April 16, 2012

MS. JANET ENCARNACION
Head, Disclosure Department
Philippine Stock Exchange, Inc.
Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue,
Makati City

Dear Ms. Encarnacion:

We file herewith a copy of SEC Form 17-A (Annual Report 2011) of Aboitiz Equity Ventures, Inc. (AEV). Also enclosed is the cover letter for AEV's SEC Form 17-A addressed to the Securities and Exchange Commission.

Thank you.

Very truly yours,

ABOITIZ EQUITY VENTURES, INC.
By

M. Jasmine S. Oporto

M. JASMINE S. OPORTO
Corporate Secretary

aboitiz
Equity Ventures

16 APR 2012

CORPORATION FINANCE DEPARTMENT
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills,
Mandaluyong City, Metro Manila

ATTENTION : ATTY. JUSTINA CALLANGAN
Director

RE : SEC Form 17 – A (Annual Report 2011)

Dear Atty. Callangan:

We file herewith three (3) copies of SEC Form 17-A (Annual Report 2011) of Aboitiz Equity Ventures, Inc.

Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,

ABOITIZ EQUITY VENTURES, INC.
By

M. Jasmine S. Oporto

M. JASMINE S. OPORTO
Corporate Secretary mp

COVER SHEET

CE02536

S.E.C. Registration Number

ABOITIZ EQUITY VENTURES, INC.

(Company's Full Name)

ABOITIZ CORPORATE CENTER
GOV. MANUEL CUENCO AVE.
KASAMBAGAN, CEBU CITY

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

CATHERINE R. ATAY	(032) 411-1800
Contact Person	Company Telephone Number

ANNUAL REPORT 2011

12 31	17-A	05 21
Month *Day*	FORM TYPE	*Month* *Day*
Fiscal Year		Annual Meeting

Secondary License Type, if Applicable

SEC	
Dept. Requiring this Doc	Amended Articles Number/Section

10,054	x	
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the year ended **2011**

2. SEC Identification Number **CEO2536** 3. BIR TIN **003-828-269-V**

4. Exact name of registrant as specified in its charter **Aboitiz Equity Ventures, Inc.**

5. **Cebu City, Philippines**
Province, country or other jurisdiction of incorporation

6. Industry Classification Code

7. **Aboitiz Corporate Center, Gov. Manuel A. Cuenco Ave., Kasambagan, Cebu City 6000**
Address of principal office Postal Code

8. **(032) 411-1800**
Issuer's telephone number, including area code

9. **NA**
Former name or former address, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common (as of December 31, 2011)	**5,521,871,821**
Total Debt (as of December 31, 2011)	**₱85,761,657,000**

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

Yes (✓) No ( )

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

Philippine Stock Exchange **Common**

12. Check whether the registrant:

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

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

For 2011, aggregate voting stock of registrant held outside of its affiliates and/or officers and employees totaled 2,893,787 shares (for details please refer to the attached notes to financial statements and Schedule H of this report) while its average market price per share was ₱39.83.

Based on this data, total market value of registrant's voting stock not held by its affiliates and/or officers and employees was computed to be ₱115,259,536.21.

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

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

Yes ( ) No (✓)

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) Any annual report to security holders;

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

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

PART 1 – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

The registrant, Aboitiz Equity Ventures, Inc. (AEV or the Company), is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. Incorporated on September 11, 1989, the Company was originally known as Cebu Pan Asian Holdings, Inc. Its name was changed to Aboitiz Equity Ventures, Inc. on

December 29, 1993, and its ownership was opened to the general public through an Initial Public Offering (IPO) of its stocks in 1994.

Neither AEV nor any of its subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

(2) Business of Issuer

(i) Products

Until December 28, 2011, AEV's core businesses, conducted through its various Subsidiaries and Affiliates, can be grouped into five main categories as follows: (a) power distribution and generation, (b) financial services, (c) food manufacturing, and (d) portfolio investments (parent company/others).

Based on the Securities and Exchange Commission (SEC) parameters of what constitutes a significant subsidiary under Item XX of Annex "B" (SRC Rule 12), the following are AEV's significant subsidiaries at present: Aboitiz Power Corporation and subsidiaries, and Pilmico Foods Corporation and subsidiaries. (Please see Annex "C" hereof to see which companies fall under the different business segments)

POWER GENERATION AND DISTRIBUTION

Aboitiz Power Corporation (AboitizPower)

Incorporated in 1998, AboitizPower is a publicly listed holding company that, through its subsidiaries and affiliates, is a leader in the Philippine power industry and has interests in a number of privately-owned generation companies and distribution utilities. AEV owns 76.83% of the outstanding capital stock of AboitizPower as of March 30, 2012.

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired a 20% ownership interest in Visayan Electric Company, Inc. (VECO) in the early 1900s. The Aboitiz Group's direct and active involvement in the power distribution industry can be traced to the 1930s, when Aboitiz & Company, Inc. (ACO) acquired the Ormoc Electric Light Company and its accompanying ice plant, the Jolo Power Company and Cotabato Light & Power Company (Cotabato Light). In July 1946, the Aboitiz Group strengthened its position in power distribution in the Southern Philippines when it acquired Davao Light & Power Company, Inc. (Davao Light), which is now the third-largest privately-owned electric utility in the Philippines in terms of customers and annual gigawatt-hour (GWh) sales.

In December 1978, ACO divested its ownership interests in the Ormoc Electric Light Company and the Jolo Power Company to allow these companies to be converted into electric cooperatives, which was the policy being promoted by the government of then-President Ferdinand Marcos. ACO sold these two companies and scaled down its participation in the power distribution business in order to focus on the more lucrative franchises held by Cotabato Light, Davao Light and VECO.

In response to the Philippines' pressing need for adequate power supply, the Aboitiz Group became involved in power generation, becoming a pioneer and industry leader in hydroelectric energy. In 1978 the Aboitiz Group incorporated Hydro Electric Development Corporation (HEDC). HEDC carried out feasibility studies (including hydrological and geological studies) and hydroelectric power installation and maintenance and also developed hydroelectric projects in and around Davao City. The Aboitiz Group also incorporated Northern Mini-Hydro Corporation (now Cleanergy, Inc.) on June 26, 1990, which focused on the development of mini-hydroelectric projects in Benguet province in Northern Luzon. By 1990 HEDC and Cleanergy had commissioned and were operating 14 plants with a combined installed capacity of 36 megawatts (MW). In 1996 the Aboitiz Group led the consortium that entered into a build-operate-transfer (BOT) agreement with the National Power Corporation (NPC) to develop and operate the 70 MW Bakun AC hydroelectric plant in Ilocos Sur province.

AboitizPower was incorporated on February 13, 1998 as a holding company for the Aboitiz Group's investments in power generation and distribution. However, in order to prepare for growth in the power generation industry, AboitizPower was repositioned in the third quarter of 2003 as a holding company that owned power generation assets only. The divestment by AboitizPower of its power distribution assets was achieved through a property dividend declaration in the form of AboitizPower's ownership interests in the different power distribution companies. The property dividend declaration effectively transferred direct control over the Aboitiz Group's power distribution business to AEV. Further, in 2005 AboitizPower consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini-hydroelectric assets into Hedcor, Inc.

In December 2006, the Company and its partner, SN Power Invest AS (SN Power) of Norway, through SN Aboitiz Power-Magat, Inc. (SNAP-Magat) submitted the highest bid for the 360 MW Magat hydroelectric plant auctioned by Power Sector Assets and Liabilities Management Corporation (PSALM). The price offered was USD530 mn. PSALM turned over possession and control of the Magat Plant to SNAP-Magat on April 26, 2007.

In a share swap agreement with AEV last January 20, 2007, AboitizPower issued a total of 2,889,320,292 of its common shares in exchange for AEV's ownership interests in the following distribution companies, as follows:

- An effective 55% ownership interest in VECO, which is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales and is the largest distribution utility in the Visayas region;
- A 100% equity interest in each of Davao Light and Cotabato Light. Davao Light is the third largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales;
- An effective 64% ownership interest in Subic Enerzone Corporation (SEZ), which manages the Power Distribution System (PDS) of the Subic Bay Metropolitan Authority (SBMA); and
- An effective 44% ownership interest in San Fernando Electric Light and Power Company (SFELAPCO), which holds the franchise to distribute electricity in the city of San Fernando, Pampanga, in Central Luzon, and its surrounding areas.

In February 2007, the Company through its wholly-owned subsidiary Therma Power, Inc. (TPI) entered into a memorandum of agreement with Taiwan Cogeneration International Corporation (TCIC) to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone (SBFZ). In May 2007 Redondo Peninsula Energy, Inc. (RP Energy) was incorporated as the project company that will undertake the Subic Coal Project. On July 22, 2011, Meralco PowerGen Corporation (MPGC) acquired a majority interest in RP Energy through a Share Purchase Agreement with TCIC and TPI. MPGC took the controlling interest in RP Energy, while TCIC and TPI maintained their remaining stake equally. The commercial operations of the Subic Coal Project is projected to commence in 2014.

On April 20, 2007, the Company acquired 50% of the outstanding capital stock of East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. (El Paso Philippines). EAUC operates a Bunker C-fired plant with a capacity of 50 MW within the Mactan Export Processing Zone I (MEPZ I) in Mactan Island, Cebu. On the same date, the Company also acquired from EAUC 60% of the outstanding common shares of Cebu Private Power Corporation (CPPC). CPPC operates a 70 MW Bunker C-fired plant in Cebu City.

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company agreed to acquire from its affiliate, Aboitiz Land, Inc. (AboitizLand) a 100% interest in Mactan Enerzone Corporation (MEZ), which owns and operates the PDS in the MEPZ II in Mactan Island in Cebu, and a 60% interest in Balamban Enerzone Corporation (BEZ), which owns and operates the PDS in the West Cebu Industrial Park-Special Economic Zone (WCIP-SEZ) in Balamban town in the western part of Cebu. The Company also consolidated its ownership interest in SEZ by acquiring the combined 25% interest in SEZ held by AEV, SFELAPCO, Okeelanta Corporation (Okeelanta) and Pampanga Sugar Development Corporation (PASUDECO). These acquisitions were made through a share swap agreement which involved the issuance of a total of 170,940,307 common shares of the Company issued at the initial public offering price of ₱5.80 per share in exchange for theforegoing equity interests in MEZ, BEZ and SEZ.

Ownership in AboitizPower was opened to the public through an initial public offering of its common shares in July 2007. Its common shares were officially listed in the Philippine Stock Exchange (PSE) on July 16, 2007.

In August 2007, the Company, together with Vivant Energy Corporation (Vivant) of the Garcia Group, signed a memorandum of agreement with Global Business Power Corporation (Global Power) of the Metrobank Group for the construction and operation of a 3 x 82 MW coal-fired power plant in Toledo City, Cebu. The Company, together with the Garcia Group, formed Abovant Holdings, Inc. (Abovant). The Company owns 60% of Abovant. The project, which is being undertaken by Cebu Energy Development Corporation (Cebu Energy), a joint venture company among Global Power, Formosa Heavy Industries and Abovant, broke ground last January 2008 and started full commercial operations in 2010. The Company has an effective participation of 26.40% in the project.

On November 15, 2007, AboitizPower closed the sale and purchase of a 34% equity ownership in STEAG State Power Inc. (STEAG), owner and operator of a 232 MW coal-fired power plant located in the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The Company won the competitive bid to buy the 34% equity from Evonik Steag GmbH (formerly known as Steag GmbH) in August 2007. The total purchase price for the 34% equity in STEAG is USD102 mn, inclusive of interests.

On November 28, 2007, SN Aboitiz Power-Benguet, Inc. (SNAP-Benguet), a consortium between AboitizPower and SN Power, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex consisting of the 75 MW Ambuklao Hydroelectric Power Plant located at Bokod, Benguet and the 100 MW Binga Hydroelectric Power Plant located at Itogon, Benguet. The price offered amounted to USD325 mn.

In 2007, AboitizPower entered into an agreement to buy the 20% equity of Team Philippines in SEZ for ₱92 mn. Together with the 35% equity in SEZ of AboitizPower's subsidiary Davao Light, this acquisition brings AboitizPower's total equity in SEZ to 100%.

In 2008, AboitizPower bought the 40% equity ownership of Tsuneishi Holdings (Cebu), Inc. (THC) in BEZ for approximately ₱178 mn. The acquisition brought AboitizPower's total equity in BEZ to 100%.

Last May 26, 2009, AP Renewables, Inc., (APRI), a wholly owned subsidiary of AboitizPower, took over the ownership and operations of the 289 MW Tiwi geothermal power plant facility in Albay and the 458 MW Makiling-Banahaw geothermal power plant facility in Laguna (collectively referred to as the "Tiwi-MakBan geothermal facilities") after winning the competitive bid conducted by PSALM on July 30, 2008. The Tiwi-MakBan geothermal facilities have a sustainable capacity of approximately 462 MW.

Therma Luzon, Inc. (TLI), a wholly owned subsidiary of AboitizPower, won the competitive bid for the appointment of the Independent Power Producer (IPP) Administrator of the 700 MW Contracted Capacity of the Pagbilao Coal Fired Power Plant (the Pagbilao IPPA) last August 28, 2009. It assumed dispatch control of the Pagbilao power plant last October 1, 2009, becoming the first IPP Administrator in the country. As IPP Administrator, TLI is responsible for procuring the fuel requirements of, and for selling the electricity generated by, the Pagbilao power plant. The Pagbilao power plant is located in Pagbilao, Quezon.

AboitizPower, through its wholly owned subsidiary, Therma Marine, Inc. (TMI), assumed ownership over Mobile 1 and Mobile 2 last February 6, 2010 and March 1, 2010, respectively, after acquiring the two power barges from PSALM for USD30 mn through a negotiated bid concluded last July 31, 2009. Each of the barge mounted diesel-powered generation plants has a generating capacity of 100 MW. Mobile 2 and Mobile 1 are moored at Barangay San Roque, Maco, Compostela Valley and Nasipit, Agusan del Norte, respectively. Prior to AboitizPower's acqusition of the barges, Mobile 1 was referred to as Power Barge (PB) 118, while Mobile 2 was referred to as PB 117.

On May 27, 2011, Therma Mobile, Inc. (Therma Mobile), a wholy-owned subsidiary of AboitizPower, acquired four-barge mounted floating power plants, including their respective operating facilities from Duracum Mobile Power Corporation and East Asia Diesel Power Corporation.

