |
| **TOTAL LIABILITIES AND EQUITY** | **$ 30,331,988** | $ 19,430,955 |

*See accompanying Notes to Financial Statements.*

## ANSCOR INTERNATIONAL INC.
## STATEMENTS OF COMPREHENSIVE INCOME

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | | **2011** | | 2010 |
| **REVENUES** | | | | |
| Interest income | **$** | **159,583** | $ | 107,500 |
| | | **159,583** | | 107,500 |
| Operating expenses | | **(127,109)** | | (689,251) |
| **NET INCOME (LOSS** | | **32,474** | | (581,751) |
| **OTHER COMPREHENSIVE INCOME** | | **-** | | - |
| **TOTAL COMPREHENSIVE INCOME** | **$** | **32,474** | $ | (581,751) |

*See accompanying Notes to Financial Statements.*

## ANSCOR INTERNATIONAL INC.
## STATEMENTS OF CHANGES IN EQUITY
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | Capital Stock | Retained Earnings | Total |
|---|---|---|---|
| BALANCE AT DECEMBER 31, 2009 | **$ 1** | $ 5,666,039 | $ 5,666,040 |
| Total comprehensive loss for the year | **-** | (581,751) | (581,751) |
| BALANCE AT DECEMBER 31, 2010 | **1** | 5,084,287 | 5,084,288 |
| Total comprehensive income for the year | | 32,474 | 32,474 |
| **BALANCE AT DECEMBER 31, 2011** | **$ 1** | **$ 5,116,761** | **$ 5,116,762** |

*See accompanying Notes to Financial Statements.*

**ANSCOR INTERNATIONAL INC.**
**STATEMENTS OF CASH FLOWS**

| | | Years Ended December 31 | |
|---|---|---|---|
| | | **2011** | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net Income | **$** | **32,474** | $ (581,751) |
| Interest income | | **(159,583)** | (107,500) |
| Operating loss before working capital changes | | **(127,109)** | (689,251) |
| Increase in accounts payable and accrued expenses | | **14,070** | 325,046 |
| Net cash used in operations | | **(113,039)** | (364,206) |
| Interest received | | **159,583** | 107,500 |
| Net cash flows from (used in) operating activities | | **46,544** | (256,706) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Addition to AFS investments | | **(10,255,404)** | (312,500) |
| Advances to affiliates | | **(657,700)** | (947,000) |
| Net cash used in investing activities | | **(10,913,104)** | (1,259,500) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Increase in due to stockholders | | **10,854,488** | 1,398,534 |
| | | **10,854,488** | 1,398,534 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(12,072)** | (117,671) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **19,626** | 137,297 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **$** | **7,554** | $ 19,626 |

*See accompanying Notes to Financial Statements.*

# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate Information

Anscor International was incorporated on April 2, 2004 in the British Virgin Islands (BVI) under the International Business Company Act. Cap. 291, primarily to buy, sell, underwrite, invest in, exchange or otherwise acquire, and to hold, manage, develop, deal with turn to account any bonds, debentures, shares, stocks, options, commodities, futures, forward contracts, notes or securities of governments, states, municipalities, public authorities or public or private limited or unlimited companies in any part of the world and to lend money either unsecured or against the security of any of the aforementioned property.

The registered office of the Company is at IFS Chambers, Road Town, Tortola, British Virgin Islands.

The Company is not required to file audited financial statements in BVI.

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

**Basis of Preparation**
The consolidated financial statements of the Company have been prepared on a historical basis and are presented in United States Dollars (USD), which is the Company's functional and presentation currency. Amounts are presented to the nearest dollar unless otherwise stated.

**Statement of Compliance**
The consolidated financial statements of the Company have been prepared in accordance 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 amended PFRS and Philippine Interpretations based on IFRIC which were adopted as of January 1, 2011. Unless otherwise indicated, the adoption of these changes did not significantly affect the consolidated financial statements.

- Amendment to PAS 24, *Related Party Disclosures*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

*Improvements to PFRS Issued in 2010*
The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard

which are all effective beginning January 1, 2011. The adoption of these amendments did not significantly impact the financial position or performance of the Group.

- PFRS 7, *Financial Instruments: Disclosures*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put quantitative information in context.

- PAS 1, *Presentation of Financial Statements*, clarifies than an entity may present an analysis of each component of other comprehensive income, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 34, *Interim Financial Reporting*, provides guidance to illustrate how to apply disclosure principles of PAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between levels of fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment is applied retrospectively.

