

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17 – Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE (SRC) AND SRC RULE 17 (2)(b) THEREUNDER**

1. For the quarterly period ended September 30, 2011
2. Commission identification no. 12397 3. BIR Tax Identification No. 000-107-026
4. PHINMA Corporation
Exact name of registrant as specified in its charter
5. Manila, Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code : _____
7. 12/F, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City 1210
Address of registrant's principal office
8. (632) 870-01-00
Registrant's telephone number, including area code
9. Former name, former address, and former fiscal year, if changed since last report : N/A
10. Common Shares - 257,737,307 shares issued and outstanding
11. Are any or all of the securities listed on the Philippine Stock Exchange ?

Yes () No ()

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange, Inc.

Common Shares

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 Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes [] No []
 - (b) Has been subject to such filing requirements for the past 90 days.

Yes [] No []

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PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited September 30, 2011	Audited December 31, 2010
<i>(In Thousands)</i>		
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 26 and 27)	₱991,668	₱1,202,170
Short-term investments	-	47,316
Investments held for trading (Notes 8, 26 and 27)	768,511	841,566
Trade and other receivables - net (Notes 9, 26 and 27)	724,371	1,070,583
Inventories - at lower of cost or net realizable value (Note 10)	972,019	830,910
Input value-added taxes	43,728	73,271
Derivative assets (Notes 26 and 27)	1,410	4,442
Other current assets	111,606	29,345
Total Current Assets	3,613,313	4,099,603
Noncurrent Assets		
Investments in associates - at equity (Note 11)	1,798,771	1,364,684
Available-for-sale (AFS) investments - (Notes 12, 26 and 27)	140,892	399,480
Property, plant and equipment - net (Notes 13)	2,239,672	2,176,527
Investment properties (Note 14)	393,431	406,289
Intangibles (Notes 6 and 15)	1,459,044	1,164,035
Deferred tax assets – net (Note 28)	15,179	44,461
Installment contract receivable – net of current portion	18,173	20,585
Other noncurrent assets (Note 16)	47,326	21,050
Total Noncurrent Assets	6,112,488	5,597,111
	₱9,725,801	₱9,696,714
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 17, 26 and 27)	367,717	248,836
Trade and other payables (Notes 18, 26 and 27)	567,244	379,586
Unearned revenues	107,829	194,884
Trust receipts payable (Notes 10, 26 and 27)	148,683	121,567
Income and other taxes payable	22,434	83,789
Due to related parties (Notes 25, 26 and 27)	3,840	32,929
Derivative liabilities	1,865	-
Current portion of long-term payable	26,232	-
Current portion of long-term debt – net of debt issuance cost (Notes 19, 26 and 27)	156,491	141,350
Total Current Liabilities	1,402,335	1,202,941

	September 30, 2011	December 31, 2010
	<i>(In Thousands)</i>	
Noncurrent Liabilities		
Long-term debt - net (Notes 19, 26 and 27)	₱599,817	₱703,262
Long-term payable	78,696	-
Deferred rent revenue - net of current portion	48,394	48,394
Deferred tax liabilities – net (Note 28)	303,795	385,918
Pension and other post-employment benefits	58,546	40,024
Other noncurrent liabilities	3,416	15,485
Total Noncurrent Liabilities	1,092,664	1,193,083
Total Liabilities	2,494,999	2,396,024
Equity attributable to Equity Holders of the Parent		
Capital stock (Note 20)	2,577,249	2,577,249
Additional paid-in capital	255,785	255,785
Other components of equity (Note 20)	30,417	33,666
Retained earnings (Note 20)	3,688,949	3,672,037
Equity attributable to equity holders of the parent	6,552,400	6,538,737
Equity attributable to Non-Controlling Interest	678,402	761,953
Total Equity	7,230,802	7,300,690
	₱9,725,801	₱9,696,714

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	July - September 30,	
	2011	2010
	<i>(In Thousands)</i>	
REVENUE (Note 1)		
Sale of goods	₱660,401	₱612,188
Tuition and school fees	213,022	238,202
Animation services	47,448	96,565
Business process outsourcing	100,219	-
Investment income (Notes 8 and 21)	19,320	30,947
Rental income	3,625	11,569
	1,044,035	989,471
COSTS AND EXPENSES		
Cost of sales, educational and animation services (Notes 22)	(773,384)	(708,212)
Operating expenses (Notes 23)	(253,152)	(178,183)
OTHER INCOME (CHARGES)		
Equity in net earnings of associates (Note 11)	36,629	22,423
Interest expense and other financial charges (Note 24)	(22,635)	(9,791)
Net gains (losses) on derivatives (Note 27)	1,323	49,793
Foreign exchange gains (losses) - net (Note 27)	79	(27,713)
Others - net	11,842	(6,929)
INCOME BEFORE INCOME TAX	44,737	130,859
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 28)	6,445	14,331
NET INCOME	₱38,292	₱116,528
Attributable To		
Equity holders of the parent	₱35,653	₱107,109
Minority interest	2,639	9,419
Net income	₱38,292	₱116,528
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 29)	₱0.14	₱0.42

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	January - September 30,	
	2011	2010
	<i>(In Thousands)</i>	
REVENUE (Note 1)		
Sale of goods	₱2,016,642	₱2,060,264
Tuition and school fees	664,553	764,139
Animation services	127,427	114,746
Business process outsourcing	135,580	-
Investment income (Notes 8 and 21)	41,043	59,971
Rental income	21,028	35,574
	3,006,273	3,034,694
COSTS AND EXPENSES		
Cost of sales, educational and animation services (Notes 22)	(2,249,885)	(2,194,769)
Operating expenses (Notes 23)	(660,913)	(519,109)
OTHER INCOME (CHARGES)		
Equity in net earnings of associates (Note 11)	100,290	25,810
Interest expense and other financial charges (Note 24)	(62,798)	(75,172)
Net gains (losses) on derivatives (Note 27)	10,704	39,130
Foreign exchange gains (losses) - net (Note 27)	(6,742)	(30,971)
Others - net	22,919	13,535
INCOME BEFORE INCOME TAX	159,848	293,148
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 28)	38,448	72,045
NET INCOME	₱121,400	₱221,103
Attributable To		
Equity holders of the parent	₱120,006	₱200,858
Minority interest	1,394	20,245
Net income	₱121,400	₱221,103
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 29)	₱0.47	₱0.78

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	January – September	
	2011	2010
	<i>(In Thousands)</i>	
NET INCOME	₱121,400	₱221,103
OTHER COMPREHENSIVE INCOME (LOSS)		
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 11)	(4,449)	7,758
Unrealized gain (loss) on change in fair value of AFS investments (Note 12)	(464)	988
Cumulative translation adjustments	1,664	132
	(3,249)	8,878
TOTAL COMPREHENSIVE INCOME	₱118,151	₱229,981
Attributable To		
Equity holders of the parent	₱116,758	₱209,736
Minority interest	1,393	20,245
Total Comprehensive Income	₱118,151	₱229,981

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 21)	Additional Paid-in Capital	Share in Equity Component of Convertible Notes (Note 21)	Share in Unrealized Gain (Loss) on Change in Fair Value of AFS Investments of Associates (Notes 12 and 21)	Unrealized Gain (Loss) on Change in Fair Value of AFS Investments (Notes 13 and 21)	Cumulative Translation Adjustments (Note 21)	Other Reserves (Note 21)	Retained Earnings		Non- controlling Interest	Total Equity	
								Appropriated (Note 21)	Unappropriated			Subtotal
	<i>(In Thousands)</i>											
Balance, January 1, 2011	P2,577,249	P255,785	P-	P19,226	P1,352	P4,145	P8,943	P1,000,000	P2,672,037	P6,538,737	P761,953	P7,300,690
Total comprehensive income	-	-	-	(4,449)	(464)	1,664	-	-	120,006	116,758	15,321	132,079
Cash dividends (Note 20)	-	-	-	-	-	-	-	-	(103,095)	(103,095)	-	(103,095)
Dividends	-	-	-	-	-	-	-	-	-	-	(98,872)	(98,872)
Reclassification of share in equity component of convertible notes	-	-	-	-	-	-	-	-	-	-	-	-
Subscriptions	-	-	-	-	-	-	-	-	-	-	-	-
Balance, September 30, 2011	P2,577,249	P255,785	P-	P14,777	P888	P5,809	P8,943	P1,000,000	P2,688,949	P6,552,400	P678,402	P7,230,802
Balance, January 1, 2010	P2,577,249	P255,785	P13,443	P11,495	P300	(P802)	P-	P1,000,000	P2,282,587	P6,140,057	P626,309	P6,766,366
Total comprehensive income	-	-	-	7,731	1,052	4,947	-	-	475,846	489,576	165,402	654,978
Cash dividends (Note 20)	-	-	-	-	-	-	-	-	(103,095)	(103,095)	-	(103,095)
Change in ownership interest without loss of control (Note 1)	-	-	-	-	-	-	8,943	-	-	8,943	(8,943)	-
Dividends	-	-	-	-	-	-	-	-	-	-	(25,218)	(25,218)
Reclassification of share in equity component of convertible notes	-	-	(13,443)	-	-	-	-	-	16,699	3,256	-	3,256
Subscriptions	-	-	-	-	-	-	-	-	-	-	4,403	4,403
Balance, December 31, 2010	P2,577,249	P255,785	P-	P19,226	P1,352	P4,145	P8,943	P1,000,000	P2,672,037	P6,538,737	P761,953	P7,300,690
Balance, January 1, 2010	P2,577,249	P255,785	P13,443	P11,495	P300	(P802)	P-	P1,000,000	P2,282,587	P6,140,057	P626,309	P6,766,366
Total comprehensive income	-	-	-	7,758	988	132	-	-	200,858	209,736	26,510	236,246
Cash dividends	-	-	-	-	-	-	-	-	(103,095)	(103,095)	-	(103,095)
Dividends	-	-	-	-	-	-	-	-	-	-	(25,214)	(25,214)
Additions	-	-	3,256	-	-	-	-	-	-	3,256	-	3,256
Business combination	-	-	-	-	-	-	-	-	-	-	(4,253)	(4,253)
Balance, September 30, 2010	P2,577,249	P255,785	P16,699	P19,253	P1,288	(P670)	P-	P1,000,000	P2,380,350	P6,249,954	P623,352	P6,873,305

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	January – September 30,	
	2011	2010
	<i>(In Thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱159,850	₱293,147
Adjustments for:		
Non-cash adjustments	172,933	191,748
Equity in net earnings of associates (Note 11)	(98,178)	(18,120)
Investment income	(4,469)	(11,640)
Income tax paid	(107,751)	(46,953)
Changes in working capital and others	79,626	(650,207)
Net cash provided by operating activities	202,011	(242,025)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in :		
Other noncurrent assets	15,729	265,751
Full payment of acquisition of minority interest	-	(153,095)
Proceeds received from settlement of derivative asset	17,090	9,810
Net settlement of derivative liability	(2,776)	(6,161)
Proceeds from sale of investment property	3,349	-
Cash paid – net of cash from business acquired	(244,701)	-
Decrease (increase) in :		
Available for sale investments	258,124	-
Investment in shares of stocks	(357,853)	-
Property and equipment (Notes 13 and 14)	(176,964)	(167,120)
Investment properties	(401)	-
Dividends received	19,927	43,383
Net cash provided by (used in) investing activities	(468,476)	(7,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments of) :		
Short-term borrowing & trust receipts payable	145,997	159,580
Long-term borrowing	16,624	155,039
Payment of cash dividends	(105,584)	(101,692)
Net cash used in financing activities	57,037	212,927
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(209,428)	(36,530)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,074)	(17,904)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,202,170	1,052,217
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱991,668	₱997,783

PHINMA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

PHINMA Corporation (formerly Bacnotan Consolidated Industries, Inc.) (PHN or the “Parent Company”) and its subsidiaries (collectively referred to as “the Company”) were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on various dates, except for One Animate Limited (OAL), which was incorporated in Hong Kong. The change in corporate name to PHINMA Corporation was approved by the SEC on May 27, 2010. The ultimate parent of PHN is Philippine Investment-Management (PHINMA), Inc., a company incorporated in the Philippines. The Company is also controlled by PHINMA under an existing management agreement.

The Parent Company is principally engaged in investment holdings in various subsidiaries, associates and investment in financial assets. The principal activities of its subsidiaries are as follows:

Name of Subsidiaries	Nature of Business	Calendar/Fiscal Yearend	Percentage of Ownership	
			2011	2010
Union Galvasteel Corporation (UGC)	Manufacture and distribution of steel products	December 31	98.36	98.36 ^(a)
One Animate Limited (OAL) and Subsidiary Pamantasan ng Araullo (Araullo University), Inc.(AU)	BPO-Animation services	December 31	80.00	80.00 ^(b)
Cagayan de Oro College, Inc. (COC)	Educational institution	March 31 ^(c)	78.64	78.64
University of Iloilo (UI)	Educational institution	March 31 ^(c)	74.35	74.35
University of Pangasinan (UPANG) and Subsidiary P & S Holdings Corporation (PSHC)	Educational institution	March 31 ^(c)	69.85	69.85 ^(c)
	Investment and real estate holdings	March 31 ^(c)	69.76	69.76 ^(d)
Asian Plaza, Inc. (API)	Investment and real estate holdings	December 31	60.00	60.00
Fuld & Company, Inc.	Lease of real property	December 31	57.62	57.62
Business Back Office, Inc.	Business research	December 31	85.00^(f)	-
Atlas Holdings Corporation (AHC)	Business research	December 31	85.00^(g)	-
	Investment holdings	December 31	- ^(a)	90.00

^(a) On December 21, 2009, PHN acquired 19.5% of the voting shares of UGC (see Note 7). On December 22, 2010, the SEC approved the merger of UGC and AHC, with UGC as the surviving entity. The execution of the merger involved a share-swap between UGC and the holder of the non-controlling interest in AHC. This resulted in a decrease of the Parent Company’s ownership interest in UGC from 100% to 98.36% (see Note 20).