AboitizPower plans to implement a corporate reorganization that will put all its renewable energy assets under Aboitiz Renewables, Inc. (ARI) (formerly Philippine Hydropower Corporation), and all its non-renewable generation assets under TPI.

Neither AboitizPower nor any of its subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

Aboitiz Renewables, Inc. (ARI)

AboitizPower, one of the leading providers of renewable energy in the country, holds all its investments in renewable energy through its wholly-owned subsidiary, ARI. ARI owns equity interests in the following generation companies:

- 100% equity interest in APRI which owns the Tiwi-MakBan geothermal facilities.
- 100% equity interest in Hedcor, Inc., which operates 16 mini-hydroelectric plants (plants with less than 10 MW in installed capacity) in Benguet province in Northern Luzon and in Davao City in Southeastern Mindanao with a total installed capacity of 42.2 MW.
- 100% equity interest in LHC, which operates the 70 MW Bakun AC hydroelectric plant in Ilocos Sur province in northern Luzon.
- 50%effective interest in SNAP-Magat, which operates the 360 MW Magat hydroelectric plant in Isabela in northern Luzon.
- 50% effective interest in SNAP-Benguet, which operates the 175 MW Ambuklao-Binga Hydroelectric Power Plant Complex in Northern Luzon.
- 100% equity interest in Hedcor Sibulan, Inc. (Hedcor Sibulan), which operates the 42.5 MW Sibulan Hydroelectric Plants in Santa Cruz, Davao del Sur.
- 100% equity interest in Hedcor Tamugan, Inc. (Hedcor Tamugan), which proposes to build a 11.5 MW Tamugan hydropower project along the Tamugan River in Davao City.
- 100% equity interest in Hedcor Tudaya, Inc. (Hedcor Tudaya), which proposes to build the 6.6 MW Tudaya 1 and 7 MW Tudaya 2 run-of-river hydropower projects in Santa Cruz, Davao del Sur.
- 100% equity interest in Hedcor Sabangan, Inc. (Hedcor Sabangan), which proposes to build the 13.2 MW Sabangan run-of-river hydropower project in Sabangan, Mountain Province.

Since beginning operations in 1998, AboitizPower has been committed to developing expertise in renewable energy technologies. AboitizPower's management believes that due to growing concerns on the environmental impact of power generation using traditional fossil fuel energy sources, greater emphasis will be placed on providing adequate, reliable, and reasonably priced energy through innovative and renewable energy technologies such as hydroelectric and geothermal technologies. As such, a significant component of AboitizPower's future projects are expected to focus on those projects that management believes will allow the Company to leverage its experience in renewable energy and help maintain the AboitizPower's position as a leader in the Philippine renewable energy industry.

AP Renewables, Inc. (APRI)

APRI is one of the country's leading power generation companies. It is a wholly-owned subsidiary of ARI that acquired the Tiwi-MakBan geothermal facilities located at Tiwi, Albay, Bay and Calauan, Laguna and Sto. Tomas, Batangas from PSALM in May 2009. The two complexes have a total capacity of 467 MW.

As geothermal power plants, Tiwi and Makban produce clean energy that is reasonable in cost, efficient in operation and environment-friendly. With the continuous advancement in technology, APRI is setting its vision to operate and maintain the Tiwi and Makban geothermal complexes in accordance with the highest professional standards of world-class independent power producers operating in a merchant market.

The Asset Purchase Agreement (APA) between APRI and PSALM requires APRI to rehabilitate units 5 and 6 of the Makban Geothermal Power Plant at its own cost and expense, which must be accomplished and completed within four years from closing of the APA last May 2009. APRI is currently in the midst of rehabilitation and refurbishment process. Based on initial estimates, the rehabilitation and refurbishment costs could reach USD140-150 mn over a period of two to three years. This rehabilitation and refurbishment plan is expected to improve the geothermal plant's operating capacities.

APRI is a Board of Investment (BOI) registered enterprise as New Operator of the Tiwi-Makban geothermal complex, on pioneer status with six years income tax holiday starting on June 19, 2009.

On December 26, 2011, APRI, together with its affiliate, TLI, signed a Letter Agreement with the PSALM, the NPC and the Manila Electric Company (MERALCO) for the extension of the term of the respective load allocations of APRI and TLI. The extension, which was pursuant to the one year extension of the MERALCO - NPC Transition Supply Contract (TSC) dated November 22, 2006, extended APRI's load allocation for a period of 12 months effective December 26, 2011.

SN Aboitiz Power – Magat, Inc. (SNAP-Magat)

SNAP-Magat is ARI's joint venture company with SN Power, a leading Norwegian hydropower company with projects and operations in Asia, Africa and Latin America. On December 14, 2006, SNAP-Magat participated in and won the bid for the 360-MW Magat hydroelectric power plant (the Magat Plant) conducted by PSALM for a bid price of USD530 mn.

The Magat Plant, which is located at the border of Isabela and Ifugao provinces in northern Luzon, was completed in 1983. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is ideally suited to act as a peaking plant with opportunities to capture the significant upside potential that can arise during periods of high demand.

The Magat Plant has the ability to store water equivalent to one month of generating capacity, allowing for the generation and sale of electricity at the peak hours of the day, which command premium prices. Magat's source of upside, water as a source of fuel and the ability to store it, is also its source of limited downside. This hydroelectric asset has minimal marginal costs, granting it competitive advantage in terms of economic dispatch order versus other fuel-fired power plants that have significant marginal cash costs. SNAP-Magat sells most of the electricity generated by the Magat Plant through the Wholesale Electricity Spot Market (WESM). It is also a provider of much needed ancillary services to the Luzon grid.

SNAP-Magat obtained BOI approval of its application as new operator of the Magat plant with a pioneer status, which entitles it to an income tax holiday until July 12, 2013.

A portion of the land underlying the Magat plant is in the name of the National Irrigation Administration (NIA). This portion is being leased by SNAP - Magat from NIA under terms and conditions provided under their O&M Agreement for the operations and maintenance of the non-power component of the Magat hydroelectric plant. On March 23, 2007, President Arroyo issued a presidential proclamation reserving and granting NPC ownership over certain parcels of public land in Isabela province and instructing the Department of Environment and Natural Resources (DENR) to issue a special patent over the untitled public land on which a portion of the Magat plant is situated. This portion of land, which was titled in 2007, was eventually bought by SNAP- Magat.

In September 2007, SNAP-Magat obtained a USD380 mn loan from a consortium of international and domestic financial institutions which include the International Finance Corporation, Nordic Investment Bank, BDO–EPCI, Inc., Bank of the Philippine Islands, China Banking Corporation, Development Bank of the Philippines, The Hong Kong and Shanghai Banking Corporation Limited, Philippine National Bank and Security Bank Corporation. The USD380 mn loan consists of a dollar tranche of up to USD152 mn, and a peso tranche of up to ₱10.1 bn. The financing agreement was hailed as the region's first-ever project finance debt granted to a merchant power plant. It won Project Finance International's Power Deal of the Year and Asset's Best Project Finance Award as well as Best Privatization Award.

The loan was used to partially finance the deferred balance of the purchase price of the Magat Plant under the APA with PSALM. Part of the loan proceeds was also used to refinance SNAP-Magat's USD159 mn loan from AEV and its advances from its shareholders used to acquire the Magat Plant.

As a hallmark of innovation in revenue generation, SNAP-Magat garnered an ancillary services contract on October 12, 2009 with the National Grid Corporation of the Philippines (NGCP), a first for a privately owned plant. These services are necessary to maintain power quality, reliability and security of the grid.

After 25 years of operations without any major rehabilitation works done on the generating units and considering the age and results of technical assessments, SNAP-Magat has embarked on a four-year refurbishment program for all major plant equipment for the period of 2009 to 2013. The main objective is to put back the lost efficiency and address operational difficulties due to obsolescence. The project will preserve the remaining life and the continuance of its availability for the next 25 years.

In December 2010, SNAP-Magat announced it will proceed with the feasibility study for the expansion of the Magat hydroelectric plant from 360 MW to up to 540 MW.

The conduct of the feasibility study was formalized on December 15, 2010 upon the signing of a Memorandum of Understanding (MOU) between SNAP-Magat and the NIA. The MOU facilitates the gathering of information to determine the feasibility of expanding the capacity of the Magat plant for an additional 90 to 180 MW. The existing Magat plant was designed for two additional units. The study will also include the feasibility of installing a pumped-storage system. The result of the feasibility study will enable SNAP-Magat to evaluate whether to proceed with the construction phase of the project.

The half-life refurbishment of Unit No. 4 of SNAP-Magat was completed in 2011, 47 days ahead of schedule. With Unit 4 under refurbishment from January to April 2011, SNAP-Magat Plant generated 522.413 GWh, registered forced outage hour of 88.74 and its plant availability factor was 98.85%.

Continual high capability of SNAP-Magat due to low water utilization and high dam elevation increased the capacity approval of SNAP-Magat in 2011 compared to 2010. The refurbishment of SNAP-Magat Unit 4 increased the capacity nominated to AS from 285 MW to 380 MW (or an increase of 95 MW). The capability of SNAP-Magat as AS provider was re-certified in July 2011. In 2011, Magat delivered 2,376,450 MWh of AS amounting to ₱9.9 bn.

SNAP-Magat is looking at a two-phase Expansion Project composed of: (1) the optimization of the Maris Reservoir Project that aims to increase the storage capacity of the Maris Reservoir (used as a re-regulating dam to regulate the releases from the Magat HEPP); and (2) the Magat-Pumped Storage Project which intends to install up to 115 MW of pumped storage generating capacity in addition to the existing 360 MW Magat HEPP. An MOU for the technical cooperation in the pre-development of the Maris Optimization was entered into by SNAP-Magat and NIA on July 15, 2011. Currently, the Project is in its final feasibility stage and is in the process of securing its Environmental Compliance Certificate (ECC) from the DENR-EMB.

The first phase of the efficient water use campaign DALOY Magat or "Dependable Agriculture and Livelihood through Optimized Water Use Yearlong in Magat" was also implemented. After only eight months of implementation, water use in the target areas in the South High Canal and Oscariz Main Canal exhibited a decrease of 17.94 mn cubic meters (MCM) of water consumption by farmers and fishpond operators. Data showed that from January to August of 2011, the water consumed by the target communities averaged 37.63 MCM while water consumption for the same period in 2009 averaged 55.57 MCM.

The Magat Plant retained its quality management system certification with its successful first surveillance audit for QMS ISO 9001. It also passed its second surveillance audit for its health and management system (OHSAS 18001). Aside from the QMS ISO Certification, SNAP-Magat also received several awards in the year 2011. The Magat Plant received an award in December 2011 from the Department of Labor and Employment (DOLE) for its 2010 record of no Lost Time Incident (LTI) of 303,680 man-hours. Since SNAP-Magat took over in 2006, the Magat Plant accumulated 1,524,039 man hours LTI free as of December 31, 2011. The Magat Plant also received a Silver Award for Independent Power Producer of the Year at the 2011 Asian Power Awards in Malaysia. Further, its management committee was also a finalist in the Best Executive Leadership category at the 2011 Asia CEO Awards held in Makati.

SN Aboitiz Power – Benguet, Inc. (SNAP-Benguet)

On November 28, 2007, SNAP-Benguet, also a consortium between ARI and SN Power, submitted the highest bid to PSALM for the Ambuklao-Binga Hydroelectric Power Complex, which consists of the 75-MW Ambuklao Hydroelectric Power Plant (Ambuklao Plant) located in Bokod, Benguet and the 100-MW Binga Hydroelectric Power Plant (Binga Plant) located in Itogon, Benguet. The price offered amounted to USD325 mn.

The Ambuklao-Binga Hydroelectric Power Complex was turned over to SNAP-Benguet on July 10, 2008. In August 2008, SNAP-Benguet signed a USD375 mn loan agreement with a consortium of local and foreign banks where USD160 mn was taken up as USD financing and USD215 mn as peso financing. Proceeds from the facility were used to partially finance the purchase price, rehabilitate the power plant complex and refinance SNAP-Benguet's existing advances from shareholders with respect to the acquisition of the assets.

SNAP-Benguet obtained BOI approval of its application as new operator of the Ambuklao and Binga plants with a pioneer status, which entitles it to an income tax holiday commencing from date of registration. Binga's approval is effective until August 12, 2014, while that of Ambuklao lasts until July 2016.

The rehabilitation of the Ambuklao Plant commenced in late 2008, after under going preservation since 1999 due to damage from the 1990 earthquake. As of July 2010, all three units were in operation. As of start of testing and commissioning, each unit was already generating revenues due to the timely processing and issuance of provisional Certificates of Compliance (COC) for each unit.

On June 2, 2011, the new Ambuklao started commercial operations of Unit No. 3 after 12 years of shutdown. The final COC was secured from ERC on August 31, 2011. The re-operation of Ambuklao was marked by the national and local inauguration ceremonies on October 26 and 27, 2011, respectively.

The refurbishment of the Binga Plant commenced in 2010. Headrace tunnel and intake excavation is 80% completed. Construction of the new intake structure is on-going and target completion of the project is in 2014. The Binga Plant is currently undergoing refurbishment of its four units to increase capacity from 100 MW to 120 MW. Replacement of Unit No. 4 main inlet valve (MIV) was done from April 21 to May 1, 2011. The completion of the MIV replacement triggered the start of rehabilitation and upgrading of Unit No. 4 which started on May 2, 2011. The rehabilitation and upgrading of Unit No. 4 from 25 MW to 31.5 MW was completed on December 20, 2011 and was put on trial and commercial operation on December 21, 2011. SNAP-Benguet received its COC from the ERC on March 26, 2012. The COC is valid for five years starting March 12, 2012.

With the Binga Plant's Unit 4 under refurbishment, Binga Plant generated 25.047 GWh, registered forced outage hour of 41.64 and its plant availability factor was 72.94%. On the other hand, Ambuklao Plant generated 319.999 GWh, registered a forced outage hour of 63.47 and availability factor of 85.50%

In 2010, SNAP-Benguet also entered into a contract with the NGCP for the Binga plant to provide ancillary services. This hallmark of business innovation has resulted in a new stream of revenue for the company.