The following interpretations and amendments to PAS and interpretations did not have any significant impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
- *Amendment to PFRS 3, Business Combination – Measurement Options Avaiable for Non – Controlling Interest*
- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*

New Accounting Standards, Interpretations and Amendments to
<u>Existing Standards Effective Subsequent to December 31, 2011</u>
The Group will adopt the standards and interpretations enumerated below when these become effective. The Group continues to assess the impact of the following new and amended accounting standards and interpretation. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

*Effective in 2012*

- Amendment to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and will have no impact on the Group's financial position or performance.

- Amendment to PAS 12, *Income Taxes - Deferred Taxes: Recovery of Underlying Assets*, introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. The amendments also introduce the requirements that deferred tax on non-depreciable assets measured using the revaluation model on property, plant and equipment should always be measured on a sale basis.

*Effective in 2013*

- Amendments to PAS 1, *Presentation of Financial Statements*, improve how we present components of other comprehensive income. The new requirements are effective for annual periods beginning on or after July 1, 2012.

- Amendment to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

- PFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard defines control when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. PFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation - Special Purpose Entities* and PAS 27. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements in PAS 27. Earlier application is permitted.

- PAS 27, *Separate Financial Statements (as revised in 2011)*, as a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PFRS 11, *Joint Arrangements*, supersedes PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* This standard describes the accounting for joint arrangements with joint control. Further, proportionate consolidation is not permitted for joint ventures under the new definition of a joint venture. Earlier application is permitted.

- PAS 28, *Investment in Associates and Joint Ventures (as revised in 2011)*, as a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 12, *Disclosures of Interests in Other Entities*, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Earlier application is permitted.

- PFRS 13, *Fair Value Measurement*, establishes new guidance on fair value measurement and disclosures. Earlier application is permitted.

- *Philippine Interpretation IFRIC 20,* Stripping Costs in the Production Phase of a Surface Mine, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

*Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective in 2015*

- PFRS 9, *Financial Instruments*, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39. The approach in this new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

  The Group decided not to early adopt PFRS 9 for its 2011 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2011 do not reflect the impact of the said standard.

  The Group shall conduct another impact evaluation in early 2012 using the consolidated financial statements for the year ended December 31, 2011. Given the amendments on PFRS 9, *Financial Instruments*, the Group at present, does not plan to early adopt in 2012 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

  The Group's decision whether to early adopt PFRS 9 for its 2012 financial reporting will be disclosed in its consolidated financial statements as at and for the period ending March 31, 2012. Should the Group decide to early adopt the said standard for its 2012 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2012 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group's impact evaluation.

  The Group's AFS investments, receivables, notes payable, accounts payable and accrued expenses, dividends payable and long term debt may be affected by the adoption of this standard.

*Effectivity date to be determined*

- Philippine Interpretation IFRIC 15, *Agreements 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. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

## 3. Summary of Significant Accounting Policies

Investments in Subsidiaries and Associates

*Investments in Subsidiaries*

Subsidiaries are all entities over which the Company 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 Company controls another entity.

Investments in subsidiaries and associates are carried at cost, less impairment in value, in the financial statements. Dividends received are reflected as income in the statements of income.

The following are the Company's subsidiaries:
:

| | Nature of Business | Percentage of Ownership | |
|---|---|---|---|
| | | **2011** | 2010 |
| IQ Healthcare investments Limited (IQHIL)) | Manpower Services | **94** | 94 |
| Cirrus Medical Staffing, Inc. (Cirrus) | Manpower Services | **94** | 94 |
| Cirrus Holdings USA, LLC (Cirrus LLC) | Manpower Services | **94** | 94 |
| Cirrus Allied, LLC (formerly MDI Medicals, LLC; MDI) | Manpower Services | **94** | 94 |
| NurseTogether, LLC (NT) | Online Community Management | **94** | 94 |

Cash

Cash includes cash in banks.

Financial Instruments

Date of recognition

Financial instruments within the scope of PAS 39 are recognized in the consolidated statement of financial position when the Company 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 using trade date accounting. Derivatives are also recognized on a trade date basis.

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

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

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

*"Day 1" difference*
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data which is not observable was used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

*Financial assets and financial liabilities at FVPL*
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if these are acquired for the purposes of selling and repurchasing in the near term.

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, 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 statement of financial position at fair value. Subsequent changes in fair value are recognized in profit or loss. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

As of December 31, 2011 and 2010, the Company has no financial assets and financial liabilities designated as at FVPL.