^(b) OAL owns 95.0% interest in Toon City Animation, Inc. (Toon City).

^(c) Acquired by PHN on February 25, 2009).

^(d) Acquired by PHN on February 2, 2009. Pangasinan Medical Center, Inc. is the subsidiary of UPANG).

^(e) Balances of these subsidiaries as of and for the year ended December 31 were used for consolidation purposes, which is the same reporting period of PHN.

^(f) Acquired by PHN on June 10, 2011.

^(g) Acquired by PHN on July 25, 2011.

The information on the segments of the Company is presented in Note 30.

The registered office address of the Parent Company is 12th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The accompanying consolidated financial statements of PHN were authorized for issuance by the Board of Directors (BOD) on October 17, 2011.

2. Basis of Preparation and Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council.

The accompanying consolidated financial statements of the Company have been prepared using the historical cost basis, except for investments held for trading, available-for-sale (AFS) investments and derivative assets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Company's functional and presentation currency, except for OAL with a functional currency of United States dollar (USD). All values are rounded to the nearest thousand peso unless otherwise stated.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year. Standards that have been adopted and that are deemed to have an impact on the consolidated financial statements or performance of the Company are as follows:

- ***PFRS 3 - Business Combinations (Revised) and PAS 27 - Consolidated and Separate Financial Statements (Amended)***

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations.

Changes include the effect on the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, losses incurred by the subsidiary will be allocated between the controlling and non-controlling interest even if the losses exceed the non-controlling equity investment in the subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

As discussed in Note 1, the share-swap between UGC and the holder of the non-controlling interest in AHC to effect the merger resulted in a decrease of the Parent Company's ownership interest in UGC from 100% to 98.36%. This is accounted for as an equity transaction and resulted in the recognition of other equity reserves amounting to ₱8.9 million (see Notes 1 and 20).

The adoption of the following standards and amendments to standards which were adopted as of January 1, 2011 are either not applicable or did not have any significant impact on the Company's consolidated financial statements.

- ***PAS 24 (Amended), Related Party Disclosures***

The amended standard is effective for annual periods beginning on or after January 1, 2011.

It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- **Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments***

This interpretation which is effective for annual periods beginning on or after July 1, 2010, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

- **Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)***

The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment 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.

Improvements to PFRS adopted by the Company starting January 1, 2011. The omnibus amendments to PFRS were issued primarily with a view to remove inconsistencies and clarify wordings. The adoption of the following amendments did not have a material effect on the Company's consolidated financial statements.

- **PFRS 3, *Business Combinations***

The amendment clarifies that the amendments to PFRS 7 *Financial Instruments: Disclosures*, PAS 32 *Financial Instruments: Presentation* and PAS 39 *Financial Instruments: Recognition and Measurement* that eliminates the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede application of PFRS 3 (as revised in 2008).

- **PFRS 7, *Financial Instruments: Disclosures***

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

- **PAS 1, *Presentation of Financial Statements***

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- **PAS 27, *Consolidated and Separate Financial Statements***

The amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

- **PAS 34, *Interim Financial Reporting*.** The amendment provides guidance on how to apply disclosure principle in PAS 34 and add disclosure requirements : (a) the circumstances likely to affect fair values of financial instruments and their classification; (b) transfers of financial instruments between different levels of the fair value hierarchy ; (c) changes in classification of financial assets ; and (d) changes in contingent liabilities and assets.

Effective in 2012

- **PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets***

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- **PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets***

The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Effective in 2013

- **PFRS 9, *Financial Instruments: Classification and Measurement***

PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. After consideration of its impact evaluation, the Company has decided not to early adopt PFRS 9 for its 2011 annual financial reporting. It shall conduct in early 2012 another impact evaluation using the outstanding balances of financial instruments as of December 31, 2011. The Company's decision whether to early adopt PFRS 9 for its 2012 financial reporting shall be disclosed in its interim financial statements as of March 31, 2012. If the decision of the Company will be to early adopt for its 2012 financial reporting, the interim report as of March 31, 2012 will already reflect the application of the requirements and qualitative and quantitative discussion of the results of the impact evaluation.

- **PFRS 10, *Consolidated Financial Statements*. PFRS 10 defines the principle of control and introduces a new approach to determining which investees should be consolidated in the consolidated financial statement. It further provides a single model to be applied in the control analysis for all investees and sets out the accounting requirements for the preparation of consolidated financial statements. PFRS 10 and PAS 27 (as amended in 2011) together will supersede PAS 27 (as amended in 2008) and *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities*. The standard is applied retrospectively for annual periods beginning on or after January 1, 2013, with certain exceptions. Earlier adoption is permitted provided that PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, are applied simultaneously and with additional disclosure of the fact.**

- **PFRS 11, *Joint Arrangements*. PFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and elimination of proportionate consolidation method. PFRS 11 will supersede PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. The standard is applied retrospectively for annual reports beginning on or after January 1, 2013. Earlier adoption is permitted provided that PFRS 10 and PFRS 12 are applied simultaneously and with additional disclosure of the fact.**

- **PFRS 12, *Disclosure of Interests in Other Entities*. PFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structures entities that enables the users of the financial**

statements to evaluate : (a) the nature of, and risks associated with, the interests in other entities ; and (b) the effects of those interests on the financial position, financial performance and cash flows. The standard also evaluate the : (i) nature and extent of significant restrictions on its ability to access or use assets and settle liabilities of the group ; (ii) nature of, and changes in, the risks associated with its interests in consolidated structured entities ; (iii) nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interests ; (iv) the nature, extent and financial effects of its interests in joint arrangements and associates, and the nature of the risks associated with those interests ; (v) the consequences of the changes in a parent's ownership interest in a subsidiary that do not result in a loss of control ; and (vi) the consequences of losing control of a subsidiary during the reporting period. *PFRS 12* is applied retrospectively for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10* and *PFRS 11* are applied simultaneously and with additional disclosure of the fact.

- ***PFRS 13, Fair Value Measurement.*** *PFRS 13* sets out the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date with an emphasis that fair value is a market-based measurement, not an entity-specific measurement. *PFRS 13* explains that a fair value measurement requires an entity to determine the following ; (a) the particular asset or liability being measured ; (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability ; and (d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs that a market participant would use when pricing the asset or liability. *PFRS 13* is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- ***Revised PAS 27, Separate Financial Statements.*** The standard has been revised as a result of the issuance of *PFRS 10*, *PFRS 11* and *PFRS 12*. The revised standard provides the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements and requires an entity preparing separate financial statements to account for those investments at cost or in accordance with *PFRS 9*. The standard is issued concurrently with *PFRS 10* and together, the two *PFRS*s will supersede *PAS 27 (as amended in 2008)* and *SIC 12*. Revised *PAS 27* is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that *PFRS 10*, *PFRS 11*, *PFRS 12* and *PAS 28 (as amended in 2011)* are applied simultaneously and with additional disclosure of the fact.
- ***Revised PAS 28, Investments in Associates and Joint Ventures.*** The standard has been revised as a result of the issuance of *PFRS 10*, *PFRS 11* and *PFRS 12*. The revised standard prescribes the accounting for new investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Equity method is defined in the revised standard as a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee. The revised standard is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. This standard supersedes *PAS 28 (as revised in 2003)*. Revised *PAS 28* is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10*, *PFRS 11*, *PFRS 12* and *PAS 27 (as amended in 2011)* are applied simultaneously and with additional disclosure of the fact.

4. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and the subsidiaries mentioned in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intercompany balances, transactions, income and expenses and profits and losses resulting from intercompany transactions are eliminated in full.

Subsidiaries are fully consolidated from the date control is transferred to the Parent Company and cease to be consolidated from the date control is transferred out of the Parent Company.

OAL has been included in the 2008 consolidated financial statements using the purchase method of accounting. The purchase considerations have been allocated to the assets and liabilities on the basis of their fair value at the date of acquisition. Also, the accounts of UPANG and UI have been included in the 2009 consolidated financial statements using the purchase method of accounting. Accordingly, the 2009 consolidated statement of income and consolidated statement of cash flows include the results of operations and cash flows of UPANG and UI from their respective acquisition dates to December 31, 2009.

Non-controlling interest represents the portion of profit or loss and net assets in subsidiaries not held by the Parent Company and is presented in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent. Prior to January 1, 2010, acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill, otherwise, the difference is recognized as a "negative" goodwill (shown as "Negative goodwill on acquisition of non-controlling interest" in the consolidated statement of income). Starting January 1, 2010, a change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction and is shown as "Other reserves" in the consolidated statement of changes in equity. If the Parent Company loses control over a subsidiary, it:

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

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments represent investments that are readily convertible to known amounts of cash with original maturities of more than three months to one year.

Financial Assets and Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

The Company recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Company commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The fair value for financial instruments traded in active markets at the end of the reporting period 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 asking 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 quoted 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 observable market prices exist, and other relevant valuation models.

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 Company recognizes the difference between the transaction price and fair value (“Day 1 Gain or Loss”) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1 Gain or Loss” amount.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, 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.

Financial assets are classified into the following categories: Financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. Financial liabilities are classified into: Financial liabilities at FVPL, and other financial liabilities. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- Financial Assets and Financial Liabilities at FVPL

- Financial Assets or Financial Liabilities Designated as at FVPL on Initial Recognition

- Financial assets or financial liabilities classified in this category included those that are designated by management on initial recognition as at FVPL when any of the following criteria are met:

- a. 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
 - b. 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
 - c. 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 designated as at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statement of income under "Investment income" account. Interest earned or incurred is recorded in investment income and interest expense and other financial charges, respectively, while dividend income is recorded according to the terms of the contract, or when the right to receive payment has been established.

The Company has no financial asset or financial liability designated on initial recognition as at FVPL as of September 30, 2011 and December 31, 2010.

Financial Assets or Financial Liabilities Held for Trading

Financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the consolidated statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as net gain (loss) on investment held for trading under "Investment income" account. Interest earned or incurred is recorded in investment income and interest expense and other financial charges, respectively, while dividend income is recorded when the right to receive payment has been established.

The Company's investments in unit investment trust funds (UITFs), bonds, marketable equity securities and trust accounts are classified as investments held for trading (see Notes 8, 26 and 27).

Derivatives recorded at FVPL

The Company enters into short-term forward currency contracts to hedge its currency exposure. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Company's derivative assets or liabilities are classified as financial assets or liabilities at FVPL (see Note 27).

Embedded Derivatives

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. Gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company first becomes a party to the contract. The Company makes a reassessment on whether an embedded derivative is to be separated from the host contract only if there is a change to the contract that significantly modifies the cash flows.

The Company has bifurcated embedded foreign currency derivatives (see Note 27).

- **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement, such assets are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the end of the reporting date, and as noncurrent assets if maturity date is more than 12 months from the end of the reporting date.

The Company's cash and cash equivalents, short-term investments, trade and other receivables and installment contract receivables are classified as loans and receivables (see Notes 7, 9, 25, 26 and 27).

- **HTM Investments**

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investment, the entire category would be tainted and would have to be reclassified as AFS Investments. Furthermore, the Company would be prohibited to classify any financial assets as HTM investments for the following two years. After initial measurement, such assets are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium or acquisition and fees that are integral parts of the effective interest rates.

Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. HTM investments are classified as current if maturity is within 12 months from the end of the reporting date. Otherwise, these are classified as noncurrent assets.

The Company has no financial asset classified as HTM investments as of September 30, 2011 and December 31, 2010.

- **AFS Investments**

AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS investments are measured at fair value with gains or 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 included in the consolidated statement of income. Unquoted equity securities are carried at cost, net of impairment. Interest earned on the investments is reported as interest income using the effective interest rate. Dividends earned on investments are reported as interest income when the right to receive payment is established. AFS investments are classified as current if they are expected to be realized within 12 months from the end of the reporting date. Otherwise, these are classified as noncurrent assets.

The Company's investments in quoted and unquoted equity securities and other investments are classified as AFS investments (see Notes 12, 26 and 27).

- **Other Financial Liabilities**

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. This includes liabilities arising from operations or loans and borrowings.

Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process. Amortized cost is calculated by taking into account any related issue costs, discount or premium.

The Company's notes payable, trade and other payables, trust receipts payable, due to related parties and long-term debt are classified as other financial liabilities (see Notes 17, 18, 19, 25, 26 and 27).

Convertible Notes

Convertible notes which contain both a liability and an equity element, are separated into two components on initial issuance based on the present value of the expected cash flows of the notes, and each is accounted for separately. Upon issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as a long-term liability at amortized cost until extinguished on conversion or repayment. Amortization of discount is based on the effective interest rate method. The remainder of the proceeds is allocated to the conversion option. The Parent Company's share is recognized and included in equity as "Share in equity component of convertible notes."

Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessment of collectability of financial assets considering the debtor's capacity to pay, history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, if necessary, financial assets are grouped on the basis of such credit risk characteristics such as debtor type, payment history, past-due status and terms.

Assets Carried at Cost. If there is objective evidence (such as continuing losses or significant financial difficulties of the investee company) that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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. For AFS investments, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this 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 is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in the fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as loans and receivables and HTM investments. Future interest income is based on the reduced amount based on the rate of the 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 statement of income. If, in the subsequent year, the fair value of a debt instrument can be objectively related to an asset occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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 similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company 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 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 substantially all the risks and rewards of the asset, but has transferred 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 the 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 an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if and only if there is a currently legal right to offset the recognized amounts and the Company intends to either 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.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods	determined using the moving average method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excludes borrowing costs;
Raw materials, spare parts and others	determined using the moving average method.