The capability of Binga as AS provider was re-certified in June 2011. Only units 1, 2, and 3 were tested since Unit No. 4 was under refurbishment. In 2011, Binga delivered 624,159 MWh of AS amounting to ₱2.4 bn. The Ambuklao Plant was successfully tested as provider of ancillary services in September 2011.

Both Ambuklao Plant and Binga Plant received numerous awards in the year 2011. In December 2011, both plants were awarded by the DOLE for its 2010 record of no LTI of 372,305 man-hours and 503,095.50 man-hours, respectively. Since SNAP took over in 2008, Ambuklao accumulated 1,385,531 man hours LTI free as of December 31, 2011 while Binga posted 1,539,920 man-hours LTI free in the same period for a combined total of 2,925,451 man-hours LTI- free.

Both plants were registered as Clean Development Mechanism (CDM) projects by the United Nations Framework Convention on Climate Change (UNFCCC). Collectively, the plants will produce an average of 180,000 carbon emission reduction credits (CERs) per year. The CDM registration is the first of its kind in the Philippines at the time of the issuance.

Binga Plant received its management system certification for QMS ISO 9001 and passed its first surveillance audit for OHSAS 18001. Further, the Binga Plant won a Silver Award in the Independent Power Producer of the Year category and the resurgent Ambuklao Plant garnered a Silver Award in the Renewable Energy Power Plant category.

In 2011, SNAP-Benguet won a Gold Award as Environmental Company of the Year. Its management committee was also a finalist in the Best Executive Leadership category at the 2011 Asia CEO Awards held in Makati.

Hedcor, Inc. (Hedcor)

Hedcor was originally incorporated on October 10, 1986 by ACO as the Baguio-Benguet Power Development Corporation. ARI acquired its 100% ownership interest in Hedcor in 1998. In 2005, ARI consolidated all of its mini-hydroelectric generation assets, including those developed by HEDC and Cleanergy, Inc. (Cleanergy) (formerly Northern Min-Hydro Corporation), in Hedcor. Hedcor currently owns, operates and/or manages 15 run–of–river hydropower plants in northern Luzon and Davao City with a combined installed capacity of 38.2 MW. The electricity generated from Hedcor's hydro plants are taken up by NPC, APRI, Davao Light, and Benguet Electric Cooperative (BENECO) pursuant to power purchase agreements with the said offtakers, and sold to the WESM.

During the full years 2009 and 2010, Hedcor's hydropower plants generated a total of 171.4 GWh and 155.5 GWh of electricity, respectively.

Northern Luzon's climate is classified as having two pronounced season-dry from November to April and wet for the rest of the year. Due to this classification, generation levels of Hedcor's plants, particularly those located in Northern Luzon, are typically lower during the first five months of each year.

Hedcor used to have a 50% equity interest in LHC until it transferred its equity stake to its parent company, ARI, through a property dividend declaration in September 2007.

Luzon Hydro Corporation (LHC)

Up until May 10, 2011, LHC was ARI's joint venture company with Pacific Hydro Bakun, Inc. (PHBI), a wholly owned subsidiary of Pacific Hydro Pty. Ltd. (Pacific Hydro) of Australia. Pacific Hydro is a privately-owned Australian company that specializes in developing and operating power projects that use renewable energy sources, principally water and wind power.

LHC operates and manages the 70 MW Bakun run-of-river hydropower plant, which is located within the 13,213 hectare watershed area of the Bakun River in Ilocos Sur province in Northern Luzon. The USD150 mn project was constructed and is being operated under the government's build—operate—transfer scheme. Energy produced by the plant is delivered and taken up by NPC pursuant to a power purchase agreement (the Bakun PPA) and dispersed to NPC's Luzon Power Grid. Under the terms of the Bakun PPA, all of the electricity generated by the Bakun plant will be purchased by NPC for a period of 25 years from February 2001. The Bakun PPA also requires LHC to transfer the Bakun plant to NPC in February 2026, free from liens and without the payment of any compensation by NPC. Amlan Power Holdings Corporation was awarded the IPP Administrator contract for the 70-MW Bakun hydropower facility following a competitive bidding process conducted by PSALM.

On March 31, 2011, ARI signed a Memorandum of Agreement (MOA) with PHBI and LHC to give ARI full ownership over LHC upon fulfillment of certain conditions in the MOA. Effective May 10, 2011, ARI assumed full ownership and control of LHC upon fulfillment of certain conditions in the MOA. The total transaction value was approximately USD30 mn.

Hedcor Sibulan, Inc. (Hedcor Sibulan)

Hedcor Sibulan, a wholly owned subsidiary of ARI, is the project company of the Sibulan hydropower project. Sibulan, which broke ground on June 25, 2007, entailed the construction of two run-of-river hydropower plants, Sibulan A and Sibulan B harnessing the Sibulan and Baroring rivers in Santa Cruz, Davao del Sur. The 26 MW Sibulan B started commercial operations in March 2010. The 16.5 MW Sibulan A was completed in July 2010.

Hedcor Sibulan is part of a consortium that won the competitive bidding for the 12-year power supply agreement to supply new capacity to Davao Light. The bid price for the contracted energy was ₱4.0856/kWh, subject to adjustment based on changes to the Philippine consumer price index. All the energy generated by the Hedcor Sibulan power plants will be supplied to Davao Light pursuant to a power supply agreement signed on March 7, 2007.

The Sibulan Project is registered as a CDM project with the UNFCCC under the Kyoto Protocol. The project is expected to generate carbon credits that will eventually be traded in the carbon market.

Hedcor Tamugan, Inc. (Hedcor Tamugan)

Hedcor Tamugan, a wholly owned subsidiary of ARI, is the project company organized to build the proposed Tamugan run-of- river hydropower project. In 2010, Hedcor entered into a compromise agreement with the Davao City Water District (DCWD) to settle the dispute on the Tamugan water rights. Originally planned as a 27.5 MW run-of-river facility, Hedcor Tamugan proposed the construction of an 11.5 MW run-of-river hydropower plant. After Hedcor Tamugan secures all required permit, the two-year construction period will commence.

Hedcor Sabangan, Inc. (Hedcor Sabangan)

Hedcor Sabangan, a wholly owned subsidiary of ARI, is the project company organized to build the proposed 13.2 MW run- of-river hydropower project in Sabangan, Mountain Province. As part of the Free and Prior Informed Consent (FPIC) process for the project as required under the Indigenous Peoples' Rights Act of 1997 (IPRA), Hedcor Sabangan signed MOA with the indigenous peoples of Barangays Namatec and Napua and the municipality of Sabangan, and the Mountain Province in February, March and July 2011, respectively. With the completion of the FPIC process, Hedcor Sabangan is awaiting the issuance of the Certificate of Precondition by the National Commission on Indigenous Peoples.

The (ECC) was obtained in October 2011, while the other permits required for the project water rights and the special land use permit (SLUP), are currently being processed. The two-year construction period is expected to commence in the fourth quarter of 2012 assuming that the required permits are secured by then.

Hedcor Tudaya, Inc. (Hedcor Tudaya)

Hedcor Tudaya, a wholly-owned subsidiary of ARI, is the project company organized to build the proposed Tudaya 1 and Tudaya 2 run-of-river hydropower plants with combine capacity of 13.7 MW in Tudaya, Santa Cruz, Davao del Sur. In February 2011, Hedcor Tudaya signed a MOA with the of Bagobo-Tagabawa indigenous peoples as a result of the FPIC process conducted for the Tudaya 1 as required under the IPRA. With the completion of the FPIC process, Hedcor Tudaya is awaiting the issuance of the Certificate of Precondition by the National Commission on Indigenous Peoples. The proposed construction of Tudaya 2 does not require a FPIC process as there are no indigenous peoples in the area.
Most of the permits required for the project, such as the ECC have been obtained, and the water rights is currently being processed. Assuming the required permits are timely secured, the two-year construction period is expected to commence in May 2012.

Therma Power, Inc. (TPI)

TPI, a wholly-owned holding company of AboitizPower, owns equity interests in the following generation companies:

- 100% equity interest in TLI, the IPP Administrator of the 700 MW contracted capacity of the Pagbilao power plant.
- 100% equity interest in TMI, the owner and operator of Mobile 2 and Mobile 1, barge-mounted power plants, each with a generating capacity of 100 MW.
- 26% effective interest in Cebu Energy, which operates a 3 x 82 MW coal-fired power plant in Toledo City, Cebu.
- 25% equity interest in RP Energy, the project company that proposes to build and operate a 600 MW coal-fired power plant in Redondo Peninsula in the SBFZ.
- 100% equity interest in Therma South, Inc., the project company that proposes to build a 300 MW circulating fluidized bed coal-fired plant in Toril, Davao.
- 100% equity interest in Vesper Industrial and Development Corporation (Vesper), the project company that proposes to build a coal plant in Bato, Toledo, Cebu. Vesper is currently applying for the change of its corporate name to Therma Visayas, Inc. with the SEC.
- 100% equity interest in Therma Mobile, owner of four barge-mounted power plants in Navotas, Fishport, Manila.

AboitizPower plans to implement a corporate reorganization that will put all its non-renewable generation assets under TPI. If completed, TPI will hold AboitizPower's ownership interest in STEAG Power, EAUC, CPPC, Southern Philippines Power Corporation (SPPC) and Western Mindanao Power Corporation (WMPC).

Therma Luzon, Inc. (TLI)

TLI, a wholly owned subsidiary of TPI, submitted the highest offer in the competitive bid conducted by PSALM for the appointment of the IPP Administrator of the 700 MW Contracted Capacity of the Pagbilao Coal Fired Thermal Power Plant located in Pagbilao, Quezon.

The offer by TLI resulted in a bid price of USD691 mn as calculated in accordance with bid rules. This value represents the present value of a series of monthly payments to PSALM from October 2009 to August 2025 using PSALM discount rates.

On October 1, 2009, TLI became the first IPP Administrator in the country when it assumed dispatch control of the said contracted capacity of the Pagbilao Plant. As IPP Administrator, TLI is responsible for procuring the fuel requirements of and selling the electricity generated by the Pagbilao Plant. The Pagbilao Plant is being operated by TEAM Energy under a build - operate-transfer scheme.

On December 26, 2011, TLI, together with its affiliate, APRI, signed a Letter Agreement with the PSALM, the NPC and the MERALCO for the extension of the term of the respective load allocations of APRI and TLI. The extension, which was pursuant to the one year extension of the TSC dated November 22, 2006, extended TLI's load allocation for up to 12 months starting December 26, 2011, subject to the finalization of a power supply agreement (PSA) to be executed by and between MERALCO and TLI. On February 29, 2012, TLI signed a PSA with MERALCO which shall be effective upon approval by the Energy Regulatory Commission (ERC).

Therma Marine, Inc. (TMI)

TMI is a wholly owned subsidiary of TPI. It owns and operates Power Barges Mobile 1 (previously known as PB 118) and Mobile 2 (previously known as PB 117) and has a total generating capacity of 200 MW. Mobile 1 is currently moored at Barangay San Roque, Maco, Compostela Valley while Mobile 2 is moored at Barangay Sta. Ana, Nasipit, Agusan del Norte.

TMI assumed ownership of Mobile 1 and Mobile 2 from PSALM last February 6, 2010 and March 1, 2010, respectively, after the successful conclusion of the USD30 mn negotiated bid for the barges last July 31, 2009.

TMI signed a one-year Ancillary Service Procurement Agreements (ASPA) with the NGCP to supply ancillary services consisting of contingency reserve, dispatchable reserve, reactive power support and blackstart capacity for the Mindanao Grid. The ASPA of each of the Power Barges is for the supply 50 MW of ancillary power to NGCP. The contracts have been extended up to June 2012, and may still be renewed, subject to the agreement of the parties. In the event the ASPA are not renewed by NGCP, TMI may opt to offer ancillary services to distribution and industrial customers in Mindanao.

On December 5, 2011, TMI signed Energy Supply Agreements with various cooperatives, industrial and commercial customers in Mindanao for a total of 109.2 MW. Of the 109.2 MW, 86.2 MW were already effective, 17 MW are awaiting provisional approval from ERC, and 6 MW are due for filing with the ERC.

Therma Mobile, Inc. (Therma Mobile)

Therma Mobile is a wholly-owned subsidiary of TPI. On May 27, 2011, Therma Mobile acquired four barge-mounted floating power plants located at Navotas Fishport, Manila. From Duracom Mobile Power Corporation and East Asia Diesel Power Corporation, the barge-mounted floating power plants have total generating capacity at 242 MW.

The power barges are currently undergoing rehabilitation.

STEAG State Power Inc. (STEAG)

AboitizPower closed the sale and purchase of the 34% equity ownership in STEAG from Evonik Steag GmbH (Evonik Steag) last November 15, 2007. The total purchase price for the 34% equity in STEAG was USD102 mn, inclusive of interests.

Incorporated on December 19, 1995, STEAG is the owner and operator of a 232 MW (gross) coal-fired power plant located in the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The coal plant was built under a BOT arrangement and started commercial operations on November 15, 2006. The coal plant is subject of a 25-year power purchase agreement with the NPC, which agreement is backed by a Performance Undertaking issued by the Republic of the Philippines. STEAG currently enjoys a six-year income tax holiday from the BOI.

With its 34% stake in STEAG, AboitizPower is equity partner with majority stockholder Evonik Steag, Germany's fifth largest power generator, which currently holds 51% equity in STEAG. La Filipina Uy Gongco Corporation holds the remaining 15% equity in STEAG.

On June 28, 2010, AboitizPower and its partners in STEAG firmed up their collective intention to develop a third unit of approximately 150 MW capacity adjacent to the existing facility. AboitizPower and its partners agreed to maintain their shareholdings in the same proportions in the new corporation to be established for the planned additional capacity. Certain essential facilities, such as the jetty, coal handling facilities and stockyards and the 138-kV interconnection with the Mindanao Grid are to be shared with the existing facilities. Depending on the interest the market demonstrates, the agreement contemplates the possibility of another unit.

STEAG's COC has been renewed by the ERC until May 2016.

East Asia Utilities Corporation (EAUC)

On April 20, 2007, AboitizPower acquired a 50% ownership interest in EAUC from El Paso Philippines, which still owns the other 50% of EAUC. EAUC was incorporated on February 18, 1993, and since 1997 has operated a Bunker C-fired power plant with an installed capacity of 50 MW within the MEPZ I in Mactan Island, Cebu. Pursuant to the Energy Power Purchase Agreement (EPPA), with the Philippine Economic Zone Authority (PEZA) which took effect on April 26, 2011, PEZA shall purchase from EAUC for 22 MW of electric power or equivalent to two engines. EAUC also signed an EPPA with Balamban Enerzone Corporation (BEZ) for the supply of power equivalent to 5.255 MW for a period of five years starting May 25, 2011 until May 25, 2016.