*HTM investments*
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in profit or loss when the HTM investments are derecognized and impaired, as well as through the amortization process.

The effects of restatement on foreign currency-denominated HTM investments are also recognized in profit or loss.

The Company has no HTM investments as of December 31, 2011 and 2010.

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

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest 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. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2011 and 2010, the Company has loans and receivables amounting to $66.5 thousand and $78.6 thousand, respectively

*AFS financial assets*

AFS financial assets are those nonderivative financial assets which are designated as such or do not qualify to be classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are classified as current assets if management intends to sell these financial assets within 12 months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

After initial measurement, AFS financial assets are measured at fair value, with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognized in profit or loss. Accounting for the movement in equity is presented in the consolidated statement of changes in equity.

As of December 31, 2011 and 2010, the Company's AFS investments amounted to $11.9 million and $1.6 million, respectively.

*Other financial liabilities*

Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability.

The liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.
Other financial liabilities are classified as current liabilities if maturity is within the normal operating cycle of the Company and it does not have unconditional right to defer settlement of the liability for at least 12 months from the end of reporting period. Otherwise, these are classified as noncurrent liabilities.

As of December 31, 2011 and 2010, the Company's other financial liabilities include other liabilities and advances from a related party.

Derecognition of Financial Assets and Liabilities

*Financial assets*

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

- the rights to receive cash flows from the asset expire;
- the Company retains the right to receive cash flows from the asset, but has assumed as obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables carried at amortized cost, the Company first assesses whether an objective evidence of impairment (such as the probability of insolvency or significant financial difficulties of the debtor) exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company 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.

If there is an objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying value of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. If in case the receivable has been proven to have no realistic prospect of future recovery, any allowance provided for such receivable is written off against the carrying value of the impaired receivable. Interest income continues to be recognized based on the original effective interest rate of the asset. 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. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

Offsetting Financial Instruments

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

Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of its present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, where the time value of money is material, long-term provisions are discounted to their present value using a pre-tax rate that reflects market assessments and the risks specific to the obligation.

Provisions are reviewed at each end of reporting period and adjusted to reflect its current best estimate.

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

Equity

Capital stock is determined using the nominal value of shares that have been issued.

Equity includes all current and prior period operating results as disclosed in profit or loss.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding the related taxes.

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

*Interest*

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

*Operating expenses*

All general and administrative expenses are expensed as incurred.

*Other Comprehensive Income*

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

Deferred Income Tax

Deferred income tax assets and deferred income tax liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and the carryforward benefits of unused tax credits to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax credits can be utilized.

The carrying amount of deferred income tax assets is reviewed at each end of reporting period and reduced to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits 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 expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of reporting period.
Deferred income tax assets and deferred income liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income tax relates to the same entity and the same taxation authority.

## 4. Significant Accounting Judgments, Estimates and Assumptions

The Company's financial statements are prepared in accordance with PFRS which require management to make judgments, estimates and assumptions that affect amounts reported in the financial statements and related notes.

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

*Determination of the Company's functional currency*
The Company has determined that its functional currency is the USD which is the currency of the primary environment in which the Company operates.

*Classification of financial instruments*
The Company classifies a financial instrument, or its components, on initial recognition in accordance with the substance of the contractual arrangement and the definitions of a financial asset or financial liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

Financial assets are classified as financial assets at FVPL, HTM financial assets, loans and receivables and AFS financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities.

The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at the end of each reporting period.

Estimates and Assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities follow:

*Impairment of trade and other receivables*

Allowance is made for specific and groups of accounts where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

*Recognition of deferred income tax assets*

The Company reviews the carrying amounts of deferred income tax assets at each end of reporting date and reduces the amounts to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

## 5. Available-for-Sale (AFS) Investments

| | **2011** | 2010 |
|---|---|---|
| Unquoted equity shares | **$ 11,892,904** | $ 1,637,500 |

Unquoted equity shares are carried at cost, subject to impairment.

a. In March 2009, the Company invested US$900,000 for 387,297 Series E Preference shares of Alphion, convertible into 645,485 shares of common stock. 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.