The net realizable value of inventories, except spare parts, is the selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The net realizable value of spare parts is the current replacement cost.

Investments in Associates

The Company's investments in associates are accounted for under the equity method. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share in net assets of the associates, less any impairment in value. The consolidated statement of income reflects the Company's share in the results of operations of the associates. Unrealized gains arising from transactions with its associates are eliminated to the extent of the Company's interest in the associates against the related investments. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. The Company's investment in an associate includes goodwill on acquisition, which is recorded in accordance with the accounting policy for goodwill.

When the Company's accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances for future conversion to equity, the Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

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.

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

Property, plant and equipment and intangible assets once classified as held for sale are no longer depreciated/amortized.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and any impairment loss. Land is carried at cost less any impairment loss. The cost of property, plant and equipment comprises its purchase price, including any applicable import duties and capitalized borrowing

costs (for property, plant and equipment other than land) and other costs directly attributable to bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to current operations in the year 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.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Plant site improvements	10–20 years
Buildings and improvements	10–20 years
Port facilities and equipment	22.5 years
Machinery and equipment	5–20 years
Transportation and other equipment	2–10 years

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

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are met.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is credited or charged to consolidated statement of income.

Construction in-progress represents plant and properties under construction/development and is stated at cost. This includes cost of construction, plant and equipment, borrowing costs directly attributable to such asset during the construction period and other direct costs. Construction in-progress is not depreciated until such time when the relevant assets are completed and ready for operational use.

Investment Properties

Investment properties are measured initially at cost, including direct transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the 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, investment properties (except land) are stated at cost less accumulated depreciation and impairment loss. Land is carried at cost less any impairment in value.

Depreciation of buildings for lease is calculated on a straight-line basis over the estimated useful lives of 15 to 20 years.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property 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 property when, and only when, there is a

change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Business Combinations, Goodwill and Goodwill Impairment

Business Combinations from 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 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 administrative expenses.

When the Company 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 is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Business Combinations Prior to January 1, 2010. In comparison to the above-mentioned requirements, the following differences applied:

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.

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 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.

Business combinations under common control are accounted for using the pooling of interest method. Financial statements for periods prior to the combination under common control are not restated.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Company reassesses

the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and recognizes immediately in profit or loss any excess remaining after that reassessment.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Company's primary or the Company's any secondary reporting format determined in accordance with PFRS 8, "Operating Segments."

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (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.

Intangible Assets

The cost of intangible assets acquired separately is measured on initial recognition at cost. The cost of intangible assets (student lists and customer contracts) acquired in a business combination is measured at the fair value as of date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Student lists are amortized over three years and assessed for impairment whenever there is an indication that the student lists acquired may be impaired. Customer contracts are amortized over the estimated economic life of one year.

The useful lives of intangible assets are assessed to be either finite or indefinite. The amortization period and method are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase due to the passage of time is recognized as interest expense in the consolidated statement of income.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account in the consolidated statement of financial position. When shares are

issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to the "Additional paid-in capital" account in the consolidated statement of financial position.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue from sale of roofing and other steel products, books and incidentals is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Tuition and School Fees. Income from tuition and school fees is recognized as income over the corresponding school term to which they pertain. Tuition and school fees received pertaining to the summer semester and the next school year are recorded as part of "Unearned revenues" account in the consolidated statement of financial position.

Animation Services. Income from animation services is recognized by reference to the stage of completion. Stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Rental Income. Revenue is recognized on a straight-line basis over the lease term.

Investment Income. Investment income includes net gains and losses on investments held for trading (see accounting policy on Financial Assets) and interest income. Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Cost of Sales, Educational and Animation Services

Cost of sales includes direct materials used, personnel costs, as well as repair and power and fuel used to run production of steel products. Cost of educational services constitutes costs incurred to administer academic instruction. Costs of animation services include all direct materials, labor costs and indirect costs related to contract performance. These expenses are expensed as incurred.

General and Administrative Expenses

General and administrative expenses constitute costs of administering the business and are expensed as incurred. These normally include personnel costs, management and professional fees, supplies, rental and utilities.

Selling Expenses

Selling expenses include costs of distribution of steel products, books, incidentals, personnel costs, freight expenses, commission and advertising. Selling expenses are expensed as incurred.

Retirement Costs

PHN, UGC, Toon City, UPANG and AU have distinct funded, noncontributory defined benefit retirement plans while UI and COC have a defined, unfunded, noncontributory retirement plans covering all permanent employees, each administered by their respective Retirement Committees. Retirement costs are actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each plan at the end of the previous financial reporting year exceed 10% of the higher 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 plans.

The past service cost, if any, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Leases

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

- 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.

Company 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 statement of income on a straight-line basis over the lease term.

Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the consolidated statement of income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

Borrowing cost consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's investments in associates. The Company determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

Foreign Currency Translation

The consolidated financial statements are presented in Philippine peso, which is also the parent company's functional and presentation currency. The Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Company has elected to recycle the gain or loss that arises from direct method of consolidation, the method the Company uses to complete its consolidation.

Transactions in foreign currencies are recorded using their functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange at the end of the reporting period. Exchange gains or losses arising from foreign currency translations are credited or charged to current operations. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Other than OAL, the functional and presentation currency of the companies within the group is Philippine peso. OAL's functional currency is US dollar. The assets and liabilities of foreign operations (OAL) are translated into Philippine peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of income.

Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

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

- where the deferred tax liability arises from the initial recognition of goodwill or 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 profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused excess MCIT and unused NOLCO can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises 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 profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates. Deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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 the reporting period.

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Value-Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services are not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of receivables or payables in the consolidated statement of financial position.

Earnings Per Common Share (EPS) attributable to the equity holders of the Parent

Basic EPS is computed by dividing net income (after deducting dividends on preferred shares) attributable to equity holders of the parent by the weighted average number of outstanding common shares during the year after giving retroactive effect to any stock dividend declared during the year.

The Company does not have potential common shares nor other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

Segment Reporting

The Company is organized into five major business segments. Such business segments are the bases upon which the Company reports its primary segment information. Financial information on business segments is presented in Note 30 to the consolidated financial statements.

Contingencies

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

Events After the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the end of the 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 the consolidated financial statements when material.

5. Significant Accounting Judgments and Estimates

The Company's consolidated financial statement prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. In preparing the Company's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

The Company believes the following represents a summary of these significant estimates and judgments and related impact and associated risks in its consolidated financial statements.

Judgments

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 Company's consolidated financial statements:

Operating Lease - the Company as Lessor. The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Revenue Recognition. Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on sufficiency of cumulative payments by the buyer and completion of development. The Company assesses its revenue arrangements against specific criteria in order to

determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all its revenue arrangements.

Functional Currency. The Company, except for OAL with a functional currency of US dollar, has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Company operates.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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 Testing of Goodwill. The Company performs impairment testing of goodwill on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Value in use is determined by making an estimate of the expected future cash flows from the cash-generating unit and applies a discount rate in order to calculate the present value of these cash flows. Goodwill acquired through business combination has been allocated to one cash-generating unit which is also the operating entity acquired through business combination and to which the goodwill relates. The recoverable amount of the goodwill has been determined based on value in use calculation using cash flow projections covering a five-year period. The pre-tax discount rates applied to cash flow projections ranges from 10% to 15% in 2010 and 2009. Discount rate reflects the current market assessment of the risk specific to each cash-generating unit. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. The carrying amount of goodwill amounted to ₱1,446.6 million and ₱1,125.2 million as of September 30, 2011 and December 31, 2010 respectively and is presented as part of the "Intangibles" account in the consolidated statements of financial position (see Note 15). No impairment loss on goodwill was recognized in September 2011 and December 2010.

The Company performs its annual testing of goodwill at December 31.

Impairment of Nonfinancial Assets, other than Goodwill. The Company assesses whether there are any indicators of impairment for all nonfinancial assets, other than goodwill, at each reporting date. These nonfinancial assets (investment in associates, property, plant and equipment, investment properties and intangibles) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Company 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. In cases where the value in use cannot be reliably estimated, the recoverable amount is based on the fair value less costs to sell. The recoverable amount of investments in associates is based on fair value less cost to sell. Fair value less costs to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate. The carrying amounts of investments in associates as of September 30, 2011 and December 31, 2010 amounted to ₱1,798.8 million and ₱1,364.7 million, respectively (see Note 11). Based on management's assessment, the Company's investments in associates are fairly stated, thus no impairment loss was recognized in September 2011 and December 2010.

There are no impairment indicators for the other nonfinancial assets. The carrying amounts of property plant and equipment as of September 30, 2011 and December 31, 2010 amounted to ₱2,239.7 million and ₱2,176.5 million, respectively (see Note 13). The carrying amounts of investment properties as of September 30, 2011 and December 31, 2010 amount to ₱393.4 million and ₱406.3 million, respectively (see Note 14). The carrying amounts of intangibles other than goodwill as of September 30, 2011 and December 31, 2010 amounted to ₱12.4 million and ₱38.9 million, respectively (see Note 15).

Impairment of AFS Investments. The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of

impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Company treats “significant” generally as 20% or more of the original cost of investment, and “prolonged,” greater than six months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying values of AFS investments as of September 30, 2011 and December 31, 2010 amounted to ₱ 140.9 million and ₱399.5 million, respectively (see Note 12). Based on management’s assessment, the Company’s AFS investments are fairly stated, thus, no impairment loss was recognized in September 2011 and December 2010.

Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The recognized deferred tax assets as of December 31, 2010 amounted to ₱81.7 million.

The Company’s deductible temporary differences, unused NOLCO and MCIT for which no deferred tax asset is recognized in the consolidated statements of financial position as of December 31, 2010 amounted to ₱128.4 million.

Input VAT. The carrying amounts of input taxes were reduced to the extent that it is no longer probable that sufficient revenue subject to VAT will be available to allow all or part of the input VAT to be utilized. Allowance for unrecoverable input VAT amounted to ₱81.8 million as of December 31, 2010. The carrying amount of input VAT classified as current assets as of September 30, 2011 and December 31, 2010 amounted to ₱43.7 million and ₱73.3 million, respectively.

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangibles. The Company estimates the useful lives of depreciable property, plant and equipment, depreciable investment properties and intangibles with finite useful lives based on the period over which the property, plant and equipment, investment properties and intangibles with finite useful lives are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets and in the case of intangibles, useful lives are also based on the contracts covering such intangibles. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment and investment properties. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. The carrying amounts of depreciable property, plant and equipment as of September 30, 2011 and December 31, 2010 amounted to ₱1,104.9 million and ₱1,098.2 million, respectively (see Note 8). The carrying amounts of depreciable investment properties as of September 30, 2011 and December 31, 2010 amounted to ₱71.9 million and ₱85.2 million, respectively (see Note 14). The carrying amounts of intangibles with finite useful lives amounted to ₱12.4 million and ₱38.9 million as of September 30, 2011 and December 31, 2010, respectively (see Note 15).

Impairment of Trade Receivables. The Company maintains allowance for doubtful accounts based on the result of the individual and collective assessments under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the debtor, the Company is required to obtain the present value of estimated cash flows using the receivable’s original effective interest rate. Impairment loss is determined as the difference between the receivables’ carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (debtor type, past-due status and terms) of the debtors. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management’s judgment and estimate. Therefore, the amount and timing of recorded expense for any year would differ depending on the judgments and estimates

made for the year. The carrying amounts of trade and other receivables amounted to ₱724.4 million and ₱1,070.6 million as of September 30, 2011 and December 31, 2010, respectively (see Note 9). The noncurrent portion of the installment contract receivables amounted to ₱18.2 million and ₱20.6 million as of September 30, 2011 and December 31, 2010 respectively.

Estimating Net Realizable Value of Inventories. The Company carries inventories at net realizable value when this becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The carrying amounts of inventories as of September 30, 2011 and December 31, 2010 amounted to ₱972.0 million and ₱830.9 million, respectively (see Note 10).

Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities. Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections. The fair values of the identifiable acquired net assets of Toon City, UPANG and UI are ₱78.5 million, ₱772.9 million, and ₱731.0 million, respectively, while the fair values of liabilities assumed amounted to ₱49.9 million, ₱607.3 million, and ₱364.8 million, respectively.

Pension Benefits. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions made by management and used by actuaries in calculating such amounts. The assumptions presented in Note 33 include among others, discount rates, expected rate of return on plan assets and rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The Company's net pension liability under "Pension and other post-employment benefits" account in the consolidated statements of financial position amounted to ₱58.5 million and ₱20.1 million as of September 30, 2011 and December 31, 2010, respectively.

6. Business Combinations

Acquisition of Business Back Office, Inc.

On July 25, 2011, PHN purchased 200 shares of stock of Business Back Office, Inc. (BBI) representing 85% ownership interest. BBI is a knowledge process outsourcing provider based in Manila which caters to ad hoc and customized business research studies, market and industry surveillance and competitive intelligence training.

The net assets recognized in the September 30, 2011 consolidated financial statements were based on a provisional assessment of fair values as the audit and fair valuation of the identifiable net assets acquired were not yet completed as of such date.

Acquisition of Fuld & Company, Inc.

On June 10, 2011, PHN purchased 85 shares of stock of Fuld & Company, Inc. representing 85% ownership interest in the company. Fuld is a business research and consulting firm focusing on business and competitive intelligence. Fuld is incorporated in the United States, with offices in the US, UK and China.