On December 26, 2010, EAUC started supplying power to the WESM.

Cebu Private Power Corporation (CPPC)

Incorporated on July 13, 1994, CPPC owns and operates a 70 MW Bunker-C fired power plant in Cebu City, one of the largest power plants in the island of Cebu. Commissioned in 1998, the CPPC plant was constructed pursuant to a BOT contract to supply 62 MW of power to VECO. The CPPC plant will revert to VECO in November 2013.

On April 20, 2007, AboitizPower acquired from EAUC 60% of the outstanding common shares of CPPC. The remaining 40% of the outstanding common shares is owned by Vivant, who together with AboitizPower, are the major shareholders of VECO. VECO owns all of the outstanding preferred shares of CPPC, which comprises approximately 20% of the total outstanding capital stock of CPPC.

Effective December 26, 2010, CPPC started selling its excess capacity to the WESM.

Abovant Holdings, Inc. (Abovant) and Cebu Energy Development Corporation (Cebu Energy)

Incorporated on November 28, 2007, Abovant is a joint venture company formed by TPI, a wholly-owned subsidiary of AboitizPower, and Vivant Integrated Generation Corporation (VIGC) of the Garcia Group, to hold their investments in a new power plant to be built in Barangay Daanlungsod, Toledo City, Cebu. Abovant is 60% owned by AboitizPower, through TPI, and 40% owned by VIGC.

Abovant and Global Formosa Power Holdings, Inc. (Global Formosa), a joint venture between Global Business Power Corporation of the Metrobank Group (Global Power) and Formosa Heavy Industries, Inc., formed Cebu Energy. Cebu Energy is the owner of a new 3 x 82 MW coal-fired power plant situated within the Toledo Power Station complex in Barangay Daanlungsod, Toledo City, Cebu. With Abovant's 44% stake in the project (Global Formosa owns the remaining 56%), AboitizPower's effective interest in the new power plant, which broke ground in January 2008, is approximately 26.40%.

The first 82 MW unit was commissioned in February 2010, while the second and third units were commissioned in the second and fourth quarter of 2010, respectively. The power generated from the new power plant shall provide for the much needed security to the power supply of the province of Cebu in the coming years. Additional power will be needed with the influx of business process outsourcing companies and new hotels in the province and the presence in the Toledo-Balamban area of large industries such as Carmen Copper Corporation, the shipbuilding facility of Tsuneishi Heavy Industries (Cebu) Inc. (THI), the modular fabrication facility of Metaphil International and the newest locator in the WCIP, Austal Philippines Pty. Limited.

The power plant which cost approximately USD450 mn, was completed and started full commercial operations in the first quarter of 2011. Cebu Energy had signed an EPPA with VECO for the supply of 105 MW of electricity for 25 years. To date, it also has an EPPA with PEZA-MEPZ I; Mactan Electric Company, Inc. (MECO); BEZ; Cebu I Electric Cooperative, Inc.; Cebu II Electric Cooperative, Inc.; Cebu III Electric Cooperative, Inc.; and Bohol Electric I Cooperative, Inc. All its EPPAs will provide contracted minimum energy offtake with fuel as pass through.

Southern Philippines Power Corporation (SPPC)

SPPC is a joint venture among AboitizPower, Alsing Power Holdings, Inc. and Tomen Power (Singapore), Pte Ltd. AboitizPower has a 20% equity interest in SPPC, which owns and operates a 55 MW bunker-C fired power plant in Alabel, Sarangani just outside General Santos City in Southern Mindanao.

The SPPC power plant was developed on a build-own-operate basis by SPPC under the terms of an Energy Conversion Agreement (ECA) with the NPC. Under the ECA, NPC is required to deliver and supply to SPPC the fuel necessary to operate the SPPC power plant during an 18-year cooperation period, which ends in 2016. NPC is also required to take all the electricity generated by the SPPC power plant during the cooperation period and pay SPPC on a monthly basis capital recovery, energy, fixed operations and maintenance (O&M) and infrastructure fees as specified in the ECA. During this cooperation period, SPPC is responsible, at its own cost, for the management, operation, maintenance and repair of the SPPC power plant.

Aside from providing the much needed capacity to the Southwestern Mindanao Area, the SPPC power plant also performs the role of voltage regulator for General Santos City, ensuring the availability, reliability, and quality of power supply in the area.

Western Mindanao Power Corporation (WMPC)

Like SPPC, WMPC is also a joint venture among AboitizPower, Alsing Power Holdings, Inc. and Tomen Power (Singapore), Pte Ltd. AboitizPower has a 20% equity interest in WMPC, which owns and operates a 100 MW bunker-C fired power station located in Zamboanga City, Zamboanga del Sur in Western Mindanao. The WMPC power plant was developed on a build-own-operate basis by WMPC under the terms of an ECA with NPC. Under the ECA, NPC is required to deliver and supply to WMPC the fuel necessary to operate the WMPC Plant during an 18-year cooperation period which ends in 2015. NPC is also required to take all the electricity generated by the WMPC Plant during the cooperation period and pay WMPC on a monthly basis capital recovery, energy, fixed O&M and infrastructure fees as specified in the ECA. During this cooperation period, WMPC is responsible, at its own cost, for the management, operation, maintenance and repair of the WMPC Plant.

Aside from providing the much needed capacity to the Zamboanga Peninsula, the WMPC power plant also performs the role of voltage regulator for Zamboanga City, ensuring the availability, reliability, and quality of power supply in the area.

Redondo Peninsula Energy, Inc. (RP Energy)

Incorporated on May 30, 2007, RP Energy is a joint venture company originally owned by AboitizPower and TCIC equally. On July 22, 2011, Meralco PowerGen Corporation acquired a majority interest in RP Energy by virtue of a Share Purchase Agreement with TPI, a wholly-owned subsidiary of AboitizPower and TCIC, retaining an equal ownership interest of 25% each less one share. In view of increasing power demand in the Luzon Grid and with the entry of Meralco PowerGen, RP Energy plans to expand its original proposal to build and operate a 300-MW coal-fired power plant in Redondo Peninsula within the SBFZ into a 2 x 300-MW (net) power plant upon approval of an amendment to its existing ECC.

RP Energy has also completed the voluntary relocation of all affected residents in the site in accordance with existing Philippine rules and regulations and accepted international standards, and it is now the in the final stages of completing the site preparation works, such as clearing, grubbing, balanced cut and fill to a grade of six meters above sea level. In November 2011, RP Energy designated the suppliers of the circulating-fluidized-bed boilers, steam turbines, generators, and supporting auxiliaries that ultimately will be engaged as subcontractors by the selected Engineering, Procurement and Construction (EPC) contractor. The award serves to fix the price and delivery time of the equipment amidst an environment of rising prices and longer delivery period of raw materials. In May 2011, RP Energy issued Invitations to Bid to three reputable international EPC contractors for the execution of the project. The EPC Contract is projected to be awarded during the second quarter of 2012. The estimated completion of the first unit will be 36 months after award of the EPC contract or mid-2015. Completion of the second unit will follow within six months thereafter. The total cost of the project is estimated at approximately USD1.2 bn.

Therma South, Inc (Therma South)

Incorporated in November 18, 2008, Therma South is a wholly-owned subsidiary of TPI and is the project company for the construction of the 300-MW circulating fluidized-bed coal-fired power plant in Barangay Binugao, Toril District, Davao City and Barangay Inayawan, Sta. Cruz, Davao del Sur.

The power project initially received resistance from some sectors of the community. But through Therma South's information drives, road shows and close consultation and engagement with the affected localities, the power project received strong recommendations from the host barangays, the business sectors, professional organizations and other institutions in Mindanao. Ultimately, the power project received endorsements from the local government units of Davao City and the municipality of Sta. Cruz in Davao del Sur. Therma South also secured the necessary permits and clearances from various national government agencies for the power project. On September 9, 2011 the Environmental Management Bureau (EMB) of the DENR issued the ECC for the power project.

On August 2011, Therma South acquired the remaining properties that will become the site of the power project. The power project is expected to be on line by late 2014, thereby providing Mindanao with much needed baseload power that is affordable, reliable and will cause the least adverse effect to the environment.

Other Generation Assets

AboitizPower's distribution utilities, Davao Light and Cotabato Light, each has its own stand-by plant. Davao Light currently maintains the 53 MW Bunker C-fired Bajada stand-by plant, which is capable of supplying 19% of Davao Light's requirements. Cotabato Light maintains a stand-by 7 MW Bunker C-fired plant capable of supplying approximately 30.50% of its requirements.

Future Projects

Before undertaking a new power generation project, the Company conducts an assessment of the proposed project. Factors taken into consideration by the Company include the proposed project's land use requirements, access to a power grid, fuel supply arrangements (if relevant), availability of water (for hydroelectric projects), local requirements for permits and licenses, the ability of the plant to generate electricity at a competitive cost and the presence of potential offtakers to purchase the electricity generated. For the development of a new power plant, the Company, its partners and suppliers are required to obtain the necessary permits required before commencement of commercial operations, including permits related to project site, construction, the environment and planning, operation licenses and similar approvals.

Notwithstanding the review and evaluation process that the Company's management conducts in relation to any proposed project, acquisition or business, there can be no assurance that the Company will eventually develop a particular project, acquire a particular generating facility or that projects will be implemented or acquisitions made or businesses conducted in the manner planned or at or below the cost estimated by the Company. In addition, there can be no assurance that a project, if implemented, or an acquisition, if undertaken, will be successful.

DISTRIBUTION OF ELECTRICITY

The Aboitiz Group has more than 71 years of experience in the Philippine power distribution sector and has been known for innovation and efficient operations. Through the years, AboitizPower has managed to build strong working relationship with the industry's regulatory agencies.

With ownership interests in seven distribution utilities, AboitizPower is currently one of the largest electricity distributors in the Philippines. AboitizPower's distribution utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities in Central Luzon, Visayas and Mindanao, with an aggregate land area of approximately 5,305 square kilometers. Collectively, AboitizPower's distribution utilities contributed approximately 10% of its net income for 2011. The distribution utilities had a total customer base of 740,833, in 2011, 714, 423 in 2010, and 685,378 in 2009.

The table below summarizes the key operating statistics of the distribution utilities for 2011 and the previous two years.

Company	Electricity Sold (MWh)			Peak Demand (MWh)			No. of Customers		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
VECO	2,120,454	1,994,237	1,829,500	407	378	336	327,857	316,845	304,002
Davao Light	1,582,928	1,548,155	1,459,161	288	293	276	294,159	281,234	268,708
SFELAPCO	456,121	446,513	421,139	88	83	80	83,312	81,891	79,669
Cotabato Light	117,726	129,788	120,186	23	24	24	32,929	31,611	30,171
SEZ	408,240	405,038	372,391	99	83	97	2,738	2,734	2,724
MEZ	132,927	138,128	117,014	23	22	23	76	77	76
BEZ	116,378	90,174	60,376	32	27	21	32	31	28
Total	**4,934,774**	**4,752,033**	**4,379,767**	**960**	**910**	**857**	**740,833**	**714,423**	**685,378**

Visayan Electric Company, Inc. (VECO)

VECO is the second largest privately owned distribution utility in the Philippines in terms of customers and annual MWh sales. VECO supplies electricity to a region covering 672 square kilometers in the island of Cebu with a population of approximately 1.73 mn. To date, VECO has 16 substations that serves the electrical power needs of the cities of Cebu, Mandaue, Talisay and Naga, the municipalities of Minglanilla, San Fernando, Consolacion and Liloan and 232 barangays all electrified in the island and province of Cebu.

VECO, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu Island since 1905. In the early 1900s, the predecessors-in-interest of the Aboitiz Group acquired a 20% interest in VECO's predecessor-in-interest, the Visayan Electric Company, S.A. Since that time, the Aboitiz Group's ownership interest in VECO has increased from 20% to the current beneficial ownership interest of 55.19% held by AboitizPower.

In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The term of this franchise was extended by Republic Act 6454 for an additional 25 years beginning in 1978 and was conditionally renewed for another 25 years from December 2003, subject to the resolution of an intra-corporate dispute at that time involving AEV, AboitizPower's parent company, and Vivant Corporation. In September 2005, the Philippine Congress passed Republic Act 9339, which extended VECO's franchise to September 2030. VECO's application for the extension of its Certificate of Public Convenience and Necessity (CPCN) was approved by the ERC last January 26, 2009.

In April 2004, AEV and Vivant, which is the holding company of the Garcia family, entered into a Shareholders' Cooperation Agreement that sets out guidelines for VECO's day-to-day operations and the relationship among VECO's shareholders, including: restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), board composition and structure, proceedings of directors and shareholders, minority shareholder rights, dividend policy, termination, and non-compete obligations. Under the terms of the agreement, day-to-day operations and management of VECO were initially assumed by AEV and, after AboitizPower acquired AEV's ownership interest in VECO in January 2007, by AboitizPower. AboitizPower and Vivant are each required to place in escrow 5% of the shares in VECO registered in their respective names to guarantee compliance with their respective obligations under the Shareholders' Cooperation Agreement. The escrow shares will be forfeited in the event a shareholder group violates the terms of the Shareholders' Cooperation Agreement. The Shareholders' Cooperation Agreement was adopted as a result of a dispute between AEV and Vivant regarding the management of VECO. Relations between the shareholders of VECO are amicable.

VECO is part of the third group (Group C) of private distribution utilities to shift to PBR. The ERC issued its final determination on VECO's application for approval of its annual revenue requirements and performance incentive scheme under the PBR for the regulatory period July 1, 2010 to June 30, 2014. Such determination became final in May 2010.

Also in May 2010, VECO filed with the ERC its application for approval of the translation into distribution rates of its different customer classes for the first regulatory year of the ERC-approved Annual Revenue Requirement (ARR) under the PBR for the regulatory period July 1, 2010 to June 30, 2014. The application was approved on June 28, 2010 and the approved distribution, supply and metering charges were implemented by VECO effective August 1, 2010. For the second regulatory year, VECO also filed its application for approval of the translation into rates for different customer classes in March 2011. It was approved in July 25, 2011 and implemented in August 2011.