   In October 2011, AI made an additional investment in Alphion amounting to US$1,000,000 for 713,158 Series G Preference shares convertible into the same number of common stock and 140,817 series G warrants convertible into the same number of common stock.

b. In October 2011, AI entered into a subscription agreement with Predictive Edge Media Holdings, LLC (PEMH) for the acquisition of 1,000,000 Series A preferred units at US$3 per unit, which constitute 10% of the total Series A preferred units outstanding. PEMH is a Delaware limited liability company organized in April 2011 based in Pennsylvania, USA. PEMH is engaged in building a portfolio of early stage social media companies with a goal of creating a safe on-line environment for children between the ages of 9 to 13 ("Tweens").

c. In December 2011, AI entered into a subscription agreement with AGP International Holdings, Ltd.-BVI (AGP-BVI) for US$5.0 million Convertible Bridge Notes (the "Notes"), with interest rate of 9% compounded annually. The principal, together with the accrued interest, is payable on the one year anniversary of the issuance of each Note. The Notes is convertible at the option of the holder into: (a) Series B preferred shares at the per share price paid to buy out existing Series A preferred shares (US$0.345/share or the "conversion price"); or (b) the equity security issued by AGP-BVI in its next round of equity financing at the per share price paid in such next round of financing. AGP-BVI is a British Virgin Islands business company formed in 2010 in connection with the acquisition of equity of Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P). AGP-BVI, through its subsidiary and associates, is focused on providing modular engineering and construction and general engineering design services, including, fabrication, assembly and manpower services, particularly in the oil, gas, petrochemical, power generation and mining industries.

## 6. Investments and Advances

| | **2011** | 2010 |
|---|---|---|
| Investments in subsidiaries | **14,501,000** | 14,501,000 |
| Advances | **3,866,130** | 3,208,431 |
| | **$ 18,367,131** | $ 17,709,431 |

a. On January 19, 2008, the Company through its subsidiary, Cirrus, acquired 100% of the outstanding equity interest in 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 USA. Subsequently, new shares were issued to another stockholder representing 6% of the total outstanding shares of Cirrus.

b. On July 18, 2008, Cirrus purchased 100% of Cirrus Allied, LLC to complement Cirrus LLC's nurse traveler operations. It provides physical, occupational and speech language therapists to medical facilities across the USA.

c. On December 10, 2010, Cirrus completed the acquisition of all of the outstanding membership units of NT to complement the operations of Cirrus LLC and MDI Medical. As part of the purchase price allocation for its acquisition of NT, the Company identified an element of contingent consideration subject to revenue and earnings targets. In May 2011, Cirrus and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to $138,868.

## 7. Related Party Transactions

In the ordinary course of business, the Company obtains cash advances from its parent company, ANSCOR, to finance its working capital requirements.

## 8. Financial Instruments and Risk Management Objectives and Policies

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

*Financial assets and financial liabilities*
Due to the short-term nature of the transactions, the fair value of cash other receivables and other liabilities approximate the carrying amount as of end of reporting period.

AFS and FVPL investments are stated at their fair values.

Risk Management Objectives and Policies
The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with its parent company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below:

*Credit risk*
The credit quality of financial instruments is managed by the Company using internal credit ratings. Financial instruments classified under "Neither past due nor impaired" include high grade credit quality instruments because there were few or no history of default on the agreed terms. "Past due but not impaired" are items with history of frequent default nevertheless the amount due are still collectible. Lastly, "Past due and impaired" are those that are long outstanding and has been provided with allowance for probable losses.

*Liquidity risk*
The Company's objective is to be able to finance its working capital requirements and capital expenditures. To cover the Company's financing requirements, the Company uses internally generated funds and proceeds from debt. Projected and actual cash flow information are regularly evaluated to ensure it meets these requirements.

Funding for long-term liquidity needs is additionally secured by an adequate amount of credit facilities and obtaining advances from related parties.

*Financial Assets*
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected dates the assets will be realized.

*Financial Liabilities*
The maturity grouping is based on the remaining period for the end of the reporting period to the contractual maturity date.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(C) THEREUNDER

1. February 18, 2011
Date of Report (Date of earliest event reported)

2. SEC Identification Number: PW-2 3. BIR Tax Identification No. 000-103-216

4. A. SORIANO CORPORATION
Exact name of issuer as specified in its charter

5. Metro Manila, Philippines
Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
Industry Classification Code

7. 7/F Pacific Star Bldg., Gil J. Puyat Ave. corner Makati Avenue, Makati City
Address of issuer's principal office

1200
Postal Code

8. 8190251
Issuer's telephone number, including area code

9. N/A
Former name or former address, if changed since last report

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

11. *Indicate the item numbers reported herein:* Item No. 9 - Other Event

**Item 9. Other Event**

At the regular meeting of the Board of Directors held on February 18, 2011, the following matters were approved:

1. Date of Stockholders' Meeting - **April 13, 2011**
2. Record Date - **March 16, 2011**
3. Proxy Validation Date - **April 6, 2011**

The Stockholders' Meeting will be held at 10:00 A.M. at the Manila Peninsula Hotel, Ayala Avenue corner Makati Avenue, Makati City. The proposed agenda for the Stockholders' Meeting are:

1. Approval of the minutes of previous meeting
2. Presentation of the Chairman and Chief Executive Officer's Message to Stockholders
3. Ratification of all acts, contracts, investments and resolutions of the Board of Directors and Management since the last annual meeting
4. Election of the members of the Board of Directors
5. Appointment of external auditors
6. Such other business as may properly come before the meeting

**SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**A. SORIANO CORPORATION**

By:

**ATTY. JOSHUA L. CASTRO**
Corporate Information Officer

February 18, 2011

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(C) THEREUNDER

1. February 18, 2011
Date of Report (Date of earliest event reported)

2. SEC Identification Number: PW-2     3. BIR Tax Identification No. 000-103-216

4. A. SORIANO CORPORATION
Exact name of issuer as specified in its charter

5. Metro Manila, Philippines
Province, country or other jurisdiction of incorporation

6. [ ] (SEC Use Only)
Industry Classification Code

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Address of issuer's principal office

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Postal Code

8. 8190251
Issuer's telephone number, including area code

9. N/A
Former name or former address, if changed since last report

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

11. Indicate the item numbers reported herein: Item No. 9 - Other Event

**Item 9. Other Event**

The Board of Directors of A. Soriano Corporation (Anscor), in its regular meeting held today, February 18, 2011, approved a cash dividend of **Twelve Centavos (P0.12)** per share payable on **March 30, 2011** to all stockholders of record as of **March 7, 2011**.

**SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**A. SORIANO CORPORATION**

By:

**ATTY. JOSHUA L. CASTRO**
Corporate Information Officer

February 18, 2011

# COVER SHEET

P W - 2

SEC Registration Number

A . S O R I A N O C O R P O R A T I O N

(Company's Full Name)

7/ F P A C I F I C S T A R B U I L D I N G

G I L J. P U Y A T A V E N U E C O R. M A K A T I A V E.

M A K A T I C I T Y

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

ATTY. JOSHUA L. CASTRO

(Contact Person)

819-0251

(Company Telephone Number)

1 2 3 1

*Month* *Day*

(Fiscal Year)

17-C

(Form Type)

3rd Wednesday of April

*Month* *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

**SEC FORM 17-C**

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(C) THEREUNDER

1. February 28, 2011
   Date of Report (Date of earliest event reported)

2. SEC Identification Number: PW-2

3. BIR Tax Identification No. 000-103-216

4. *A. SORIANO CORPORATION*
   Exact name of issuer as specified in its charter

5. Metro Manila, Philippines
   Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
   Industry Classification Code

7. 7/F Pacific Star Bldg., Gil J. Puyat Ave. corner Makati Avenue, Makati City
   Address of issuer's principal office

   1200
   Postal Code

8. 8190251
   Issuer's telephone number, including area code

9. N/A
   Former name or former address, if changed since last report

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

| Title of each Class | Number of shares of common *Stock outstanding and amount* Of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

11. Indicate the item numbers reported herein: Item No. 9

**Item 9. Other Event (Acquisition of Additional Shares in Seven Seas Resorts and Leisure, Inc.)**

A. Soriano Corporation ("Anscor") has signed or is in the process of signing Deeds of Assignment to acquire additional shares in Seven Seas Resorts and Leisure, Inc. ("Seven Seas") from minority shareholders of Seven Seas. Once the transactions are completed, the shareholdings of Anscor will increase from the present 46.79% to 62.30% of the total outstanding common and preferred shares of Seven Seas. Total acquisition price for the additional shares is US$5.89 million.

**SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**A. SORIANO CORPORATION**

By:

**JOSHUA L. CASTRO**
Corporate Information Officer

February 28, 2011

SECURITIES AND EXCHANGE COMMISSION

**SEC FORM 17-C**

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(C) THEREUNDER

1. April 13, 2011
Date of Report (Date of earliest event reported)

2. SEC Identification Number: PW-2 3. BIR Tax Identification No. 000-103-216

4. A. SORIANO CORPORATION
Exact name of issuer as specified in its charter

5. Metro Manila, Philippines
Province, country or other jurisdiction of incorporation

6. [ ] (SEC Use Only)
Industry Classification Code

7. 7/F Pacific Star Bldg., Gil J. Puyat Ave.
corner Makati Avenue, Makati City
Address of issuer's principal office

1200
Postal Code

8. 8190251
Issuer's telephone number, including area code

9. N/A
Former name or former address, if changed since last report

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

| Title of each Class | Number of shares of common Stock outstanding and amount of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

11. Indicate the item numbers reported herein: Item Nos. 4 and 9

**Item No. 4 - Resignations, Removal or Election of Registrant's Directors and Officers**

At the annual meeting of stockholders of A. Soriano Corporation held on April 13, 2011, the following were elected directors:

1. Mr. Andres Soriano III
2. Mr. Eduardo J. Soriano
3. Mr. Ernest K. Cuyegkeng
4. Mr. Jose C. Ibazeta
5. Mr. John L. Gokongwei Jr.
6. Mr. Oscar J. Hilado
7. Mr. Roberto R. Romulo

Messrs. Oscar J. Hilado and Roberto R. Romulo are independent directors.

At the organizational meeting of the Board of Directors also held on April 13, 2011, the following were elected executive officers:

| | | |
|---|---|---|
| Mr. Andres Soriano III | - | Chairman and CEO; President and COO |
| Mr. Eduardo J. Soriano | - | Vice Chairman & Treasurer |
| Mr. Ernest K. Cuyegkeng | - | Executive Vice President & Chief Financial Officer |
| Ms. Narcisa M. Villaflor | - | Vice President & Comptroller |
| Atty. Lorna Patajo-Kapunan | - | Corporate Secretary |
| Atty. Joshua L. Castro | - | Executive Assistant and Assistant Corporate Secretary |

And the following were appointed members of the Audit Committee, Compensation Committee, and Executive Committee, respectively:

Audit Committee:

| | |
|---|---|
| Mr. Oscar J. Hilado | Chairman |
| Mr. Eduardo J. Soriano | Member |
| Mr. Jose C. Ibazeta | Member |

Compensation Committee:

| | |
|---|---|
| Mr. Oscar J. Hilado | Chairman |
| Mr. Andres Soriano III | Member |
| Mr. Eduardo J. Soriano | Member |

Executive Committee:

| | |
|---|---|
| Mr. Andres Soriano III | Chairman |
| Mr. Eduardo J. Soriano | Vice Chairman |
| Mr. Oscar J. Hilado | Member |
| Mr. Ernest K. Cuyegkeng | Member |
| Mr. Jose C. Ibazeta | Member |

**Item No. 9 - Other Event**

At the stockholders meeting held on April 13, 2011, Sycip Gorres Velayo & Co. was reappointed as the Corporation's External Auditor.

**SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**A. SORIANO CORPORATION**

**ATTY. JOSHUA L. CASTRO**
Corporate Information Officer

April 13, 2011

# COVER SHEET

P W - 2

SEC Registration Number

A . S O R I A N O   C O R P O R A T I O N

(Company's Full Name)

7/ F   P A C I F I C   S T A R   B U I L D I N G

G I L   J.   P U Y A T   A V E N U E   C O R.   M A K A T I   A V E.

M A K A T I   C I T Y

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

ATTY. JOSHUA L. CASTRO

(Contact Person)

819-0251

(Company Telephone Number)

1 2   3 1

*Month* *Day*

(Fiscal Year)

17-C

(Form Type)

3rd Wednesday of April

*Month* *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
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AND SRC RULE 17.2(C) THEREUNDER

1. October 11, 2011
Date of Report (Date of earliest event reported)

2. SEC Identification Number: PW-2    3. BIR Tax Identification No. 000-103-216

4. A. SORIANO CORPORATION
Exact name of issuer as specified in its charter

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Province, country or other jurisdiction of incorporation

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Industry Classification Code

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| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| Common | 2,500,000,000 |

11. Indicate the item numbers reported herein: Item No. 9 - Other Event

**Item 9. Other Event**

The Board of Directors of A. Soriano Corporation (Anscor), in its meeting held today, October 11, 2011, approved a cash dividend of **Twelve Centavos (P0.12)** per share payable on **November 21, 2011** to all stockholders of record as of **October 26, 2011**.

**SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**A. SORIANO CORPORATION**

By:

**ATTY. JOSHUA L. CASTRO**
Corporate Information Officer

October 11, 2011