The net assets recognized in the September 30, 2011 consolidated financial statements were based on a provisional assessment of fair values as the audit and fair valuation of the identifiable net assets acquired were not yet completed as of such date.

7. Cash and Cash Equivalents

This account consists of:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Cash on hand and in banks	₱161,292	₱102,095
Short-term deposits	830,376	1,100,075
	₱991,668	₱1,202,170

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

8. Investments Held for Trading

This account consists of:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Investments in:		
UITFs	₱407,473	₱487,588
Bonds	356,730	349,443
Marketable equity securities	4,308	4,535
	₱768,511	₱841,566

9. Trade and Other Receivables

This account consists of:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Trade	₱693,431	₱665,044
Current portion of installment contract receivable (see Note 14)	68,880	473,396
Due from related parties (see Note 25)	5,495	9,316
Advances to suppliers and contractors	5,689	10,321
Accrued interest	8,081	8,356
Receivable from BCII Retirement/Gratuity Plan (BCII Retirement)	8,939	8,939
Advances to officers and employees	6,483	2,352
Others	93,786	39,156
	890,784	1,216,880
Less allowance for doubtful accounts	166,413	146,297
	₱724,371	₱1,070,583

Trade and other receivables are noninterest-bearing and are short-term in nature.

The installment contract receivable pertains to the balance of the Company's receivable from a third party for the sale of API's building (see Note 14). Net consideration from the sale and the gain recognized by the Company amounted to ₱596.6 million and ₱386.1 million, respectively.

10. Inventories

This account consists of:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
At cost:		
Finished goods	₱890,090	₱731,904
Raw materials	40,378	61,275
Other inventories	17,485	13,879
At net realizable value -		
Spare parts and others	24,066	23,852
Inventories at the lower of cost or net realizable value	₱972,019	₱830,910

Finished goods mainly represent roofing and other steel products of UGC.

The acquisition cost of spare parts and other inventories carried at net realizable value amounted to ₱25.4 million and ₱25.2 million as of September 30, 2011 and December 31, 2010, respectively.

11. Investments in Associates

This account consists of the Company's investments in the following entities:

	<u>Percentage of Ownership</u>	
	Direct	Indirect
Phinma Property Holdings Corporation (PPHC)	35.35	–
TA Oil	28.26	–
AB Capital and Investment Corporation (AB Capital)	26.51	1.67
Luzon Bag Corporation ^(a)	20.61	–
Asia Coal Corporation (Asia Coal) ^{(a) (b)}	12.08	5.99

^(a) *Ceased commercial operations*

^(b) *Considered as an associate although percentage of ownership is below 20% since the Company has significant influence as evidenced in its representation in the BOD of Asia Coal.*

The movements and details of investments in associates are as follows:

	Unaudited Sept. 30, 2011	Audited Dec. 31, 2010
<i>(In Thousands)</i>		
Acquisition costs:		
Balance at beginning of year	₱1,537,282	₱1,537,282
Additions	358,345	-
Balance at end of year	1,895,627	1,537,282
Accumulated equity in net losses:		
Balance at beginning of year	(191,824)	(212,114)
Equity in net earnings for the year	98,178	59,391
Dividends received	(17,986)	(39,101)
Balance at end of year	(111,632)	(191,824)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	19,226	11,495
Change in fair value during the year	(4,449)	7,731
Balance at end of year	14,777	19,226
	₱1,798,771	₱1,364,684

The detailed carrying values of investments in associates which are accounted for under the equity method are as follows:

	Unaudited Sept. 30, 2011	Audited Dec. 31, 2010
<i>(In Thousands)</i>		
TA Oil*	₱1,214,964	₱823,472
PPHC	371,786	348,559
AB Capital	203,755	192,385
Asia Coal	268	268
Academy of Competitive Intelligence	7,998	-
	₱1,798,771	₱1,364,684

* The fair value as of September 30, 2011 and December 31, 2010 amounted to ₱767.8 million and ₱513.0 million respectively.

As of September 30, 2011 and December 31, 2010, the carrying amount of the Company's investments exceeded its equity in the net assets of associates by ₱5.1 million representing goodwill related to AB Capital.

Status of operations and significant transactions of certain associates are as follows:

a. TA Oil

TA Oil is involved in power generation and oil and mineral exploration activities.

On June 6, 2011, the SEC approved the increase in the Company's authorized capital stock from 2 billion divided into 2 billion shares, to 4.2 billion divided into 4.2 billion shares.

On March 30, 2011, the SEC approved the stock rights offering of 1,165.24 million shares of the TA Oil at the rate of seven shares for every ten shares held as of record date of May 18, 2011, at a price of 1.00 per share. The offer period commenced on May 30, 2011 and ended on June 3, 2011. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to 1,154.53 million. The proceeds will be used as equity investment in new 135MW clean coal power project and in Maibarara Geothermal, Inc. Transaction costs which are directly related to the stock rights offering,

consisting of professional fees, filing fees, documentary stamp taxes and other direct costs were recorded as deduction from equity.

On March 21, 2011, the BOD of TA Oil declared a cash dividend of ₱0.04 a share totaling ₱66.5 million to all common stockholders of record as of April 11, 2011 payable on May 4, 2011. The Company recognized ₱18.0 million dividend income from TA Oil.

On March 24, 2010, the BOD of TA Oil declared a cash dividend of ₱0.04 a share totaling ₱66.5 million to all common stockholders of record as of May 3, 2010 which was paid on May 28, 2010. The Company recognized ₱18.0 million dividend income from TA Oil.

TA Oil has 100% equity interest in CIP II Power Corporation (CIPP) which operates a 21 MW Bunker C-fired power plant in CIP II Special Economic Zone in Calamba, Laguna. In April, 2009, the terms of the sale of the distributions assets to Manila Electric Company was finalized resulting in the cessation of CIPP's operations starting April 2009. Also, the separation of substantially all of CIPP's employees effective January 2010 was announced. On February 22, 2010 and March 24, 2010, the BOD and stockholders of TA Oil and CIPP approved the proposed merger of TA Oil and CIPP, respectively subject to the approval by the SEC. As of March 3, 2011, CIPP has not filed its application for merger with SEC and has deferred its plan for merger.

b. PPHC

PPHC is engaged in real estate development, particularly in the development of affordable medium and high-rise condominium units.

On November 10, 2010, it was determined that legal procedures were required to address a delayed extension of PPHC's corporate life. Consequently, the estimated costs to the process have been recognized in the books.

On March 1, 2010, the BOD of PPHC declared a regular cash dividend of ₱0.01 per share to all common stockholders of record as of March 15, 2010 in two equal installments which was paid on March 25, 2010 and September 24, 2010. The Company recognized ₱21.1 million dividend income from PPHC.

c. AB Capital

AB Capital is an investment house that engages in corporate finance, fixed-income securities dealership, stock brokerage and fund management.

d. Asia Coal

Asia Coal is engaged in the trading of coal. On March 19, 2009, the BOD and stockholders of Asia Coal approved the shortening of the term of Asia Coal's corporate existence until October 31, 2009, thereby causing the dissolution of Asia Coal as of such date, subject to the approval of the SEC. As of March 3, 2011, Asia Coal filed with the Bureau of Internal Revenue request for tax clearance in connection with the filing with the SEC of its Application for Dissolution.

12. AFS Investments

This account consists of investments in quoted and unquoted equity securities:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Quoted:		
Ayala Corporation - preferred shares	₱-	₱8,471

First Philippine Holdings Corporation (FPHC) - preferred shares	20,522	20,639
Unquoted:		
AB Capital - preferred shares	-	250,000
Coral Way City Hotel Corporation	66,250	66,250
Beacon Property Ventures Inc.	46,329	46,329
United Industrial Bag Corporation	30,000	30,000
Unicon Phinma Concrete Corporation	12,354	12,354
Others	10,954	10,954
	186,409	444,997
<u>Less accumulated impairment losses</u>	45,517	45,517
	₱140,892	₱399,480

AFS investments consist of investment in shares, and therefore have no fixed maturity date or coupon rate.

Phinma Corporation has redeemed its Ayala Corporation preferred shares in July 2011.

The unquoted AFS investments are carried at cost less accumulated impairment losses since their fair value cannot be reliably measured. The quoted AFS securities which are listed in the Philippine Stock Exchange (PSE) are carried at fair value. Unrealized gain on change in fair value on such quoted AFS amounting to ₱- and ₱0.9 million were recognized in the September 2011 and December 2010 consolidated statements of comprehensive income, respectively.

Unicon Phinma Concrete Corporation and United Industrial Bag Corporation discontinued operations on March 21, 2000 and October 2000, respectively. Consequently, full provision for impairment loss has been made on such AFS investments.

Accumulated impairment losses pertain to certain AFS investments classified as unquoted.

13. Property, Plant and Equipment

This account consists of:

	December 31, 2010	Additions	Disposals	Reclassifi- cation	Sept. 30, 2011
	<i>(In Thousands)</i>				
Cost					
Land	₱1,044,497	₱-	₱-	(₱400)	₱1,044,097
Plant site improvements	23,469	233	-	-	23,702
Buildings and improvements	1,202,671	55,900	(4,040)	-	1,254,531
Machinery and equipment	694,524	53,284	(448)	-	747,360
Transportation and other equipment	398,435	27,145	(1,983)	-	423,597
	3,363,596	136,562	(6,471)	(400)	3,493,287
Less Accumulated Depreciation					
Plant site improvements	15,978	3,172	-	-	19,150
Buildings and improvements	429,305	32,316	-	-	461,621
Machinery and equipment	494,608	70,704	-	-	565,312
Transportation and other equipment	280,996	18,558	(1,334)	-	298,220
	1,220,887	124,750	(5,137)	-	1,344,303
	2,142,709	11,812	(5,137)	-	2,148,984
Construction in progress	33,818	56,870	-	-	90,688
Net Book Value	₱2,176,527	68,682	(5,137)	(400)	2,239,672

	December 31, 2009	Additions	Disposals	Reclassifi- cation	December 31, 2010
	<i>(In Thousands)</i>				
Cost					
Land	₱1,057,127	₱14,870	(₱27,500)	₱-	₱1,044,497
Plant site improvements	18,217	5,252	-	-	23,469
Buildings and improvements	1,145,210	59,073	(1,612)	-	1,202,671
Machinery and equipment	646,253	44,198	-	4,073	694,524
Transportation and other equipment	340,282	61,508	(3,355)	-	398,435
	3,207,089	184,901	(32,467)	4,073	3,363,596
Less Accumulated Depreciation					
Plant site improvements	13,883	2,095	-	-	15,978
Buildings and improvements	372,471	56,834	-	-	429,305
Machinery and equipment	431,430	63,178	-	-	494,608
Transportation and other equipment	235,245	48,862	(3,111)	-	280,996
	1,053,029	170,969	(3,111)	-	1,220,887
	2,154,060	13,932	(29,356)	4,073	2,142,709
Construction in progress	18,447	37,301	(17,857)	(4,073)	33,818
Net Book Value	₱2,172,507	₱51,233	(₱47,213)	₱-	₱2,176,527

14. Investment Properties

This account consists of:

	December 31, 2010	Additions /Reclassification	Disposals (see Note 10)	Sept. 30, 2011
	<i>(In Thousands)</i>			
Cost:				
Land	₱321,085	₱400	₱-	₱321,485
Buildings for lease	106,175	-	(22,859)	83,316
	427,260	400	(22,859)	404,801
Less accumulated depreciation - Buildings for lease	20,971	4,882	(14,483)	11,370
	₱406,289	(₱4,482)	(₱8,376)	₱393,431

	December 31, 2009	Additions	Disposals (see Note 10)	December 31, 2010
	<i>(In Thousands)</i>			
Cost:				
Land	₱321,085	₱-	₱-	₱321,085
Buildings for lease	441,496	-	(335,321)	106,175
	762,581	-	(335,321)	427,260
Less accumulated depreciation - Buildings for lease	113,649	32,166	(124,844)	20,971
	₱648,932	₱32,166	(₱210,477)	₱406,289

15. Intangibles

Following are the details and movements of this account:

	December 31, 2010	Additions	September 30, 2011
<i>(In Thousands)</i>			
Cost:			
Goodwill	P1,125,183	P321,445	P1,446,628
Intangible - student lists	131,120	-	131,120
Intangible - customer contracts	22,080	-	22,080
	1,278,383	321,445	1,599,828
Accumulated amortization:			
Intangible - student lists	92,268	26,436	118,704
Intangible - customer contracts	22,080	-	22,080
	114,348	26,436	140,784
	P1,164,035	P295,009	P1,459,044

	December 31, 2009	Additions	December 31, 2010
<i>(In Thousands)</i>			
Cost:			
Goodwill	P1,125,183	P-	P1,125,183
Intangible - student lists	131,120	-	131,120
Intangible - customer contracts	22,080	-	22,080
	1,278,383	-	1,278,383
Accumulated amortization:			
Intangible - student lists	57,023	35,245	92,268
Intangible - customer contracts	22,080	-	22,080
	79,103	35,245	114,348
	P1,199,280	(P35,245)	P1,164,035

The average remaining useful life of student lists as of December 31, 2010 is approximately one year.

16. Other Noncurrent Assets

This account consists of:

	Unaudited Sept. 30, 2011	Audited Dec. 31, 2010
<i>(In Thousands)</i>		
Input VAT - net of allowance for unrecoverable amount of P81.8 million in 2010. (see Note 23)	P-	P-
Others - net of allowance for doubtful advances of P66.8 million in 2011 and 2010, respectively	47,326	21,050
	P47,326	P21,050

Other noncurrent assets - others mainly pertain to utility and rental deposits.