VECO will file an application with the ERC for the approval of the recalculated maximum average price for the regulatory year 2013. It will also apply for approval of the translation into distribution-related rates of different customer classes with the ERC, for the third regulatory year of its annual revenue requirement under the Performance-based-rate-setting regulation (PBR) for the regulatory period 2011 to 2014.

Davao Light & Power Company, Inc. (Davao Light)

Davao Light is the third largest privately-owned electric distribution utility in the country in terms of customers and annual kilowatt-hour (kWh) sales.

With a franchise covering Davao City and Davao del Norte, areas of Panabo City and the Municipalities of Carmen, Dujali and Santo Tomas, Davao Light services a population of approximately 1,777,926 and a total area of 3,561 square kilometers.

Although, Davao Light was organized on October 11, 1929, the Aboitiz Group acquired its ownership in 1946. Currently, AboitizPower owns 99.93% of the shares in the electric distribution utility.

Davao Light's original franchise, which covered Davao City, was granted in November 1930 by the Philippine Legislature for a period of 50 years. In 1976, the National Electrification Administration (NEA) extended Davao Light's franchise for Davao City to November 2005 and granted Davao Light franchises for the City of Panabo and the municipalities of Carmen and Santo Tomas in Davao del Norte province. In September 2000, the Philippine Congress passed Republic Act 8960, which granted Davao Light a franchise over its current franchise area for a period of 25 years, or until September 2025.

Davao Light has a 150-MVA and a 2x50-MVA substation drawing power at 138 kV. In 1998 it entered into a 10-year power purchase agreement with the NPC, which had been extended until 2015 by a separate contract signed in 2005 by the parties. Davao Light's power purchase agreement with the NPC allows the delivery of most of the utility's power requirements through its 138- kV lines. As a result, in taking delivery of electricity from NPC, Davao Light is able to bypass the NGCP connection assets and avoid having to pay corresponding wheeling fees to NGCP, thereby allowing the company to cut its operating costs.

In February 2007, Davao Light awarded to the Hedcor Consortium (composed of Hedcor, ARI, Hedcor Sibulan, and Hedcor Tamugan) a 12-year supply contract of new capacity. The price differential between the Hedcor Consortium's winning bidprice of ₱4.0856 per kWh and the next lowest bid was approximately ₱1.0129 per kWh. Over the life of the supply contract, the differential will amount to approximately ₱4.9 bn at current peso value, representing significant savings for Davao Light customers. Davao Light decided to secure the new supply contract in anticipation of the full utilization of he existing contracted energy supply under the 10-year contract with the NPC for 1,363,375 MWH and the 12-year contract with Hedcor.

Davao Light's approach to help local economies sustain robust growth is by ensuring power reliability. By plowing back a significant percentage of its annual earnings to prudent investments that upgrade its distribution network, the utility company has been able to address the increasing demand for power in spite of declining power supply in Mindanao. Robust economic growth in its franchise areas can be gleaned through the sprouting of malls, condominiums, and other commercial centers.

At the start of 2012, eight distribution substations have undergone preventive maintenance using innovative ways to attain maximum efficiency while incurring the least possible costs.

Davao Light has not implemented any rotating service interruptions unlike other electric utilities or cooperatives, even after being subjected to power curtailments by NGCP, Mindanao's transmission concessionaire. In 2011, NGCP declared Mindanao grid under yellow and red alerts translated into 94 times warning of power shortages at levels below the island's required reserve capacity of 13.8% and average demand of 1,167 MW, respectively.

Contingencies designed to respond to energy deficiency which were tested during the 2010 Mindanao power crisis are still in place. These include tapping of embedded generators directly connected to the distribution facilities which are synchronized to the grid.

In the event of a power crisis, Davao Light's 54.8-MW Bunker C-fired standby plant with a rated capacity of 58 MW can provide an average of 40 MW on a sustaining basis. The standby plant is capable of supplying 19% of Davao Light's electricity requirement.

The power supply from Hedcor Sibulan's 42.5 MW and Hedcor's Talomo 4 MW hydroelectric plants likewise augment the power requirements of Davao Light's franchise area.

The Bunker C-fired plant and the Sibulan and Mintal hydroelectric plants are embedded in the Davao Light franchise. Thus, the power generated from these facilities are dispatched directly into the Davao Light distribution network without passing through the NGCP transmission lines.

To add to its power reserve capacity, on March 21, 2011 Davao Light entered into a power supply contract with TMI for 15 MW which was approved by the ERC on May 30, 2011.

It was essentially a wet year for Davao Light in 2011. This resulted to lower power consumption for all customer classes, residential, commercial, industrial, and even street lights, on a per capita basis from an average of 467 kWh to 458 kWh (as of December 2011). Banana plantations, for example, reduced its aggregate energy usage by (27% as of December) due to curtailment of its water pumping needs.

Davao Light was also able to achieve modest operational milestones in 2011. Its total kWh revenue grew by 2.25% (as of December 2011) compared to that of last year. The growth in sales can be attributed to the modest increase in new connections by 12,925 (as of December 2011).

Highest demand recorded was 288 MW (as of December), or a 1.06% decrease versus that of the same period last year. New service connections grew by 4.60% increasing the number of customers to 294,159 (as of December 2011).

Now entering its third year of PBR year, Davao Light sees the prospect to increase its sales in pesos due to a hike in rates by (₱0.09 per kWh or 7%) on the distribution charges by July 2012.

One of Davao Light's approaches to keep rates at reasonable levels is by maintaining its systems losses well within the government mandated cap of 8.5%.

Benchmarking against best practices in the industry, Davao Light established a Revenue Protection Department whose aim is to reduce the company's systems losses by focusing on the following: Technical loss analysis and simulations; Systems loss segregation; Pilferage apprehension; Pilferage differential billing preparation and collection; and Standards, procedures, and practices assessment if such are prone to loses.

Aside from the monthly monitoring, the power firm hired the services of Ateneo de Davao University's of Social Research, Training and Development Office to undertake a full-blown Customer Satisfaction Survey for the second time. The survey is intended to determine if the customers' perception about the electric company's service level has improved or deteriorated.

To add convenience to its paying customers, Davao Light partnered with the country's top payment service providers, EC Pay and CIS Bayad Center. This innovation added a combined 107 payment facilities in strategic locations. Aside from payment centers in its own offices, Davao Light also engages the services of third party collection agents, such as mall payment centers, authorized banks, and convenience stores. Customers now have 130 different payment venues to choose from, 63 of which are convenience stores that have been commissioned to receive bill payments 24/7.

To improve service reliability, a total of 19 circuit kilometers of 69 kV sub-transmission and 13.8 kV lines were upgraded. Ten 138 kV transmission line structures were also converted from wood to steel. In order to maintain the standby Bunker C-fired plant's dependability, four of its engines with a total of 20 MW generating capacity were overhauled. Comprehensive maintenance and servicing on five distribution facilities were undertaken to ensure continuous operation of its sub-stations. At the same time three control rooms were completed.

Following VECO, Davao Light rolled out Project Pearl, the project name for the Customer Care and Billing (CC & B) system developed by Oracle being implemented among AboitizPower's distribution utilities. The ₱100 mn CC & B system is an integrated customer care software that is to replace the various in–house developed systems currently used.

On May 20, 2011, Davao Light adopted a 500-hectare government forest land in Upper Kibalang, Marilog, Davao City for the purpose of implementing permanent reforestation site. It is also the company's way of supporting the government's National Greening Program. Together with Thema South, Davao Light signed a 25-year MOA with the DENR to adopt an area to be used as permanent tree planting sight for the two Aboitiz companies. Last August 13, 2011, over 300 company employees planted 5,200 indigenous and fruit bearing tree seedlings in the area.

Davao Light's social responsibility goes beyond giving and is grounded on its commitment to make host communities partners on the road to progress and development. To date 32 school buildings with a total of 105 classrooms have been constructed and turned over to deserving public schools since 1996. The company has also funded the academic scholarships of over 400 deserving college and high school students all of whom are dependents of its customers since the program's inception in 1996. It also contributed classrooms for kindergarten students to help fulfill the 50 units commitment of the Aboitiz Group to the Aklat Gabay at Aruga tungo sa Pag-angat at Pag-asa (AGAPP) program of President Aquino to jumpstart the K to 12 basic public education curriculum.

Last September 2011, the Davao Light Employees Union (DLEU) and Management sealed a historic 5-year Collective Bargaining Agreement. As a result, most company-wide activities, such as sports, recognition day, and tree planting, are undertaken through a Labor-Management Council (LMC) wherein representatives from both sides are represented.

Through the years Davao Light has been consistently cited as the biggest business taxpayer of Davao City. In 2011, it paid ₱56 mn to the city government of Davao.

Cotabato Light and Power Company (Cotabato Light)

Cotabato Light supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, both in Maguindanao province in Mindanao. Its franchise area covers approximately 191 square kilometers and has a population of approximately 350,692. In 2011, it has a customer base of 32,996, composed of residential, commercial, industrial and flat rate customers.

Cotabato Light was formally incorporated in April 1938. Its original 25-year franchise was granted in June 1939 by the Philippine Legislature. In 1961, the Philippine Congress passed Republic Act 3217 which was further amended by Republic Act 3341 extending Cotabato Light's franchise until June 1989. In August 1989, NEA extended Cotabato Light's franchise for another 25 years, which will expire in August 2014. AboitizPower owns 99.94% of Cotabato Light.

As of 2011, Cotabato Light has four substations consisting of two 10 MVA, one 12 MVA and one 15 MVA. Its substations are served by two 69-kV transmission lines, that provide redundancy in case one transmission line fails. Cotabato Light's distribution voltage is 13.8 kV.

Cotabato Light maintains a standby 7-MW Bunker C-fired plant capable of supplying approximately 30% of its franchise area requirements. The existence of a standby power plant, which is capable of supplying electricity in cases of supply problems with PSALM/NGCP and for the stability of voltage whenever necessary, is another benefit to Cotabato Light's customers. During the Mindanao power crisis in 2010, Cotabato Light's franchise area experienced one of the lowest rotating power outages due to its back-up power plant.

Although a relatively small utility, Cotabato Light's corporate relationship with its affiliate, Davao Light, allows the former to immediately implement benefits from the latter's system developments.

Keeping pace with world class standards, Cotabato Light adopted a new computerized accounting system called ERP from Oracle. In May of 2011, Cotabato Light also implemented the Oracle's CC & B system, which is a world class billing, collection and customer service related systems utilized also by other Distribution Utilities of AboitizPower.

Managing its systems loss is a challenge for Cotabato Light. With system losses capped by ERC at 8.5%, Cotabato Light aims to its lower systems losses through various measures, most of which aim to address pilferage, the primary cause of its higher-than-cap systems losses. The implementation of Meter on Post (MOP) or Elevated Meter Centers (EMC) will continue to be implemented in 2012 to further reduce its systems loss.

The ERC issued its final determination on Cotabato Light's application for approval of its ARR and Performance Incentive Scheme under the PBR scheme covering a four-year regulatory period which commenced on April 1, 2009 until March 30, 2013.

Cotabato Light filed on December 15, 2010 the third Regulatory Year Maximum Average Price (MAP) recalculation and rate translation to be implemented from April 2011 to March 2012. ERC is scheduled to release its decision on the third regulatory year rates before the end of March 2011.

San Fernando Electric Light and Power Co., Inc. (SFELAPCO)

Incorporated on May 17, 1927, SFELAPCO was a grantee of a municipal franchise in 1927. In 1961, the Philippine Congress passed Republic Act 3207 which granted SFELAPCO a franchise to distribute electricity for a period of 50 years or until June 2011. Prior to the expiration of its legislative franchise, Republic Act 9967 lapsed into law on February 6, 2010 extending the franchise of SFELAPCO for another 25 years from the date of its effectivity or on March 10, 2010.

SFELAPCO's franchise in the City of San Fernando, Pampanga covers an area of 202,733 square kilometers with approximately 314.21 circuit-kilometers on its 13.8 kV and 608.21 circuit-kilometers on its 240 volt distribution lines. A total of 35 barangays in the City of San Fernando and two contiguous barangays in Bacolor, namely, San Isidro and Cabalantian, are currently being supplied by SFELAPCO under its existing franchise.

SFELAPCO also serves 25 barangays in the municipality of Floridablanca and two barangays in Guagua. This area covers 124.219 square kilometers with around 89.24 circuit-kilometers of 13.8 kV and 144.69 circuit-kilometers on its 240 volt distribution lines.

On November 11, 2009, SFELAPCO signed a PSA with APRI. Under the PSA, APRI will supply additional energy required by SFELAPCO that cannot be supplied by NPC from December 25, 2009 to September 25, 2010. Thereafter, APRI became the sole provider of power to SFELAPCO until December 25, 2012.

SFELAPCO is part of the fourth batch of private utilities to enter PBR, and is currently under the four-year regulatory period starting October 1, 2011.

AboitizPower has an effective interest of 43.78% in SFELAPCO.

Subic Enerzone Corporation (SEZ)

In May 2003, the consortium of AEV and Davao Light won the competitive bid to provide distribution management services to the SBMA and to operate the SBFZ power distribution system for a period of

25 years. On June 3, 2003, SEZ was incorporated as a joint venture company owned by a consortium comprised of Davao Light, AEV, SFELAPCO, Team Philippines, Okeelanta and PASUDECO to undertake the management and operation of the SBFZ power distribution system. SEZ was formally awarded the contract to manage the SBFZ's power distribution system on October 25, 2003 and officially took over the operations of the power distribution system on the same day.

SEZ's authority to operate the SBFZ power distribution system was granted by the SBMA pursuant to the terms of Republic Act 7227 (The Bases Conversion and Development Act of 1992), as amended. As a company operating within the SBFZ, SEZ is not required to pay the regular corporate income tax of 30% and instead pays a preferential tax of 5% on its gross income in lieu of all national and local taxes.

Following the acquisition of AboitizPower in January 2007 of the 64.3% effective ownership interest of AEV in SEZ, AboitizPower entered into another agreement on June 8, 2007 to acquire the combined 25% equity stake in SEZ of AEV, SFELAPCO, Okeelanta, and PASUDECO. On December 17, 2007, AboitizPower bought the 20% equity of Team Philippines in SEZ for ₱92 mn. Together with the 35% equity in SEZ of AboitizPower's subsidiary Davao Light, this acquisition brought AboitizPower's total equity in SEZ to 100%.

In September 2008, SEZ acquired the 100-MVA Subic Substation from the NGCP. The substation has a 230/69/13.8kV power transformer supplying power to the Subic Bay Industrial Park, Binictican and Kalayaan housing areas, Cubi, Naval Magazine, and Grande Island in the SBFZ.

In November 2008, SEZ implemented a rate increase as per approved unbundled rates.

In 2010, SEZ acquired more advanced equipment to further enhance its service to its customers. In January, SEZ purchased a Meter Test Equipment (MTE) 5-Position Test Bench from Germany to improve its meter calibration services. As a result, meter calibration improved from 25 meters to 130 meters a day. In July 2010, SEZ procured a Megger Fault Locator for underground power cable trouble-shooting. With this new equipment, SEZ can determine electrical underground faults more quickly, thus reducing power outage time.

In March 2011, SEZ formally launched and implemented the CC & B system as part of their continuing effort to improve customer service.

In April 2011, SEZ installed Automatic Circuit Reclosers (ACRs) on its distribution network to provide electric service continuity by removing a faulted circuit from the system brought about by natural causes.

In May 2011, SEZ installed an additional 69kV SF6 Circuit Breaker to its SEZ 100MVA Substation to increase the flexibility and reliability of the substation's 69kV line supplying the company's Maritan and Cubi substations. SEZ also completed the preventive maintenance of all its substations namely: Remy Field Substation, SEZ Substation, Cubi Substation, Maritan Substation, and SBIP Substation.

SEZ is part of the fourth batch (Group D) of private utilities to enter PBR. The ERC released on July 6, 2011 its final determination on SEZ's application for approval of its MAP, ARR, and Performance Incentive Scheme for the period covering October 2011 to September 2015. The approved MAP will then be translated into new per customer class rates effective October 2011 and will be implemented in January 2012.

Mactan Enerzone Corporation (MEZ)

MEZ was incorporated in January 2007 when AboitizLand spun off the power distribution system of its MEPZ II project. The MEPZ II project, which was launched in 1995, is operated by AboitizLand under a BOT agreement entered into with the Mactan-Cebu International Airport Authority (MCIAA). On June 8, 2007, AboitizPower entered into an agreement to acquire AboitizLand's 100% equity stake in MEZ represented by 8,754,443 common shares of MEZ. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in MEZ valued at ₱609.5 mn in exchange for AboitizPower's common shares issued at the initial public offering price of ₱5.80 per share.

MEZ sources its power from NPC pursuant to a Contract to Supply Electric Energy. Under the supply contract, NPC is required to provide power to MEZ up to the amount of contracted load, which is based on the projections provided by MEPZ II locators under their respective Power Service Contracts with MEZ.

In the first quarter of 2011, MEZ mounted three more sets of Automatic Voltage Regulator (AVR) to its old substation to improve voltage levels to locators.

To further provide world-class customer service, MEZ transferred their main administration office within the zone where they operate, MEPZ II, by leasing an office space through a lease agreement with Aboitizland, Inc. The MEZ control room was also renovated and expanded to improve the efficiency of operation. The construction of warehouse for slow-moving items last September 2011 and the battery room construction last October 2011, and continuous replacement of wooden poles under 69kV were also 2011's highlights. And to avail of the opportunities in the competitive electricity market, MEZ is now a direct participant of the WESM starting January 2011.

For the 2011 operating period, MEZ also transferred its NGCP metering to its substation in order to minimize line losses and further improve the voltage quality.

MEZ accomplished numerous projects and activities in the year 2011, including but not limited to, deployment of CC & B system, launching of safety program and installation of line disconnect switches feeder lines for systems reliability and flexibility.

Balamban Enerzone Corporation (BEZ)

BEZ was incorporated in January 2007 when Cebu Industrial Park Developers, Inc. (CIPDI), a joint venture between AboitizLand and THI, spun off the power distribution system of the WCIP-SEZ. WCIP-SEZ is a special economic zone for light and heavy industries owned and operated by CIPDI. The park, which is located in Balamban, Cebu, is home to the shipbuilding and ship repair facilities of THI as well as the modular fabrication facility of Metaphil International, and recently, to Austal Philippines Pty Ltd.

On May 4, 2007, CIPDI declared property dividend to its stockholders in the form of its equity in BEZ. On June 8, 2007, AboitizPower entered into an agreement to acquire AboitizLand's 60% equity stake in BEZ represented by 4,301,766 common shares of BEZ. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in BEZ valued at ₱266.9 mn in exchange for AboitizPower's common shares issued at the initial public offering price of ₱5.80 per share.

On March 7, 2008, AboitizPower purchased THC's 40% equity in BEZ for approximately ₱178 mn. The acquisition brought AboitizPower's total equity in BEZ to 100%.

In 2009, with the continued expansions of THI in its ship building business and the construction of additional facilities within the WCIP, BEZ constructed and energized the 25/33 MVA, 69kV/13.8 kV Buanoy power substation equipped with an MR on load tap changer, strategically located near the THI shipbuilding factories to provide additional substation capacity.

Last September 25, 2009, BEZ completed the construction of the 33 MVA on-load tap changer substation, including the control room with 15 kV metal-clad switchgear, as well as the two-kilometer 69 kV line from Arpili to Buanoy substations. BEZ also erected the fast and slow moving warehouses within their Buanoy and Arpili substations, respectively.

In January 2011, BEZ secured firm contracts with Green Core Geothermal Incorporated (GCGI), Cebu Energy and EAUC power suppliers to ensure sufficient power supply to the different industries within WCIP-SEZ. In 2011, BEZ became a direct member of the Philippine Electricity Market Corporation (PEMC) which allows BEZ access to available power at the WESM.

The implementation of the Supervisory Control and Data Acquisition (SCADA) last March 11, 2011 and the installation of the closed circuit televisions at the different strategic locations by the first quarter of 2011 has greatly improved the operation of BEZ as both substations located 2 kms apart, were remotely controlled and monitored. In addition, numerous sectionalisers were also installed to provide more flexibility and reliability of the BEZ power system.

For the year 2011, BEZ power sales increased by 29%.

BEZ accomplished numerous projects and activities in the year 2011, including but not limited to, deployment of CC & B system, launching of safety program and installation of line disconnect switches feeder lines for systems reliability and flexibility.

RETAIL ELECTRICITY AND OTHER RELATED SERVICES

One of the objectives of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. In particular, when Open Access and Retail Competition (Open Access) under the Rules and Regulations to Implement the Electric Power Industry Reform Act of 2001 (EPIRA) is fully implemented, large-scale customers will be allowed to obtain electricity from Retail Electricity Suppliers (RES) licensed by the ERC.

Aboitiz Energy Solutions, Inc. (AESI)

AESI, a wholly owned subsidiary of AboitizPower, holds a license to act as a RES (issued on November 9, 2009) and a license to act as a Wholesale Aggregator (WA) (issued on January 26, 2007). AESI intends to take advantage of its affiliation with the Aboitiz Group in marketing its power to Open Access customers.

AboitizPower also offers a range of electricity-related services through AESI. These services are designed to help AESI's customers improve the efficiency, cost and reliability of their electric equipment and optimize their electricity consumption.

AESI is the organization which provides value added technical services to the various customers of the AboitizPower Generation group. It provides a variety of services which include power quality analysis, thermal scanning and power factor evaluation and correction. This allows power supply customers to properly assess their power consumption profile leading to a more efficient management. Aside from providing technical assistance in power quality analysis, AESI is also involved in project management services for Transmission Line and Substations. This operation enables the wide variety of AboitizPower customers, from distribution utilities to large industrial manufacturing firms, to source a comprehensive service for their power requirements. From power supply to technical support, AESI provides the one stop convenience shop in dealing with a single supplier for these customers. As the era of Open Access begins, this same service currently enjoyed by existing AboitizPower generation customers will now be made available by AESI to the new retail supply customers. This will positively impact the efficiency and use of power of these industrial and residential customers in the years ahead.

Prism Energy, Inc. (Prism)

Prism Energy was incorporated in March 2009, as joint venture company between AboitizPower and Vivant. It is in the process of securing a RES license from ERC.

Adventenergy, Inc. (Adventenergy)

Incorporated in August 2008, Adventenergy is the licensed RES, duly authorized by ERC to sell, broker, market, or aggregate electricity to end-users.

FINANCIAL SERVICES

AEV's financial services group is composed of two companies: (1) Union Bank of the Philippines (UnionBank), a leading universal bank in the country, and (2) City Savings Bank, Inc. (CitySavings), a thrift bank based in Cebu City.

Union Bank of the Philippines (UnionBank)

UnionBank was founded in 1968 as a savings bank and was granted its commercial banking license by the Bangko Sentral ng Pilipinas (BSP) in 1982. In 1992, UnionBank received its license to operate as a universal bank. In 1994, it successfully acquired and merged with the International Corporate Bank, widening its business scope and presence in the Philippines. That same year, UnionBank embarked on a comprehensive corporate restructuring program through investments in technology, creation of new products and the development of online banking capabilities, all of which have become the bank's competitive strengths.

As part of its growth strategy, UnionBank acquired the International Exchange Bank (iBank) in June 2006. The acquisition and merger of iBank catapulted UnionBank to being the seventh largest in terms of assets, seventh largest in terms of loans and 9th largest in terms of deposits among private domestic commercial banks per BSP data as of September 2006. The merger strengthened its position as a top-tier universal bank with the necessary scale and enhanced product offerings to compete in the industry.

UnionBank issued 10-year unsecured subordinated notes eligible as Lower Tier 2 capital at 7.375% per annum in October 2009. It capped its offering at ₱3.75 bn following its strong performance on the first nine months of 2009. Proceeds of the offering were used to increase and strengthen capital base, and to support business expansion plans. Business expansion would be coming principally from growth in retail assets. Customer reach would be enhanced not only through expansion of brick and mortar presence but through the Bank's program of "Bringing the Bank to Customers", building and deepening relationships, connecting and enabling communities. Furthermore, fund sourcing would focus on low cost Current and Savings Account (CASA).

As a universal bank, UnionBank provides a broad range of services such as commercial, retail and corporate banking products and services such as loan and deposit products, cash management services, trust banking services, consumer finance, treasury activities and electronic banking products to high-end corporate segments, middle market, retail customers, and major government institutions.

UnionBank is focused on meeting changes in customer needs through technological advancements and seeks to remain at the forefront of technology-based banking in the Philippines. UnionBank believes that the use of technology and its operational structure has enabled it to capture and secure a loyal customer base as well as to achieve high levels of efficiency and productivity. As part of its future growth strategy, UnionBank aims to establish itself as a leading multi-product financial services bank in the Philippines by providing a full range of financial products and services, thereby increasing its share of the banking business for all market segments.

UnionBank has received various awards for its achievements. Among its recent market commendations included being recognized in the tenth Annual Finance Asia Polls as the only bank among the top 10 Philippine companies that was cited in three categories, such as Best Corporate Governance, Best Corporate Social Responsibility and Most Committed to a Strong Dividend Policy. UnionBank ranks among the silver awardees for Good Corporate Governance as awarded by the Institute of Corporate Directors.

UnionBank is one of four local banks according to BusinessMirror that was included in the top 25 Philippine companies for achieving a high ranking in the latest Wealth-Added Index (WAI) developed by New York based Stern Stewart & Co. Thomson Reuters-Lipper recognized UnionBank for consistently displaying strong risk-adjusted returns in Philippines Peso Bond Portfolio.

UnionBank was awarded the Asian Banker Achievement Award for Cash Management in the Philippines. It is the first Philippine bank to be certified for the SWIFT Workers' Remittance Service (WRS), allowing cheaper and faster cross-border bank-to-bank transfers. UnionBank received a Product Innovation Partnership award from J.P. Morgan Chase Bank for its active participation in its auto-convert product, an innovation of J.P. Morgan's FX remittance worldwide payment service. In recognition of the Bank's leadership in technological innovation, UnionBank received the Financial Insights Innovation Award from Financial Insights for its Business-to-Government (B2G) Payments.

UnionBank received various distinctions from Visa International for its exemplary achievements in its credit and debit card businesses. UnionBank was awarded the Best Credit Card Product Innovation for its Omnipass Visa and Best Debit Card for EON CyberCard, both under the National Awards Category, at the Lafferty Group's Southeast Asian Payment Card Awards. Both awards reflect the voice of the consumer, having been based on cardholders' experience in terms of the cards' features and benefits, services, product conditions and brand value. The Bank was also recognized for being the Top one Bank with the Highest Controllable Approval Rate by Megalink for having the shortest downtime among Megalink member banks.

The Management Association of the Philippines (MAP) honored UnionBank's Corporate Philanthropy and Social Responsibility program with the Best Education award for its "The UnionBank Learning System: Development Reading Integrated with Values Education for Good Citizenship As a Filipino".

UnionBank was awarded the ISO 9001:2008 certification, an upgrade from its previous ISO 9001:2000 Quality Management System (QMS) Certification obtained in 2008, when it was acknowledged as the first and only bank awarded for its entire centralized backroom operations by TUV Rheinland. Since then, for three consecutive years, the Bank had been certified as having zero non-conformance during quality audit, a testament to the Bank's commitment to maintain compliant, accurate, timely and problem-free service delivery. In 2010, UnionBank was awarded the 27001:2005 Information Security Management System Certification, another first in the Philippine banking system, attesting to its commitment to become an acknowledged leader and benchmark for service quality, technological advancement, and operational excellence.

As of December 2011, AEV beneficially owns 43.27% of UnionBank. Other major shareholders of UnionBank are Insular Life Assurance Company, Ltd. and the Social Security System.

City Savings Bank (CitySavings)

CitySavings, a thrift bank, was incorporated on December 9, 1965 and was originally known as Cebu City Savings and Loan Association. It was the first of its kind to be organized under the "Savings and Loan Association Act", otherwise known as Republic Act 3779. CitySavings began its business with a mission to serve ordinary working men and women in the areas where it operates.

From one branch built in 1966, CitySavings now has 31 branches and extension offices nationwide. In recent years, CitySavings have expanded in Luzon where there are opportunities to scale up its operations and tap into new sources of revenue. It has four full branches in Luzon at present including its latest branches in San Fernando, Pampanga and San Fernando, La Union which opened in November 2011 and March 2012, respectively. The other two branches are located in Calamba, Laguna and Ortigas, Pasig.