17. Notes Payable

This account consists of notes payable of the following subsidiaries:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
<i>(In Thousands)</i>		
UGC	₱367,717	₱242,776
COC	-	6,060
	₱367,717	₱248,836

Notes payable consist of unsecured short-term peso-denominated loans from financial institutions with annual interest rates ranging from 5% to 6% in September 2011 and December 2010 .

18. Trade and Other Payables

This account consists of:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
<i>(In Thousands)</i>		
Trade	₱153,335	₱79,560
Accruals for:		
Professional fees and others (see Note 29)	39,037	135,782
Personnel cost (see Notes 27 and 29)	75,058	36,819
Interest	17,080	₱15,967
Freight, hauling and handling	5,612	12,805
Customers' deposits	59,045	33,657
Dividends	96,226	26,785
Payable to third parties	32,144	8,840
Others	89,687	29,371
	₱567,244	₱379,586

Trade and other payables are noninterest-bearing. Trade payables are normally settled on 30 to 60-day terms. Other payables are normally settled within twelve months.

19. Long-term Debt

This account consists of long-term liabilities of the following subsidiaries:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
<i>(In Thousands)</i>		
UPANG	₱259,270	₱284,320
UGC:		
Banco de Oro (BDO)	225,000	270,000
Rizal Commercial Banking Corporation (RCBC)	75,000	90,000
	559,270	644,320
Less debt issuance cost	1,012	2,198
	558,258	642,122

PSHC	149,350	149,350
AU	48,700	53,140
	756,308	844,612
Less current portion - net of debt issuance cost	156,491	141,350
	₱599,817	₱703,262

UPANG

On July 21, 2009, UPANG obtained a loan from China Banking Corporation (China Bank) to be used for the acquisition and/or refinancing of its capital expenditures. The terms of the loan are as follows:

Drawdown Date	Amount
July 31, 2009	₱180,000,000
December 14, 2009	120,000,000
	₱300,000,000

Tenure	Seven (7) - year term loan with one year grace period for repayment.
Repayment	The first principal payment will commence at the end of the 5th quarter from the date of drawdown; amortization will be graduated, at ₱12.5 million from the fifth to the 16th quarters; ₱15.0 million from the 17th to the 24th quarters and the ₱7.5 million for the last four quarters until full settlement.
Funding/Interest rate	Interest will be based on the Wholesale Lending Program (third party funder) with a fixed rate of 8% for the first five years. Rates for the remaining two year period of the term shall be based on the prevailing two-year PDST-F rate plus a minimum spread of 2%.
Security	The facility will be secured by Real Estate Mortgage amounting to ₱300.0 million on the school assets covering land and land improvements (see Note 13).

UGC

Features of Long-term Debts Outstanding as of December 31, 2010

On June 29, 2010, the outstanding long-term debts as of December 31, 2009 from BDO and RCBC (the lenders) were pre-terminated by obtaining three-year term loans aggregating to ₱400.0 million from the same lenders for which ₱2.8 million debt issue cost was paid. The newly obtained loans are to be paid in 11 quarterly installments of ₱20.0 million to commence on September 25, 2010 and a lump sum payment in June 2013 amounting to ₱180.0 million. The interest is at a fixed rate of 7.624% computed based on 3-year PDST-F plus a spread of 1.75% and applicable taxes at the time of the drawdown.

As of December 31, 2010, the loans from the lenders are collateralized by mortgage agreement on UGC's land, plant site improvements, buildings and installations and machinery and equipment of Calamba and Davao plants amounting to ₱494.8 million (see Note 13).

The foregoing loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Maintenance of the following ratios for the duration of the loan agreements: (1) current ratio of not less than 1:1; (2) debt to equity ratio of not more than 1.5:1
- Restrictions on declaration and payment of dividends, incurrence of new long-term debt, entering into management agreement other than with PHINMA, entering into merger (except where it is the

surviving entity) or consolidation or any change of ownership, sale, lease or otherwise transfer of a substantial portion of its assets except in the ordinary course of business, making any loans, advances or investments, making capital expenditures, prepayment of any other long-term debt and amendment of Articles of Incorporation and By-laws.

Under the loan agreement, failure to comply with the obligation or covenant in the agreement should be remedied within thirty (30) calendar days after notice by the lenders.

As of December 31, 2010, UGC is in compliance with the terms of the loan agreement.

PSHC

This represents interest-bearing loan of ₱154.0 million payable to United Pulp and Paper Co., Inc. (UPPC) arising from the acquisition of land from UPPC. UPPC was a former associate of the Company.

This loan is presented at amortized cost as of the end of the reporting period. The present value of the loan at initial recognition in 2006 was calculated using an effective interest rate of 11.03%. The effective interest rate used in computing for the present value of the loan payable was derived based on the rate inherent to the loan after considering the carrying value and the future value of the loan payable at the coupon rate of 9.10%.

Initially, the said loan is payable in two installments amounting to ₱44.0 million on July 15, 2008 and ₱110.0 million on July 15, 2013. On July 8, 2008, a Memorandum of Agreement was executed by UPPC and PSHC amending the maturity date of ₱44.0 million from July 15, 2008 to July 15, 2013. A recomputation of the effective interest rate of 10.52% was made in 2008 to reflect the change in the payment terms of the liability in 2013. Additional interest expense resulting from the accretion of loan payable amounted to ₱1.54 million in 2010. The details of the loan are as follows:

	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Loan payable to UPPC	₱154,000	₱154,000
Less unamortized discount	4,650	4,650
	₱149,350	₱149,350

To secure the payment of the loan, PSHC constituted a mortgage over its land amounting to ₱220.0 million in favor of certain creditors of UPPC (see Note 13).

The payable of PSHC to UPPC incurs an annual interest at a rate subject to mutual agreement by UPPC and PSHC on each anniversary date. Interest expense on the amount payable to UPPC, computed at 9.10% of the outstanding principal balance, amounted to ₱14.0 million in 2010.

AU

Araullo University's long-term debt consists of:

	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Loan payable to China Bank	₱48,700	₱47,440
Less current portion	9,875	6,690
	₱38,825	₱40,750

China Bank

Loan payable to China Bank as of December 31, 2009 represents the balance of a 10-year loan from China Bank which was used to preterminate the restructured long-term debt from another local bank, partially finance Araullo University's building renovation and purchase various school equipment. The debt is payable on fixed monthly amortization of ₱750,000 starting April 17, 2006. Interest shall be payable monthly in arrears based on variable pass-on rate plus spread. In 2010, the outstanding loan payable to China Bank of ₱53.25 million was restructured to the same lender at a fixed rate interest based on the 5-year prevailing PDST-F rate plus a spread of 1.50% payable quarterly in arrears including the applicable taxes for the account of the borrower. The new debt is to be paid in 19 quarterly installments until February 5, 2015 under a graduated amortization schedule based on the agreement. Transaction costs paid on this transaction and included in the carrying amount of the new debt amounted to ₱2.4 million. Actual average interest rate was 10.30% and 10.17% in September 2011 and December 2010 respectively.

AU's land, including existing and future improvements thereon, is used as collateral for its loan payable to China Bank. The net book value of the said land and improvements was ₱242.6 million as of September 30, 2011 and December 31, 2010. (see Note 13).

20. Equity

a. Capital Stock

The composition of the Parent Company's capital stock as of June 30, 2011 and December 31, 2010 is as follows:

	Number of Shares	
	Sept. 30, 2011	Dec. 31, 2010
Preferred - cumulative, nonparticipating, ₱10 par value Class AA Authorized	50,000,000	50,000,000
Class BB Authorized	50,000,000	50,000,000
Common - ₱10 par value Authorized	420,000,000	420,000,000
Issued:		
Balance at beginning of year	257,697,313	257,697,313
Stock dividends	-	-
Balance at end of year	257,697,313	257,697,313
Subscribed	39,994	39,994
Issued and subscribed	257,737,307	257,737,307

b. Retained Earnings

The BOD of PHN declared the following stock dividends:

Date	Dividend Rate	Shareholders' Record Date
April 14, 2008	10%	June 13, 2008
March 30, 2007	15%	June 15, 2007
May 31, 2006	20%	August 11, 2006

On March 3, 2011, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as of March 29, 2011 which was paid last April 26, 2011.

On March 3, 2010, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as of March 29, 2010 which was paid last April 23, 2010.

c. Other Components of Equity

This account consists of:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
<i>(In Thousands)</i>		
Share in unrealized gain on change in fair value of AFS investments of associates (see Note 11)	₱14,777	₱19,226
Other reserves resulting from change in ownership interest in subsidiaries without loss of control (see Note 1)	8,943	8,943
Cumulative translation adjustments	5,809	4,145
Unrealized gain on change in fair value of AFS investments (see Note 12)	888	1,352
	₱30,417	₱33,666

The convertible debt has already been extinguished, thus in 2010, the Company reclassified the remaining balance of share in equity component of convertible notes to retained earnings.

21. Investment Income

This account consists of:

	January – September	
	2011	2010
<i>(In Thousands)</i>		
Interest income	₱37,589	₱43,631
Net gain (loss) on investments held For trading	3,454	16,340
	₱41,043	₱59,971

22. Cost of Sales, Educational and Animation Services

This account consists of:

	January – September	
	2011	2010
<i>(In Thousands)</i>		
Cost of sales	₱1,667,756	₱1,612,060
Cost of educational services	358,337	441,514
Cost of animation services	177,076	141,195
Cost of consulting services	46,716	-
	₱2,249,885	₱2,194,769

23. General and Administrative Expenses

This account consists of:

	January – September	
	2011	2010
	<i>(In Thousands)</i>	
General and administrative expenses	₱545,756	₱395,862
Selling expenses	115,157	123,247
	₱660,913	₱519,109

24. Interest Expense and Other Financial Charges

This account consists of:

	January – September	
	2011	2010
	<i>(in Thousands)</i>	
Interest expense on loans and borrowings	₱62,798	₱73,495
Other financial charges	-	1,677
	₱62,798	₱75,182

25. Related Party Transactions

Associates and Related Corporations

AB Capital. Transactions with AB Capital, a subsidiary of PHINMA, pertain to sharing of expenses and short-term placements made by the Company in AB Capital.

PHINMA and TA Oil. In 2009, API granted noninterest-bearing advances amounting to ₱6.4 million to its shareholders, PHINMA (parent company of PHN), and TA Oil (subsidiary of PHINMA), which are due and collectible upon demand. In 2010, API granted additional noninterest-bearing advances amounting to ₱32.5 million to PHINMA and TA Oil and was paid in December 2010.

Others. Other related party transactions primarily relate to the grant of advances to and sharing of expenses with other companies which are also under the common control of PHINMA, namely, TO Insurance Brokers, Inc., TA Power and others.

Amounts and outstanding balances relating to the aforementioned transactions are as follows:

Related Party	Nature of Transaction	Year	Amount of Transactions During the Year	Amount of Due to Related Parties	Amount of Due from Related Parties
<i>(In Thousands)</i>					
PHINMA	Noninterest-bearing advances to shareholders of API and share in expenses	2011 2010	₱9,075 88,479	₱3,840 29,690	₱1,165 239
TA Oil	Dividends, noninterest-bearing advances to shareholders of API and share in expenses	2011 2010	18,568 4,638	- -	137 148
PPHC	Share in expenses	2011 2010	38,962 310	- -	590 569
AB Capital	Share in expenses	2011 2010	46 155	- -	28 23
Other Shareholders of UPANG	Interest bearing advances	2011 2010	- 2,546	- 16	- 714
Others	Share in expenses	2011 2010	1,368 35,445	- 3,223	3,575 7,623
			2011 2010	₱3,840 32,929	₱5,495 9,316

PSHC. PSHC has outstanding long-term payable to UPPC arising from the acquisition of land from UPPC, then an associate of the Company (see Note 20). PSHC leases the land to UPPC for a period of 50 years, renewable for another 25 years upon the approval of the Philippine Department of Trade and Industry. Annual lease income during the entire lease term is initially fixed at ₱14.6 million. In connection with the lease, UPPC was required to make a lease deposit with PSHC of ₱55.5 million in July 2003 and an additional ₱2.9 million in April 2005, aggregated and reflected as "Other noncurrent liabilities" at amortized cost at the end of the reporting period, and refundable to UPPC upon the expiration of the lease. The lease deposit's present value was calculated using an effective interest rate of 12.0% per annum. On August 2, 2006, PSHC and UPPC amended the lease agreement increasing the annual rent revenue from ₱14.6 million to ₱19.2 million effective January 1, 2006

The difference between the face value of the lease deposit and its corresponding present value at inception was aggregated and reflected as unearned revenue that is being amortized as rent revenue simultaneous with the accretion of the lease deposit.

Management and Directors' Compensation

PHN, UGC, COC, Araullo University, UPANG and UI are under common management by PHINMA and pay PHINMA a fixed annual management fee plus an annual bonus based on a certain percentage of the respective companies' adjusted net income, as defined in the management contract between PHINMA and the respective companies, pursuant to the provisions of the same contract.

Total management fees and bonuses incurred in September 2011 and December 2010 amounted to ₱67.9 million and ₱110.2 million respectively. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱39.8 million and ₱81.3 million as of September 30, 2011 and December 31, 2010, respectively.

PHN, UGC, AHC, UI and AU recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus amounted to ₱25 million and ₱43.2 million in September 2011 and December 2010. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱22.6 million and ₱42.0 million as of September 30, 2011 and December 31, 2010, respectively.

26. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents, short-term investments, corporate promissory notes and bonds, government bonds, quoted and unquoted shares of stocks, currency forwards, investments in UITFs, and loans and borrowings in Philippine peso and USD currencies. The main purpose of these financial instruments is to finance the Company's investments. The Company also has financial assets and liabilities, such as trade and other receivables and trade and other payables that arise directly from operations.