Three full branches and three extension offices are located in the Cebu province while other branches and extension offices are located in the cities and municipalities of Iloilo, Leganes, Roxas, Antique, Kalibo, Bacolod, San Carlos, Kabankalan, Dumaguete, Tanjay, Tagbilaran, Ubay, Ormoc, Sogod in Southern Leyte, Tacloban, Calbayog, Catarman in Northern Samar, Borongan, Davao, Tagum and Cagayan de Oro.
CitySavings offers traditional deposit products such as savings, current and time deposits. Such products include the regular savings accounts, student savings accounts, Kaugmaon savings accounts and its 5-year and 7-year high interest time deposit accounts. The regular savings account

allows minimum deposits for as low as ₱500, while the student savings is intended primarily to encourage students to save money and learn the value of saving. In 2009, CitySavings launched its CitySavings ACCESS which is the new ATM product under the BANCNET network. This has allowed the CitySavings to enhance its payroll facility offered to valued clients.

Most of its loans are salary loans extended to public school teachers and government employees. CitySavings carries with it over 46 years of experience in teachers' lending, its main loan product since its incorporation. The salary loan is pursuant to the Department of Education's (DepEd) Automatic Payroll Deduction System (APDS).

CitySavings currently employs over 400 employees serving over 100,000 borrowers, and counts on the strong patronage of its more than 70,000 depositors all over the Philippines. It has total capital funds of ₱1.8 bn and total resources of ₱13 bn. It also has one of the best operating efficiencies and the lowest past due ratio in the thrift banking industry. Its capital adequacy ratio has always been above the BSP requirement of 10%.

From an ownership of 34%, AEV offered to acquire an additional 26% of the equity of CitySavings in March 2010 to bring up its direct ownership to 60%. Meanwhile, its wholly owned subsidiary Pilmico Foods Corporation (Pilmico) offered to acquire the remaining 40% of CitySavings. The combined acquisition by AEV and Pilmico was valued at approximately ₱1.36 bn.

On November 17, 2010, the BSP approved AEV's and Pilmico's proposed acquisition of CitySavings. As of December 31, 2011, AEV's beneficial ownership in CitySavings is 99.25%.

FOOD MANUFACTURING

AEV's food manufacturing group is presently made up of Pilmico and its subsidiary, Pilmico Animal Nutrition Corporation (PANC), Filagri, Inc. (Filagri) and Filagri Holdings, Inc. (Filagri Holdings).

Pilmico Foods Corporation (Pilmico)

Pilmico is one of the country's largest manufacturers of flour and ranked among the top three domestic flour producers in terms of sales.

Incorporated on August 8, 1958, Pilmico started out as a joint venture of the Aboitiz Group, the Lu Do Group, the Soriano Group and the Pillsbury Group of the United States. The Lu Do, Soriano and Pillsbury Groups eventually sold off their holdings to AEV.

Pilmico is primarily engaged in the manufacture of wheat flour and its by-products. As a flour miller, it brings into the market a variety of brands such as "Sun Moon Star", "Sunshine", "Glowing Sun", "Kutitap", "Gold Star" and "Megastar". Aside from these basic all-purpose baking flour brands, it also offers a high-end cake flour under the "Wooden Spoon" brand. Pilmico products are distributed nationwide through external distributors and dealers located in major cities like Manila, Davao, Iloilo, Bacolod, Iligan and Cebu. These distributors handle sales to bakeries, restaurant chains, hotels, and other large end-users. Pilmcio imports both soft and hard wheat, the main raw materials for its products, from the United States and Canada.

On September 1, 2008, Pilmico commenced commercial operations of its new 115,000 metric ton (MT) feedmill located within its flourmill complex in Iligan City. New grains silos with capacity of 27,000 MT were also completed in September 2008.

In July 2010, Pilmico completed the expansion of its Iligan feedmill, doubling its capacity to produce high quality animal feeds. This allowed the Pilmico to meet not only the growing demand for animal feeds in the Visayas and Mindanao regions, but also achieve operating cost efficiencies and yield improvements.

At present, there is a relatively high degree of competition in the domestic flour milling industry. As freight and distribution costs continue to rise, flour companies gain competitive advantage in the areas proximate to their milling plants. On its part, Pilmico's flourmill, which is located in Iligan City, ensures a lion share in the flour consumption in Mindanao, as there are only two flour miller operating in Mindanao, Pilmico and Universal Robina which has a plant in Davao.

Pilmico Animal Nutrition Corporation (formerly Fil-Am Foods, Inc.) (PANC)

To diversify from the cyclical nature of its existing products, Pilmico entered the swine production and animal feeds businesses in 1997 through PANC, formerly Fil-Am Foods, Inc., which was a joint venture with Tyson International Holding Company, a subsidiary of Tyson Foods, Inc., and PM Nutrition Company, Inc., an affiliate of Purina Mills, Inc. In January 1999, PANC began commercial operations of its feed milling plant, and started its swine operations in the second half of that year.

In October 2002, Fil-Am Foods became a wholly owned subsidiary of Pilmico following Pilmico's acquisition of its partners' equity. This strengthened Pilmico's focus and core competence in the feed milling industry.

PANC brings into the animal feeds market a variety of brands such as "Elite", "Ultimax", "Gallimax", "Avemax", "Civic", "Classic", "Lakas Gatas", "Lakas Mama", "Pork Solution" and "Poultry Solution". PANC products are distributed nationwide through external distributors and dealers located in major cities like Manila, Davao, Iloilo, Bacolod, Iligan and Cebu.

In November 2008, PANC began the construction of a biogas system in its breeder, nucleus and new grower-finisher farm facilities in Tarlac. Construction has been completed and the system is undergoing test runs. Once operational, PANC expects to make its farms' operations almost power self-sufficient with the conversion of hog waste to electricity. Registration of the project under the Renewable Energy Act (RE Act) is underway. Once approved, the biogas operation will be eligible to avail of fiscal incentives as provided by the RE Act.

PANC's grower-finisher farm in Aranguren, Tarlac started commercial operations in January 2009. This increased the initial company-owned farm capacity by 67% to 12,000 heads of market hogs. Since then, the company's swine operations experienced continuous growth through the expansion of its various finisher farms and an additional nucleus multiplier facility. These led the company to achieve its current sow level of 6,500 heads.

In January 2010, PANC expanded its product portfolio by venturing into the gamefowl industry through its newest brand of feed-SALTO. SALTO offers a complete feed line from Chick Booster, Baby Stag Developer, Stag Developer, Maintenance and Conditioner for a round up of protection and stamina from brooding to ranging to conditioning stage.

With its dedicated commitment to quality standards in terms of products and processes, PANC ensures its competiveness in the market and increase customer satisfaction. In July 2011, PANC's feedmill passed the HACCP and ISO 9001:2008 certifications, while its swine breeder and nucleus farms passed the ISO 9001:2008 certification.

PANC's Swine Division is currently expanding its existing grower-finisher Farm 3 to increase its capacity from 4,800 to 7,200 heads of market hogs by the first quarter of 2012. Other major projects in the first quarter of 2012 include the ongoing construction of the grower-finisher Farm 5 and the offsite nursery farm which are expected to be completed in May and October of 2012, respectively. With the transfer of the nursery facility out of the breeder farm, sow levels are expected to increase from 6,500 to 8,350 heads.

Moving forward, PANC aims to continue maximizing and growing its existing business while looking at opportunities to diversify into other segments of the food business that will complement its existing product lines.

Filagri, Inc. (Filagri) and Filagri Holdings, Inc. (Filagri Holdings)

Incorporated on July 30, 1997, Filagri was initially formed as a holding company of PANC's investment in real estate properties. As part of the diversification plans of PANC, Filagri became the project vehicle of PANC's low cost feeds starting 2012, following the approval of the amendment of the purpose clauses of the company's articles of incorporation. The amendment, which also includes the change of name from Filagri Land, Inc., to Filagri, Inc., was approved by the SEC last January 26, 2012.

The company has recently applied for the marks "Pigrow" "Pigatin" and "Pigrow Materna" with the Intellectual Property Office.

Along with the start of its commercial operations in April 2012, Filagri will undertake a corporate restructuring that will transfer PANC's ownership in Filagri to Filagri Holdings.

Filagri Holdings is a wholly-owned subsidiary of Pilmico. As of December 31, 2011, Filagri Holdings has 50% equity interest in PANC.

OTHER INVESTMENTS

AEV's other investments include holdings in integrated maritime services through the Aboitiz Jebsen Group of Companies, real estate through Cebu Praedia Development Corporation (CPDC) and aviation through AEV Aviation, Inc. (AAI).

Aboitiz Jebsen Group

The Aboitiz Jebsen Group, a joint venture with the Jebsen Group of Norway, is primarily engaged in ship management, manning and crew management, and bulk transport businesses. It is composed of Aboitiz Jebsen Bulk Transport Corporation, Aboitiz Jebsen Manpower Solutions, Inc., Jebsen Maritime, Inc. and their affiliated companies.

AEV Aviation Inc. (AAI)

AAI holds AEV's aviation assets, including the corporate aircraft and accompanying support facilities. Incorporated on October 9, 1990, it was originally known as Spin Realty Corporation, and was reorganized in late 1998 when the newly acquired AEV corporate aircraft was placed under its holdings.

To date, AAI has eleven employees, three pilots-in-command, three co-pilots, one aircraft mechanic supervisor, and four aircraft mechanics. Their task is to provide air transport for AEV's corporate officers within the Philippine archipelago.

On December 19, 2011, the Securities and Exchange Commission approved the increase in the authorized capital stock of AAI. Out of the said increase, a total of 242,631 common shares and 291,157 redeemable preferred shares were subscribed by, and issued to AboitizPower.

AEV has an effective interest of 88.38% in AAI as of December 31, 2011.

Cebu Praedia Development Corporation (CPDC)

CPDC is the holding company for AEV's real estate properties. Incorporated on October 13, 1997, CPDC is engaged in leasing of properties located in the cities of Makati and Cebu. To date, its major property holdings include the commercial building block located at 110 Legazpi Street, Legaspi Village, Makati City that serves as the office of AEV and its subsidiaries and associates in Metro Manila, and AEV's corporate headquarters located at Gov. Manuel Cuenco Avenue in Cebu City.

ii) Sales

Comparative amounts of consolidated revenues and profitability of continuing operations, and assets are as follows:

	2011	2010	2009[1]
Gross Income	71,997	74,551	34,925
Operating Income	22,925	28,869	7,142
Total Assets	200,992	174,967	143,281

Note: Values in the above table are in Million Pesos.

The operations of AEV and its Subsidiaries are based largely in the Philippines.

Comparative amounts of revenue contribution by business grouping[2] are as follows:

	2011		2010		2009	
Power Distribution & Generation	54,476	75%	59,546	79%	23,174	66%
Food Manufacturing	14,753	20%	12,880	17%	11,048	31%
Financial Services	1,966	3%	1,471	2%	-	-
Transport	-	-	452	1%	458	1%
Parent & Portfolio	1,308	2%	629	1%	541	2%
Total Revenues	**72,503**	**100%**	**74,977**	**100%**	**35,221**	**100%**
Less: Eliminations	505		427		296	
Net Revenues	**71,997**		**74,551**		**34,925**	

Note: Values in the above table are in Million Pesos.

(iii) Distribution Methods of the Products or Services

POWER GENERATION AND DISTRIBUTION

The Generation Companies sell their electricity either through the WESM or through bilateral power supply agreements with NPC, private distribution utilities or other large end-users.

Currently, SNAP-Magat and SNAP-Benguet have ASPAs with NGCP as ancillary service providers to the Luzon Grid. As ancillary service providers, SNAP-Magat and SNAP-Benguet nominate their available capacity for ancillary service to NGCP (System Operator). If NGCP accepts the nominated ancillary capacity, it will then provide a notice of ancillary service schedule to SNAP-Magat and SNAP-Benguet. TMI also has an ASPA with NGCP for a supply by each of Mobile 1 and 2 of 50 MW of ancillary services consisting of contingency reserve, dispatchable reserve, reactive power support and blackstart capacity for the Mindanao Grid.

Majority of AboitizPower's Generation Companies have transmission service agreements with NGCP for the transmission of electricity to the designated delivery points of their customers, while others built their own transmission lines to directly connect with their customers. In some instances, where the offtaker is NPC, NPC takes delivery of the electricity from the generation facility itself.

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1 2009 Profit & Loss figures re-presented to consider the sale of ATS investment in 2010. The results of operations of the disposal group, which comprises ATS group except AJBTC, AJMSI and JMI, are no longer consolidated on a line-by-line basis. The disposal group's net income or loss is reflected under "Net Income (Loss) from Discontinued Operations" in the AEV consolidated income statements.

2 Percentages refer to the business group's share in net revenue for a given year. Under financial services group, only CitySavings' revenues are reflected starting 2010 when CitySavings became a Subsidiary. Prior to 2010, CitySavings was an associate. To date, UnionBank remains an associate. The revenues of associates do not form part of AEV's consolidated revenue. UnionBanks's 2011, 2010 and 2009 and CSB's 2009 contributions to registrant's net income are reported under the account "Share in Net Earnings of Associates". For additional detail on the income contributions of all business segments/groups to AEV, please refer to Business Segment Information of the Notes to the Consolidated Financial Statement.

On the other hand, AboitizPower's Distribution Utilities have exclusive distribution franchises in the areas where they operate. These utilities own distribution lines with voltage levels ranging from 220 volts to 23 kV and 69 kV backbone and sub - transmission lines. These lines distribute electricity to the distribution utilities' customers in their respective franchise areas. All customers that connect to these distribution lines are required to pay a tariff for using the system.

Each of the Distribution Companies has a distribution network consisting of a widespread network of predominantly overhead lines and substations. Customers are classified in different voltage levels based on their electricity consumption. Large industrial and commercial consumers receive electricity at distribution voltages of 13.8 kV to 23 kV while smaller industrial, commercial and residential customers receive electricity at 240 or 480 volts.

All of AboitizPower's Distribution Utilities have entered into transmission service contracts with NGCP for the use of NGCP's transmission facilities in the distribution of electric power from the grid to their respective customers.