The main risks arising from the Company's treasury transactions are credit risk, liquidity risk, market risk, foreign currency risk, interest rate risk, and equity price risk. Careful study, skill, prudence and due diligence are exercised at all times in the handling of the funds of the Company. An Investment Committee reviews and approves policies and directions for investments and risks management. The basic parameters approved by the Investment Committee are:

Investment Objective	Safety of Principal
Tenor	Three year maximum for any security, with average duration between one and two years
Exposure Limits	<ul style="list-style-type: none"> a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund b. For peso investments: minimal corporate exposure except for registered bonds c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee d. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review e. For derivative transactions - limits are set up to 100% of asset subject to derivative transaction with the objective of neutrality of gain/loss

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Due to the Company's investing and operating activities, the Company is exposed to the potential credit-related losses that may occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations.

In managing credit risk on these financial instruments, the Company transacts only with the Company's duly accredited domestic and foreign banks. Investments per financial institution are subject to a maximum of 20% of the Company's investible funds. It is the Company's policy that investments cannot exceed 10% of the trust or mutual fund's total assets.

A comprehensive credit and business review in coordination with dealers or underwriters is performed whenever the Company invests in non-rated securities. Furthermore, the Company monitors the credit quality of corporate and sovereign bonds with reference to credit rating studies and updates from the major rating agencies.

The Company's exposure to credit risk on its cash and cash equivalents, short-term investments, investments held for trading, AFS investments, trade and other receivables, and derivative instruments arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Loans and receivables:		
Cash and cash equivalents	₱991,668	₱1,187,581
Short-term investments	-	47,316
Trade and other receivables	724,371	1,070,583
Installment contract receivables	18,173	20,585
Investments held for trading:		
Investments in UITFs	407,473	487,588
Investments in bonds	356,730	349,443
Investments in marketable equity securities	4,308	4,535
Derivative assets	1,410	4,442
AFS investments:		
Quoted	20,522	29,110
Unquoted	120,370	370,370
	₱2,645,025	₱3,571,553

There are no significant concentrations of credit risk within the Company.

Credit Quality of Financial Assets. Cash and cash equivalents, short-term investments and derivative instruments are classified as high grade since these are deposited in/or transacted with reputable banks which have low probability of insolvency.

The following table illustrates credit quality of investments held for trading and AFS investments as of September 30, 2011 and December 31, 2010 :

	September 30, 2011				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Substandard Grade	Impaired	Total
	<i>(In Thousands)</i>				
Investments held for trading:					
Investments in UITFs	₱159,022	₱248,451	₱-	₱-	₱407,473

September 30, 2011

	Neither Past Due nor Impaired			Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Investments in bonds	331,046	25,684	–	–	356,730
Investments in marketable equity securities	–	4,308	–	–	4,308
AFS investments:					
Quoted	–	20,522	–	–	20,522
Unquoted	–	120,370	–	45,517	165,887
	₱490,068	₱419,335	₱–	₱45,517	₱954,920

December 31, 2010

	Neither Past Due nor Impaired			Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
	<i>(In Thousands)</i>				
Investments held for trading:					
Investments in UITFs	₱332,583	₱155,005	₱–	₱–	₱487,588
Investments in bonds	322,270	27,173	–	–	349,443
Investments in marketable equity securities	–	4,535	–	–	4,535
AFS investments:					
Quoted	–	29,110	–	–	29,110
Unquoted	–	370,370	–	45,517	415,887
	₱654,853	₱586,193	₱–	₱45,517	₱1,286,563

The Company uses the following criteria to rate credit quality:

Class	Description
High Grade	Investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Investments in instruments of companies that have the apparent ability to satisfy its obligations in full.
Substandard Grade	Investments in instruments of companies that have an imminent possibility of foreclosure; those whose securities have declined materially in value, or those whose audited financial statements show impaired/negative net worth.

The credit quality of the Company's trade and other receivables (including installment contract receivables) as of September 30, 2011 and December 31, 2010 are as follows:

September 30, 2011				
	Neither Past Due nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
<i>(In Thousands)</i>				
Trade	₱	₱531,076	₱162,355	₱693,431
Installment contract receivables (current portion)	–	87,053	–	87,053
Advances to suppliers and contractors	–	5,689	–	5,689
Accrued interest	8,081	–	–	8,081
Due from related parties	–	5,495	–	5,495
Receivable from PHN Retirement	–	8,939	–	8,939
Advances to officers and employees	6,483	–	–	6,483
Others	–	89,728	4,058	93,786
	₱14,564	₱727,980	₱166,413	₱908,957

December 31, 2010				
	Neither Past Due nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
<i>(In Thousands)</i>				
Trade	₱65,433	₱317,661	₱281,950	₱665,044
Installment contract receivables (current and noncurrent)	–	493,981	–	493,981
Advances to suppliers and contractors	–	10,321	–	10,321
Accrued interest	6,718	1,638	–	8,356
Due from related parties	–	6,526	2,790	9,316
Receivable from PHN Retirement	–	8,939	–	8,939
Advances to officers and employees	2,352	–	–	2,352
Others	–	33,701	5,455	39,156
	₱74,503	₱872,767	₱290,195	₱1,237,465

Trade and other receivables are classified as: a.) high grade when the receivables are secured or covered with collaterals; b.) standard grade when the receivables are unsecured but debtors have good paying habits; or c.) substandard grade when the receivables are unsecured and debtors have poor paying habits.

Liquidity Risk

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages liquidity risks by restricting investments and continuously monitoring weekly and monthly cash flows as well as updates of annual plans.

The maturities of the financial liabilities are determined based on the Company's projected payments and contractual maturities. The average duration adheres to guidelines provided by the Investment Committee. It is the Company's policy to restrict investment principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

Market Risk

Market risks are managed by constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers to get multiple perspectives on

interest rate trends/forecasts. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks are also made.

Foreign Currency Risk

The Company's financial assets that are exposed to foreign currency risk are foreign currency denominated cash and cash equivalents, investment in bonds and investments in UITFs.

Foreign exchange risks on the US dollar and other foreign currencies are managed through constant monitoring of the political and economic environment. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies. The Company also enters into currency forward contracts to manage its foreign currency risk.

The following table shows the foreign currency-denominated financial assets and financial liabilities and their peso equivalents as of September 30, 2011 and December 31, 2010 :

	Sept. 30, 2011		December 31, 2010	
	Foreign Currency	Peso Equivalent	Foreign Currency	Peso Equivalent
<i>(In Thousands)</i>				
Assets				
In US Dollar:				
Cash and cash equivalents	US\$4,128	₱180,478	US\$7,867	₱344,889
Investments in bonds	2,247	98,263	2,546	111,617
Investments in UITFs	1,512	66,097	3,477	152,432
	US\$7,887	₱344,837	US\$13,890	₱608,938
Liability				
In US Dollar -				
Trust receipts payable	US\$3,401	₱148,683	US\$2,773	₱121,568
Long-term payable	2,400	104,928	-	-
	US\$5,801	₱253,611	US\$2,773	₱121,568

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were ₱43.72 to US\$1.00 and ₱43.84 to US\$1.00 as of September 30, 2011 and December 31, 2010, respectively.

Interest Rate Risk

a. 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.

The Company is exposed to cash flow interest rate risk due to Araullo University's variable rate loan from China Bank (see Note 19).

b. Price Interest Rate Risk

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 Company accounts for its debt investments at fair value. Thus, changes in benchmark interest rate will cause changes in the fair value of quoted debt instruments.

Interest on financial instruments classified as fixed rate was fixed until the maturity of the instrument.

Other financial assets at FVPL are noninterest-bearing investments and are therefore not subject to interest rate volatility.

Peso placements are subject to cash flow interest rate risk while peso and dollar bonds are subject to fair value interest rate risk.

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 Company's exposure to equity price risk relates primarily to its equity investments listed in the PSE classified under investments held for trading.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the Company's financial position.

Capital Management

The primary objective of the Company's capital management is to ensure that the Company maintains a healthy capital structure in order to maintain strong credit rating and maximize shareholder value.

The Company closely monitors and manages its debt-to-equity ratio, which it defines as total liabilities divided by total equity. The Company considers its equity as the total of capital stock, additional paid-in-capital, share in equity component of convertible notes, unrealized gain on change in fair value of an AFS investment, share in unrealized gain on change in fair value of AFS investments of associates, cumulative translation adjustments, other reserves, retained earnings, and non-controlling interest.

To ensure that there are sufficient funds to settle its liabilities, the Company's policy is to keep debt-to-equity ratio below 1:1. The Company's consolidated debt-to-equity ratio as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
	<i>(In Thousands)</i>	
Total liabilities	₱2,494,999	₱2,396,024
Total equity	7,230,802	7,300,690
Debt-to-equity ratio	0.35:1	0.33:1

27. Financial Instruments

Fair Value

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the consolidated statements of financial position.

	Carrying Amount		Fair Value	
	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>			
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱991,668	₱1,202,170	₱991,668	₱1,202,170
Short-term investments	-	47,316	-	47,316
Trade and other receivables:				
Trade	693,431	526,992	693,431	526,992
Due from related parties	5,495	6,526	5,495	6,526
Accrued interest	8,081	8,356	8,081	8,356

	Carrying Amount		Fair Value	
	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>			
Receivable from PHN				
Retirement	8,939	8,939	8,939	8,939
Advances to suppliers and contractors	5,689	10,321	5,689	10,321
Advances to officers and employees	6,483	2,352	6,483	2,352
Others	93,786	33,701	93,786	33,701
Installment contract receivables*	68,880	493,981	68,880	495,804
	1,882,452	2,340,654	1,882,452	2,342,477
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	407,473	487,588	407,473	487,588
Investments in bonds	356,730	349,443	356,730	349,443
Investments in marketable equity securities	4,308	₱4,535	4,308	₱4,535
Derivative assets	1,410	4,442	1,410	4,442
	769,921	846,008	769,921	846,008
AFS investments:				
Quoted	20,522	29,110	20,522	29,110
Unquoted	120,370	370,370	120,370	370,370
	140,892	399,480	140,892	399,480
	₱2,793,265	₱3,586,142	₱2,793,265	₱3,587,965
Financial Liabilities				
Other financial liabilities:				
Notes payable	367,717	248,836	367,717	248,836
Trade and other payables	567,244	379,586	567,244	379,586
Trust receipts payable	148,683	121,567	148,683	121,567
Due to related parties	3,840	32,929	3,840	32,929
Long-term debt (including current portion)	756,308	844,612	756,308	919,593
	₱1,843,792	₱1,627,530	₱1,843,792	₱1,702,511

* Current portion is included in "Trade and other receivables" account while noncurrent portion is presented as a separate line item in the consolidated statements of financial position.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Notes Payable, Trade and Other Payables, Trust Receipts Payable and Due to Related Parties. The carrying amounts approximate fair values due to the relatively short-term maturities of the financial instruments.

Installment Contract Receivables. The carrying amounts of the current portion of installment contract receivables approximate fair values due to the relatively short-term maturities of the financial instruments. In 2010, the estimated fair value of the noncurrent portion of installment contract receivables is based on the discounted values of future cash flows using the applicable discount rate for similar instruments with same maturity.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair value of financial assets at FVPL and listed AFS investments. Unquoted AFS investments are measured at cost less accumulated impairment loss since the fair value is not readily determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. The Company does not intend to dispose the unquoted AFS in the near future.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable rates for similar types of loans. Discount rates used range from 3.04% to 10.90% in September 2011 and December 2010.

Derivative Assets. The fair value of freestanding currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Derivative Instruments

Freestanding Derivatives. The Company's derivative financial instruments are accounted for as financial instruments at FVPL.

The Company enters into sell US\$-buy PHP non-deliverable foreign currency forward contracts to manage the foreign currency risk arising from its US\$ denominated assets. These derivatives are transactions not accounted for as accounting hedges.

The Company has outstanding currency forward contracts with an aggregate notional amount of US\$10.2 million and US\$11.1 million as of September 30, 2011 and December 31, 2010 respectively. The weighted average contracted forward rate is ₱43.598 to US\$1.00 and ₱45.70 to US\$1.00 as of September 30, 2011 and December 31, 2010 respectively. The currency forward contracts outstanding as of September 30, 2011 will mature in October 2011. The net negative fair values of these outstanding currency forward contracts amounted to ₱.454 million and ₱4.4 million as of September 30, 2011 and December 31, 2010, respectively.

The net movements in fair value changes of these derivative assets (liabilities) are as follows:

	Unaudited	Audited
	Sept. 30, 2011	Dec. 31, 2010
	<i>(In Thousands)</i>	
Balance at beginning of year	₱4,442	₱4,088
Net change in fair value during the year	10,633	50,061
Fair value of settled contracts	(15,529)	(49,707)
Balance at end of year	(₱454)	₱4,442

Embedded Derivatives. Embedded foreign currency derivatives were bifurcated from certain of the Company's purchase contracts, which are denominated in a currency that is neither the functional currency of a party to the contract nor the routine currency for the transaction.

There are no embedded derivatives as of September 30, 2011 and December 31, 2010.

The net changes in fair values of derivatives are presented as "Net gains (losses) on derivatives" in the Company's consolidated statements of income.

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 and 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

Assets measured at fair value:

	Sept. 30, 2011	Level 1	Level 2	Level 3
	<i>(In Thousands)</i>			
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	P407,473	P407,473	P-	P-
Investments in bonds	356,730	356,730	-	-
Investments in marketable equity securities	4,308	4,308	-	-
Derivative assets	1,410	-	1,410	-
AFS investments:				
Quoted	20,522	20,522	-	-
	P790,443	P789,033	P1,410	P-

	Dec. 31, 2010	Level 1	Level 2	Level 3
	<i>(In Thousands)</i>			
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	P487,588	P487,588	P-	P-
Investments in bonds	349,443	349,443	-	-
Investments in marketable equity securities	4,535	4,535	-	-
Derivative assets	4,442	-	4,442	-
AFS investments:				
Quoted	29,110	29,110	-	-
	P875,118	P870,676	P4,442	P-

For the period September 30, 2011 and the year ended December 31, 2010, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

28. Income Tax

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	Unaudited Sept. 30, 2011	Audited Dec. 31, 2010
	<i>(In Thousands)</i>	
Deferred tax assets - net	P15,179	P44,461
Deferred tax liabilities - net	(303,795)	(385,918)
	(P288,616)	(P341,457)

Some of the Company's deferred tax assets were not recognized since management believes that it is not probable that sufficient future taxable profit will be available to allow said deferred tax assets to be utilized.

AU, UPANG, UI and COC, as private educational institutions, are taxed based on the provisions of Republic Act (R.A.) No. 8424, which was passed into law effective January 1, 1998. Section 27(B) of R.A. No. 8424 defines and provides that: "A Proprietary Educational Institution is any private school maintained and administered by private individuals or groups with an issued permit to operate from the Department of Education, Culture and Sports, or Commission on Higher Education, or Technical Education and Skills Development Authority, as the case may be, in accordance with the existing laws and regulations - shall pay a tax of ten percent (10%) on their taxable income."

MCIT totaling ₱10.1 million can be deducted against RCIT due while NOLCO totaling ₱21.3 million can be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount	
		MCIT	NOLCO
<i>(In Thousands)</i>			
December 31, 2008	December 31, 2011	₱2,790	₱-
December 31, 2009	December 31, 2012	2,560	18,240
December 31, 2010	December 31, 2013	4,788	3,087
		₱10,138	₱21,327

MCIT amounting to ₱7.4 million and ₱1.9 million expired in 2010 and 2009, respectively. NOLCO of nil and ₱139.6 million expired in 2010 and 2009, respectively. MCIT and NOLCO totaling nil and ₱102.9 million in 2010 and ₱0.2 million and nil in 2009 were claimed as deduction against regular taxable income.

The RCIT rate decreased to 30% from 35% effective January 1, 2009, as provided under the provisions of R.A. No. 9337, which amended certain provisions of the Tax Code.

On December 18, 2008, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 16-2008 which implemented the provisions of Section 34(L) of the Tax Code of 1997, as amended by Section 3 of R.A. No. 9504, which allows individuals and corporations to adopt the Optional Standard Deduction (OSD) in computing their taxable income.

Under RR No. 16-2008, corporations may claim OSD equivalent to 40% of gross income, excluding passive income subjected to final tax, in lieu of the itemized deductions. A corporate taxpayer who elected to avail of the OSD shall signify such in the income tax return. Otherwise, it shall be considered as having availed of the itemized deductions allowed under Section 34 of the National Internal Revenue Code. Election is done on an annual basis. In June 2011 and December 2010, the Company computed its income tax based on itemized deductions.

29. EPS Computation

	Unaudited	
	Sept. 30, 2011	Sept. 30, 2010
(a) Net income attributable to equity holders of the parent	₱120,006	₱200,858
(b) Number of shares outstanding at beginning of year	257,737,307	257,737,307
Basic/Diluted EPS attributable to equity holders of the parent (a/e)	₱.47	₱.78

30. Segment Information *(see page 60 & 61 for table presentation)*

For management purposes, the Company's operating businesses are organized and managed separately according to business activities and has five reportable operating segments as follows:

- Investment holdings – The Parent Company, AHC and PSHC are engaged in investment holding activities of shares of stocks and other financial instruments.
- Property development – API leases its real and personal properties.
- Steel – UGC manufactures and trades iron and steel products.

- Educational services – AU, COC, UPANG and UI offer graduate, tertiary, secondary and elementary education services.
- Business Process Outsourcing – OAL and Toon City are engaged in film, video, television and animation services.

The Company has no geographical segment for segment reporting format as the Company's risks and rates of return are in the same economic and political environment, with the companies incorporated and operated in the Philippines.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Company financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transaction with third parties.

Segment Information

Financial information on the operating segments are summarized as follows:

	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total
Period ended September 30, 2011							
Revenues							
Segment revenue	P40,623	P21,448	P2,016,642	P664,553	P263,007	P-	P3,006,273
Total revenues	P40,623	P21,448	P2,016,642	P664,553	P263,007	P-	P3,006,273
Results							
Segment results	P379,471	P1,571	P169,181	P110,209	(P75,255)	(P460,707)	P124,470
Equity in net earnings of an associate	-	23,227	-	-	-	74,948	98,175
Interest expense and financing charges	(2,197)	-	(34,618)	(20,349)	(5,634)	-	(62,798)
Benefit from (provision for) income tax	(688)	(2,642)	(39,969)	(5,617)	-	10,468	(38,448)
Share of non-controlling interest	-	-	-	(264)	1,185	(2,314)	(1,393)
Net income attributable to equity holders of parent	P376,586	P22,156	P94,594	P83,979	(P79,704)	(P377,605)	120,006
As at September 30, 2011							
Assets and Liabilities							
Segment assets	P2,090,650	P509,966	P1,973,852	P2,084,526	P652,203	P600,654	P7,911,851
Investment in associates	4,593,709	-	10,287	-	7,998	(2,813,223)	1,798,771
Deferred tax assets	-	-	-	5,663	5,278	4,238	15,179
Total assets	P6,684,359	P509,966	P1,984,139	P2,090,189	P665,479	(P2,208,331)	P9,725,901
Segment liabilities	P441,132	P678	P1,009,925	P684,095	P346,373	(P313,433)	P2,168,770
Income and other taxes payable	690	330	19,752	1,662	-	-	22,434
Deferred tax liabilities	-	7,281	43,083	131,132	-	122,299	303,795
Total liabilities	P441,822	P8,289	P1,072,760	P816,889	P346,373	(P191,134)	P2,494,999
Other Segment Information							
Capital expenditures	1,506	-	14,585	92,389	28,082	-	136,562
Depreciation and amortization	8,845	772	75,956	51,954	513	34,893	172,933

	Continuing Operations						Total Operations
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	
<i>(In Thousands)</i>							
Period Ended September 30, 2010							
Revenues							
Segment revenue	P59,169	P36376	P2,060,264	P764,139	P114,746	P-	P3,034,694
Investment income	-	-	-	-	-	-	-
Total revenues	P59,169	P36376	P2,060,264	P764,139	P114,746	P-	P3,034,694
Results							
Segment results	P212,797	P12,817	P264,703	P166,107	(P51,673)	(P262,243)	P342,508
Equity in net earnings of an associate	-	48,212	-	-	-	(22,402)	25,810
Interest expense and financing charges	-	-	(37,835)	(33,433)	(3,904)	-	(75,172)
Benefit from (provision for) income tax	(829)	(3,614)	(62,290)	(15,779)	-	10,468	(72,044)
Share of non-controlling interest	-	-	-	(435)	650	(20,459)	(20,244)
Net income attributable to equity holders of parent	P211,968	P57,415	P164,578	P116,460	(P54,927)	(P294,636)	P200,858
As at December 31, 2010							
Assets and Liabilities							
Segment assets	P2,752,849	P763,198	P2,027,099	P2,093,216	P452,936	P198,271	P8,287,569
Investment in associates	3,885,950	-	10,288	-	-	(2,531,554)	1,364,684
Deferred tax assets	-	36,407	-	1,963	1,672	4,419	44,461
Total assets	P6,638,799	P799,605	P2,037,387	P2,095,179	P454,608	(P2,328,864)	P9,696,714
Segment liabilities	P443,312	P11,076	P886,565	P688,544	P125,744	(P228,924)	P1,926,317
Income and other taxes payable	1,366	35,794	37,122	9,081	462	(36)	83,789
Deferred tax liabilities	-	91,352	49,902	112,481	923	131,260	385,918
Total liabilities	P444,678	P138,222	P973,589	P810,106	P127,129	(P97,700)	P2,396,024
Other Segment Information							
Capital expenditures	P1,173	P-	P63,725	P153,652	P3,652	P-	P222,202
Depreciation and amortization	12,456	26,686	72,707	73,112	6,896	46,523	238,380
Noncash items other than depreciation, amortization and provision for impairment losses	328,611	(223)	49,646	(271)	1,198	-	P378,961

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results Of Operations

For the nine-month period ended September 30, 2011, consolidated revenues of Phinma Corporation (PHN) amounted to P3.01 billion, slightly lower than revenues of P3.03 billion for the same period last year. This is mainly due to the decline in the revenues of Union Galvasteel Corporation (UGC) from P2.06 billion to P2.02 billion.

Consolidated costs and expenses of PHN for the period amounted to P2.91 billion, 7% higher compared to the previous year’s costs and expenses amounting to P2.71 billion. This is attributable to increase in costs and expenses of UGC and University of Iloilo as well as the cost and expenses of Fuld and Company, Inc. amounting to P 142 million, which was consolidated for the first time in 2011.

Equity in net earnings of associates increased from P25.8 million for the period January to September 2010 to P100.3 million this year. The increase is due to the significant increase in TA Oil’s net income to P232.5 million, compared to a net loss of P98.8 million last year. This increase offset the decline in equitized earnings in Phinma Property Holdings Corporation (PPHC) from P 48.2 million in 2010 to P 23.2 million this year.

Consolidated net income of the company for the period January to September 2011 amounted to P121.4 million, of which P120.01 million is income attributable to equity holders of the parent. Net income was significantly lower than last year mainly due to losses of One Animate Limited amounting to P 73 million and a decline in income of UGC, PPHC, and University of Iloilo (UI).

The results of operations of PHN subsidiaries for the period January to September 2011 compared to the same period in 2010 are as follows :

Union Galvasteel Corporation (UGC)

For the period January to September 2011, UGC’s sales volume was 4.57 million sheets, a slight increase from last year’s 4.44 million sheets. Despite the increase in sales volume, revenues decreased from P2.06 billion to P2.02 billion due to decrease in selling price. Prices softened due to the increased competition and the continued importation of steel roofing products from China under a zero-tariff environment. In addition, the roofing market has experienced a slowdown due to the more rigid evaluation of Pag-ibig housing loans and the adverse weather conditions which disrupted the start of housing projects.

As a result, UGC’s net income for the nine (9) months ended September 30, 2011 declined to P94.6 million compared to P164.6 million for the same period last year.

Araullo University (AU)

For the period January to September 2011, Araullo University registered revenues amounting to P124 million while direct costs amounted to P59 million. General and administrative expenses for the same period amounted to P35 million. For the nine months ended September 30, 2011, Araullo University registered a net income of P17.8 million, a 24% increase over net income last year.

Total assets as of September 30, 2011 amounted to P461 million while liabilities amounted to P138 million.

Cagayan de Oro College, Inc. (COC)

For the nine (9) months ended September 30, 2011, COC registered revenues amounting to P115 million. Direct cost and operating expenses as of September 30, 2011 was P59 million and P44 million respectively. COC net income increased slightly from P 5.4 million last year to P 6 million for the period January to September 2011.

Total assets as of September 30, 2011 amounted to P325 million while liabilities amounted to P112 million.

University of Pangasinan (UPANG)

On February 2, 2009, PHN acquired a 70% stake in University of Pangasinan in Dagupan City. UPang is the leading educational institution in Pangasinan offering elementary, secondary and tertiary education. UPang also owns 68.45% of Pangasinan Medical Center, also located in Dagupan City.

For the period January to September 2011, UPang registered revenues amounting to P260 and net income of P50 million. Total assets of UPang as of September 30, 2011 amounted to P839 million.

University of Iloilo (UI)

On February 25, 2009, PHN acquired a 70% interest in University of Iloilo (UI), located in Iloilo City. UI offers elementary, secondary and tertiary education. UI offers courses in nursing, criminology, hotel and restaurant management and accountancy.

For the period January to September 2011, UI posted a net income of P11 million, compared to P 30 million in 2010. The decrease was due to a 7% decline in enrollment and an increase in scholarship program and marketing expenses.

One Animate Limited (OAL)

One Animate Limited, owns a ninety five (95%) interest in Toon City Animation, Inc. The latter is an award winning animation Studio providing 2D Flash and 3D CGI animation services and counts among its clients international names like Disney and Universal Studios.

For the nine (9) months ended September 30, 2011, OAL registered revenues of P127 million on projects such as Voltron Force, Looney Tunes, Geronimo Stilton, and Henry and Me. However, due to the delay in commencement of work on various contracts, OAL registered a net loss of P73 million.

OAL total assets as of September 30, 2011 amounted to P488 million.

Fuld & Company, Inc. (Fuld)

In June 2011, the Company acquired an 85% interest in Fuld & Company, Inc. (Fuld). Fuld is a business research and consulting firm focusing on business and competitive intelligence. Fuld is incorporated in

the United States with offices in the US, UK and China. Founded in 1979, Fuld delivers customized, proprietary research analysis and consulting designed to help clients understand the competition and anticipate competitive challenges.

Since its acquisition by PHN in June 11, 2011, Fuld posted a net loss of P 7 million on revenues of P 134 million. The operating results are reflective of the seasonality of the business which experiences lower revenues and net income during the second half of the year.

Business Back Office, Inc. (BBI)

In July 2011, PHN acquired an 85% interest in Business Back Office, Inc. (BBI). BBI is a knowledge process outsourcing provider based in Manila. It is a multi-industry, multi-market, and multi-company research capability with over 350 projects conducted since 2002.

For the period August to September 2011, BBI registered revenues of P2 million. However, the company posted a net loss of P649k.

Asian Plaza, Inc. (API)

API is a 57.6% subsidiary of PHN and owns and leases the Asian Plaza Building in Sen. Gil Puyat Avenue, Makati City. On December 28, 2010 and March 31, 2011, API signed a Memorandum of Agreement and Deed of Sale respectively, for the sale of Asian Plaza building to Shang Property Developers, Inc. (SPDI) in the amount of P615 million with 25% of the selling price paid already as of December 31, 2010. API recognized the gain from this transaction amounting to P386 million in 2010. On April 4, 2011, API received the 65% payment of SDPI amounting to P399.75 million.

For the period January – September 2011, API posted net loss of P1 million on revenues of P21 million, due to accrual of various expenses related to the sale of API's building.

Key Performance Indicators (KPI)

The top five (5) KPI's used to measure the financial performance of PHN and its subsidiaries as of September 30, 2011 compared to the same period last year are shown in the following table :

Financial KPI	Definition	2011	2010
<u>Profitability</u>			
Return on Equity (ROE)	$\frac{\text{Net income (loss)}}{\text{Ave. total equity attributable to PHN equity holders}}$	1.83%	3.24%
Gross Profit Margin	$\frac{\text{Gross profit}}{\text{Net sales}}$	25.16%	27.68%

<u>Efficiency</u>	<u>Cash flow from operating Activities</u>		
Cash Flow Margin	Net sales	6.33%	-7.98%
<u>Liquidity</u>	<u>Current assets</u>		
Current Ratio	Current liabilities	2.58 : 1.00	3.41 : 1.00
Debt-to Equity Ratio	<u>Total liabilities</u>		
	Total stockholders equity	0.35 : 1.00	0.33 : 1.00

Profitability

The return on equity for the period of 1.83% is lower compared than the 3.24% return for the same period last year. The decrease was due to the decline in net income for the period from P 221 million last year to P 121.4 million this year.

Gross profit margin decreased from 27.68% as of September 30, 2010 to 25.16% for the same period in 2011 mainly due to the decrease in gross profits of Union Galvasteel Corporation and University of Pangasinan.

Efficiency

Net cash inflow from operations for the period was P190 million compared to net cash outflow of P242 million for the same period last year. The net cash inflow in 2011 is largely due to the collection of contracts receivable from the sale of the Asian Plaza building in the amount of P 400 million

Liquidity

Current ratio was 2.58:1.00 as of September 30, 2011 compared to 3.41:1.00 in December 2010, due to decrease in cash and financial assets. The Company participated in the stock rights offering of Trans-Asia Oil in the amount of P 395 million and made an initial payment of P 242 million for its acquisition of an 85% ownership interest in Fuld. The Company likewise invested P8.5 million in Business Back Office, Inc. and paid cash dividends amounting to P 104 million during the period.

Debt to equity ratio of PHN and its subsidiaries as of September 30, 2011 was slightly higher at 0.35 compared to 0.33 as of December 31, 2010 due to an increase in trade-related accounts payable and notes payable.

Accounting Policies and Principles

The accompanying consolidated financial statements of Phinma Corporation have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit and loss, available for sale investments and derivative investments that have been measured at fair value.

The consolidated financial statements are prepared in Philippine pesos, the company's functional and presentation currency.

Seasonality Aspects of the Business

Like any other company in the construction industry, UGC's operations are affected by seasonal cycles. During the dry months starting December to May, demand for roofing materials are greater than during the rainy months of June to November.

The schools under the Phinma Education Network (Araullo University, Cagayan de Oro College, University of Pangasinan and University of Iloilo) experience higher enrollment and revenues during the first academic semester compared to the second academic semester. Tuition fees received at the start of the semester are spread out and booked as earned revenue throughout the semester.

Interim Disclosures on Financial Statements

The following financial disclosures do not materially affect or are not applicable to the Company's interim operations :

1. Unusual items that affect the assets, liabilities, equity, net income or cash flows because of their nature, size or incidents.
2. Changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that have a material effect in the current period.
3. Issuances, repurchases of debt and equity securities.
4. Segment revenue and segment results for business segments and geographical segments.
5. Changes in contingent liabilities or contingent assets since the last annual balance sheet.
6. Existence of material contingencies and other events of transactions that are material to an understanding of the current interim period.
7. Known trends, demands, commitments, events and uncertainties that will result in or likely to decrease its liquidity in any material way. PHN does not anticipate having within the next twelve (12) months any cash flow or liquidity problems nor does it anticipate any default or breach of any of its existing notes, loans, leases, other indebtedness or financing arrangements requiring it to make payments, except the breach in current ratio requirements of the loan covenants.
8. Events that will trigger direct or contingent material financial obligations to the company, including any default or acceleration of its existing obligations.

9. Material off-balance sheet transactions, arrangements, obligations (direct or contingent) and other relationships of the company with unconsolidated entities or other person created during the year.
10. Material commitments for capital expenditures.
11. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales/revenues/ income from continuing operations.
12. Significant elements of income or loss that did not arise from the company's continuing operations.

Material Changes in Statement of Financial Position Accounts

Cash and cash equivalents

The decrease in cash and cash equivalents are shown in the cash flow statement.

Short-term Investments

The decrease of P47 million in the account resulted from conversion of short-term investments into short-term placements which are classified under cash and cash equivalent account.

Investments held for Trading

Investments held for trading were used to fund the initial payment of P242 million for the acquisition of Fuld as well as participation in the stock rights offering of TA Oil, hence the decrease in the account.

Trade and other receivables - net

The decrease of P343 million is mainly due to the collection of the contract receivable of API in the amount of P 400 million. However, this was offset by the increase in trade receivables of Fuld, a company which was acquired in June 2011 and consolidated during the period.

Inventories

The increase in inventories in the amount of P141 million comes largely from the increase in UGC's finished goods inventories as of September 30, 2011.

Input tax

The decrease in the account of P30 million represents a decrease in input tax of UGC in the amount of P21 million as well as decrease in input tax of OAL and API in the amount of P 7 million and P2 million, respectively.

Derivative assets

The account represents derivative asset of OAL in the amount of P 1 million arising from its non-deliverable contracts.

Other current assets

The increase of P82 million is mainly due to the first-time consolidation of Fuld and Co., with current assets in the amount of P54 million. OAL and UI also registered an increase in other current assets amounting to P11 million and P8 million respectively.

Investment in associates – at equity

The significant increase in the amount of P434 million represents the participation of the company in the stock rights offering of TA Oil in the amount of P 350 million and equitized earnings, net of dividends..

Available-for-sale investments

The P258.6 million decrease in the account represents redemption of preferred shares of AB Capital and Investment Corporation and Ayala Corporation in the amount of P250 million and P8 million respectively.

Intangibles

The P295 million increase in the account represents provisional goodwill arising from the acquisition of Fuld in June 2011 and Business Back Office, Inc. in July 2011.

Deferred tax assets

The P 29 million decrease in the account represents the deferred tax asset of API booked in 2010 arising from API's plan to avail of Optional Standard Deduction (OSD) on its taxable income in 2011. Said asset was reduced this year when API availed of the OSD.

Installment contract receivable-net of current portion

The P2.4 million decrease in this account is due to partial collection of receivable on the sale of an investment property by COC.

Other noncurrent assets

The increase in other assets in the amount of P26 million is attributable to the first-time consolidation of Fuld's other noncurrent assets. PHN likewise booked various deferred charges related to the said acquisition.

LIABILITIES

Notes payable

The increase of P119 million arises from the additional short-term borrowings of UGC.

Trust receipts payable

The increase of P27 million is attributable to the increase in UGC's trust receipts payable from P122 million as of December 31, 2010 to P149 million as of September 30, 2011.

Trade and other payables

The P191 million increase in the account arises from the increase in the combined trade payables of UI, UPang, AU and COC. Also during the period, the Company acquired and consolidated Fuld's assets and liabilities, including Fuld's trade and personnel costs payable in the amount of P 109 million.

Unearned revenues

The unearned revenues of AU, COC, UI and Upang decreased from P195 million as of December 31, 2010 to P108 million as of September 30, 2011. Tuition fees collected at the beginning of the semester in June are booked under Unearned Revenues; the account is eventually reduced as the income is earned over the semester.

Income and other taxes payable

The P61 million decrease in the account is due to the payment of income taxes by API.

Due to related parties

The decrease in the account represents payment of management bonus by UGC during the period.

Derivative liabilities

The amount of P1.9 million represents unrealized loss on outstanding non-deliverable forward contracts of PHN.

Current portion of long-term payable and long-term payable

The amount of P26 million included under the current portion of long-term payable and P78 million long-term payable represents the balance on the acquisition of Fuld, which is payable in equal installments over four years beginning 2012.

Current portion of Long-term debt

The increase in the account in the amount of P15 million represents an increase in the current portion of long-term debt of Upang.

Long-term Debt – net of current portion

The decrease in the long-term debt in the amount of P103 million is attributable to partial payment of loans of UGC, UPANG and AU.

Deferred tax liabilities

The decrease in the account of P82 million is attributable to the difference in the gain on sale of the API property recognized under the accounting standards and the gain recognized under tax rules.

Pension and other post-employment benefits

The P18 million increase in the account represents accrual for post-employment benefits of PHN, AU, COC, UPANG, UI and OAL.

Other noncurrent liabilities

The decrease in the non-current liabilities in the amount of P 12 million resulted from the reclassification to current liabilities of API's lease deposits amounting to P 10.4 million.

EQUITY**Share in unrealized gains on financial assets of associates**

The P 4 million decrease in the account represents a decrease in the market prices of securities held by Trans Asia Oil & Energy Development Corporation.

Unrealized gain (loss) on change in fair value of available for sale investments

The decrease of P0.46 million is due to the redemption of Ayala Corporation preferred shares.

Cumulative translation adjustments

The increase in the account of P1.7 million represents cumulative translation adjustments arising from the consolidation of OAL.

Non-controlling interest

The P84 million decrease in the non-controlling interest is due to the declaration of significant cash dividends by API and UGC. The companies declared cash dividends in the amount of 159 million and P250 million respectively for the first semester of 2011.

Material Changes in Income Statement Accounts

Operating expenses

The increase in the operating expenses of P142 million represents increase in income related expenses of Phinma Corporation as a result of an increase in income of the parent from P209 million last year to P377 million this year, as well as increases in expenses accrued by COC and UI during the first semester. The increase is also due to the consolidation of operating expenses of Fuld, which was consolidated for the first time during the second quarter of 2011.

Financial charges

The P 12 million decrease in financial charges is due to partial payment of long-term debt of UGC and UPANG.

Equity in net earnings of associates

The increase in the account of P75 million is largely due to equitized earnings from Trans-Asia Oil and Energy Development Corporation (TA Oil) amounting to P66 million as of September 30, 2011. For the same period last year, PHN equitized a loss on TA Oil amounting to P27 million.

Net gain (loss) on derivatives

This account reflects a net gain in derivatives amounting to P11 million for the nine-month ended September 30, 2011 compared to P39 million for the same period last year.

The Company has outstanding non-deliverable contracts with an aggregate notional amount of US\$10.2 million compared to last year's US\$20.96 million, transacted at an average rate of P43.598 to \$1.00. As of September 30, 2011, the average forward rate was P43.643 to \$1.00, resulting in an unrealized loss of P1.9 million. This was offset by the net derivative gain on settled contracts amounting to P11 million.

Foreign exchange gain (loss)

The foreign exchange loss as of September 30, 2011 of P6.7 million was due to weakening of the dollar from P43.84 as of Dec. 31, 2010 to P43.72 as of September 30, 2011.

Other income (charges)

The increase in other income of P9 million is attributable to the payment of various receivables, which were written-off in previous years.

Provision for income tax

The decrease in provision for income tax from P72 million to P38 million is due to the decline in income of UGC from P165 million last year to P95 million this year.

Comprehensive Income

Comprehensive income decreased from P230 million for the nine-month period ended September 30, 2010 to P118 million this year largely due to the decrease in net income from P221 million in 2010 to P121 million this year.

For other comprehensive income / (charges), kindly refer to the comments on equity accounts.

PHINMA CORPORATION
Consolidated Aging of A/R-Trade
 As of September 30, 2011

in thousands

	<u>Total</u>
Current	503,868
1 - 30 days	27,561
31 - 60 days	5,839
61 - 90 days	3,007
Over 90 days	<u>153,157</u>
TOTAL	693,432
Less : Allowance for doubtful accounts	<u>162,355</u>
Net Trade Receivable	<u>531,077</u>

PHINMA CORPORATION
Consolidated Aging of A/R-Nontrade
 As of September 30, 2011

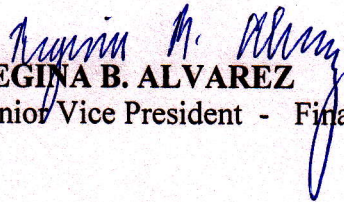
in thousands

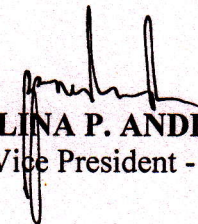
	<u>Total</u>
Current	184,355
1 - 30 days	-
31 - 60 days	-
61 - 90 days	-
Over 90 days	<u>12,997</u>
TOTAL	197,352
Less : Allowance for doubtful accounts	<u>4,058</u>
Net Trade Receivable	<u><u>193,294</u></u>

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHINMA CORPORATION


REGINA B. ALVAREZ
Senior Vice President - Finance


RIZALINA P. ANDRADA
Asst. Vice President - Finance

November 9, 2011