FINANCIAL SERVICES

UnionBank delivers its products and services through multiple channels: 189 branches and 223 ATMs nationwide as of December 31, 2011, a call center and Internet bank at www.unionbankph.com.

CitySavings has 31 branches and extension offices all over the Philippines serving over 100,000 borrowers and more than 70,000 depositors. CitySavings also has 16 ATMs under the BANCNET network.

FOOD MANUFACTURING

Pilmico products are distributed nationwide through external distributors and dealers located in major cities like Manila, Davao, Iloilo, Bacolod, Iligan and Cebu.

(iv) New Products/Services

FINANCIAL SERVICES

In 2011, UnionBank launched 22 new co-brand/affinity credit card partnerships with schools, colleges and universities, alumni associations, corporate foundations, religious, humanitarian, socio-civic and other non-profit organizations, financial security providers, healthcare, optical and medical specialists, hotels, and various retail establishments.

UnionBank launched four BusinessLine credit facilities, namely: FeedLine, FranchiseLine, PhoenixLine, and BusinessLine First Union Plans (FUP) that allows use of preneed plans as collateral.

During the first quarter of 2011, UnionBank launched an exclusive offer for buyers of premium car brands that offered zero percent interest on balloon payment schemes. UnionBank entered into an agreement with national residential developers that allowed clients to enjoy express loan processing. UnionBank offered Great Treats and Rewards (GT+R) credit card by the 3rd quarter to existing auto and mortgage loan customers, which entitled cardholders to earn rebates, reward points as well as access various GT+R discount merchants. UnionBank introduced a housing and auto loan program customized for seafarers, providing fast loan processing and various insurance freebies.

UnionBank launched an improved version of the Business Check, which gave clients the option to generate more reports, among which was the Certificate of Tax Withheld at Source. UnionBank also introduced OneHub Customs Duties and Taxes, an eSettlement facility for the online viewing and payment of customs duties and taxes. UnionBank also re-launched ePayroll, offering more comprehensive reports and formulas for easier and faster payroll processing. The Bank also introduced EIPP Advance, a customizable, online and real time collection facility. UnionBank partnered with Globe GCASH for eMoney Xchange, a mobile platform that allows transfer of funds between clients' UnionBank account and GCASH wallet.

(v) Competition

On the parent company level, AEV has no direct competitor. However, for reference purposes, other holding and management companies listed in the PSE can be used for comparison.

On the Subsidiary and Affiliate level, competition may be described as follows:

Generation Business

With the privatization of NPC-owned power generation facilities and the establishment of WESM, AboitizPower's generation facilities located in Luzon, the Visayas and Mindanao will face competition from other power generation plants that supply electricity to the Luzon, Visayas and Mindanao Grids. In particular, SNAP-Magat, SNAP-Benguet, APRI and TLI are expected to face competition from leading multinationals such as Marubeni Corporation and Korea Electric Power Corporation, as well as Filipino-owned IPPs such as First Gen Corporation, DMCI Holdings, Inc. and San Miguel Energy Corporation.

AboitizPower will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing these activities. Factors such as the performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects in the Philippines. Accordingly, competition for and from new power projects may increase in line with the expected long-term economic growth of the Philippines.

Distribution Business

Each of AboitizPower's Distribution Utilities currently has an exclusive franchise to distribute electricity in the areas covered by each franchise.

Under Philippine law, the franchises of the distribution utilities may be renewed by the Congress of the Philippines, provided that certain requirements related to the rendering of public services are met. The Company intends to apply for the extension of each franchise upon its expiration. The Company may face competition or opposition from third parties in connection with the renewal of these franchises. It should be noted that under Philippine law, a party wishing to secure a franchise to distribute electricity must first obtain a CPCN from the ERC, which requires that such party prove that it has the technical and financial competence to operate a distribution franchise, as well as the need for such franchise. Ultimately, the Philippine Congress has absolute discretion in determining whether to issue new franchises or to renew existing franchises, and the acquisition by competitors of any of the Distribution Utilities' franchises could adversely affect the Company's results of operations.

FINANCIAL SERVICES

UnionBank intends to grow its lending business as it accesses more collateral business and builds its consumer business. UnionBank continues to apply appropriate risk management techniques to different types of risk exposures. It continues to leverage on its leading position in technology-driven products and services. As of end-December 2011, it has a total of 189 operational branches. It plans to expand its branch network with 10 new branches in key strategic areas, in support of its objective of enhancing customer experience and community banking strategy.

CitySavings competes with other similar thrift banks and rural banks, such as First Consolidated Bank of Bohol and One Network Bank of Mindanao, that operate in Cebu and the neighboring islands of

Bohol, Samar, Leyte, Panay, Negros, and Mindanao. In Luzon, the Manila Teachers Mutual Aid System (MTMAS) is CitySavings's major competitor. It also competes with other private lending institutions accredited by the DepEd on APDS that offer the same products and services.

CitySavings' strategy is to strengthen its capabilities as the preferred provider of financial services to people of moderate means, such as the public school teachers, other public servants, and the ordinary working class. It also aims to solidify its leadership position in the Visayas and Mindanao by protecting and developing its existing market and pursuing branch expansions.

As part of its diversification strategy, CitySavings has expanded its market for salary loans to cover civil servants and employees of private companies. This is an existing market of the bank since CitySavings has been extending loans to selected local government units and employees of its affiliates. In 2011, it has further expanded its operations in Luzon through the opening of five branches located in Ortigas, Kalibo, Leganes, Borongan and Pampanga.

FOOD MANUFACTURING

There is a relatively high degree of competition in the domestic flour milling industry. However, because of freight and distribution costs within the Philippine archipelago, flour companies have a competitive advantage in the areas proximate to their milling plants. Pilmico's flourmill is located in Iligan City in Northern Mindanao. The only other flour miller operating in Mindanao is Universal Robina, which has a plant in Davao.

(vi) Purchase of Raw Materials and Supplies

As a holding company, AEV's primary business is not dependent on the availability of certain raw materials or supplies. Acquisition and/or purchases of raw material requirements are done at the Subsidiary or Affiliate level.

Generation Companies

AboitizPower's hydroelectric facilities utilize water from rivers located near the facilities to generate electricity. The hydroelectric companies, on their own or through NPC in the case of LHC, possess water permits issued by the National Water Resources Board (NWRB), which allow them to use a certain volume of water from the applicable source of the water flow.

Under the APA between APRI and PSALM for the Tiwi-MakBan geothermal complex, the management and operation of the steam fields which supply steam to Tiwi-MakBan remains with Chevron Geothermal Philippines Holdings, Inc. (Chevron). The steam supply arrangement between APRI and Chevron is currently governed by a Transition Agreement which provides for the reimbursement of capital expenditures and operating expenses, as well as payment of service fees, by APRI to Chevron. The Transition Agreement is to be effective no more than four years from the date of the turnover of Tiwi-MakBan to APRI and will be replaced by a Geothermal Resource Service Contract (GRSC) when Chevron becomes a Philippine corporation and after the rehabilitation of MakBan units 5 and 6. Under the GRSC, APRI will no longer pay service fees or reimburse Chevron for capital expenditures and operating expenses. Instead, the price of steam shall be linked to the Barlow Jonker and Japanese Public Utilities (JPU) coal price indices. As a result, the steam cost structure under GRSC will shift from a largely fixed to a full variable cost.

AboitizPower's oil-fired plants use Bunker C fuel to generate electricity. EAUC and CPPC each have a fuel supply agreement with Petron, while SPPC and WMPC get fuel supplies from NPC pursuant to their respective ECAs with NPC. TMI has existing fuel supply agreements with Shell and Petron for Mobile 1 and Mobile 2, respectively, which peg fuel prices based on Mean of Platts Singapore (MOPS).

STEAG has an existing long-term coal supply agreement with PT. Jorong Barutama Greston of Indonesia and Samtan Co. Ltd. of Korea.

TLI has entered into long-term coal supply contracts for the Pagbilao plant's annual coal requirements. With the tight coal supply situation in the market as a result of weather disturbances in coal producing countries, TLI is looking at, and evaluating alternative sources other than Indonesia to ensure security of supply.

Distribution Companies

Most of AboitizPower's Distribution Utilities have bilateral agreements in place with NPC for the purchase of electricity, which set the rates for the purchase of NPC's electricity. The following table sets out material terms of each Distribution Company's bilateral agreements with NPC:

Distribution Company	Term of Agreement with NPC	Contract Energy (MWh per year)	Take or Pay	Pricing Formula
VECO	NPC – expiring in December 25, 2012 (extended)	758,088	Yes	ERC approved NPC rate plus ERC approved adjustments
Davao Light	NPC – 10 years; expiring in December 2015	1,363,375	Yes	ERC approved NPC rate plus ERC approved adjustments
Cotabato Light	NPC – 10 years; expiring in December 2015	116,906	Yes	ERC approved NPC rate plus ERC approved adjustments
MEZ	NPC – 10 years; expiring in September 2015	114,680	Yes	ERC approved NPC rate plus ERC approved adjustments

The rates at which Davao Light and SFELAPCO purchase electricity from AboitizPower's Generation Companies are established pursuant to the bilateral agreements that are executed after the relevant Generation Company has successfully bid for the right to enter into a PPA with either Davao Light or SFELAPCO. These agreements are entered into on an arm's-length basis and on commercially reasonable terms and are approved by the ERC. ERC regulations currently restrict AboitizPower's Distribution Utilities from purchasing more than 50% of their electricity requirements from affiliated Generation Companies. Hedcor Sibulan supplies Davao Light with electricity generated from its Sibulan plants pursuant to the Hedcor Consortium's 12-year power supply agreement to supply new capacity to Davao Light. To add to its power reserve capacity, Davao Light has entered into a three-year power supply contract with Therma Marine for 15 MW last March 21, 2011 and provisionally approved by ERC on May 30, 2011.

VECO has PPAs pursuant to which it purchases approximately 61.72 MW of dispatchable capacity from CPPC (with no minimum energy off-take requirement). In September 2009, VECO entered into an Electric Power Purchase Agreement (EPPA) with Cebu Energy for the supply of 105 MW for 25 years to address VECO's long-term power supply requirement. VECO also signed a 5-year contract for the supply of power from Green Core Geothermal Inc. (GCGI) for 60 MW at 100% load factor. GCGI started supplying VECO on December 26, 2010. This supply of power replaced NPC's reduction in contract in 2011.

The provisions of the Distribution Utilities' PPAs are governed by ERC regulations. The main provisions of each contract relate to the amount of electricity purchased, the price, including adjustments for various factors such as inflation indexes, and the duration of the contract. Under current ERC regulations, the Distribution Utilities can purchase up to 90% of their electricity requirements using bilateral contracts.

Meanwhile, Davao Light and Cotabato Light each has its own stand-by plant. Davao Light currently maintains the 54.8 MW Bunker C-fired Bajada stand-by plant which is capable of supplying 19% of Davao Light's requirements. Cotabato Light maintains a stand-by 7 MW Bunker C-fired power plant capable of supplying approximately 30.50% of its requirements.

Transmission Charges

Each of the Distribution Utilities has entered into a transmission service contract with NGCP for the use of NGCP's transmission facilities in the distribution of electric power from the Grid to its customers. The Distribution Utilities have negotiated agreements with NGCP in connection with the amount and form of security deposit to be provided by the Distribution Utilities to NGCP to secure their obligations under their transmission services contracts.

Food Companies

AEV's food subsidiaries import wheat, soybean meal, and other grains mostly from various suppliers in the United States and Canada.

(vii) Major C ustomers

As a holding company providing management services, AEV's principal customers are its subsidiaries and associates.

Power Generation and Distribution

Close to 84% of the total electricity generated by the Generation Companies are either sold to private distribution utilities or the NPC pursuant to long-term bilateral power-supply agreements. The bilateral agreements with NPC are supported by NPC's credit, which in turn is backed by the Philippine government. The remaining 16%of the total electricity generated by AboitizPower's Generation Companies is sold through the WESM.

Most of AboitizPower's Distribution Utilities, on the other hand, have wide and diverse customer bases. As such, the loss of any one customer will have no material adverse impact on AboitizPower. The Distribution Utilities' customers are categorized into four principal categories:

(a) **Industrial customers.** Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations and shopping malls.

(b) **Residential customers.** Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes.

(c) **Commercial customers.** Commercial customers include service-oriented businesses, universities and hospitals.

(d) **Other customers.** Other customers include public and municipal services such as street lighting.

Financial Services

CitySavings is highly dependent on its salary loan product offered to public school teachers. As of December 31, 2011, CitySavings's total salary loans to teachers amounted 99% of its total loan portfolio.

As an institution engaged in lending to public school teachers for over 46 years, CitySavings has developed an in-depth understanding and expertise in teachers' lending. It has established an efficient collection system and maintains a low NPL ratio of 0.74% as of December 2011. Consequently, the BSP has provided CitySavings with a CAMELS rating of four in the last five years in a scale of one to five, with five being the highest. The composite rating of four indicates a stable bank capable of withstanding unfavorable outside factors or influences. Certain weaknesses are well within the capability of the Board or senior management to correct in the normal course of operation. Risk management policies are satisfactory relative to the institution's size, complexity and risk profile.

In addition, CitySavings is protected under the Thrift Banks Act of 1995, otherwise known as Republic Act No. 7906. Thrift banks are allowed to extend loans to government employees and collect the same through automatic or direct payroll deductions. This reduces the risk of default on salary loans extended to this sector.

Other Subsidiaries and Affiliates

AEV's other subsidiaries and affiliates have a wide and diverse customer base. As such, the loss of any one customer will have no material adverse impact on its subsidiaries and affiliates.

(viii) Transactions With and/or Dependence on Related Parties

AEV and its Subsidiaries and associates (the Group), in their regular conduct of business, have entered into related party transactions consisting of advances, professional fees and rental fees. These are made on an arm's length basis and at current market prices at the time of the transactions.

AEV has service contracts with its subsidiaries and affiliates for corporate center services rendered such as human resources, internal audit, legal, treasury and corporate finance, among others. These services are shared to enable the Group to realize cost synergies. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the AEV Group. Transactions are priced on a cost recovery basis. In addition, transaction costs are always benchmarked on third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service.

The Group extends and/or avails of temporary interest-bearing advances to and from ACO and certain associates for working capital requirements. These are made to enhance the parent companies' yield on their cash balances. Interest rates are determined by comparing prevailing market rates at the time of the transaction.

ACO and certain associates are leasing office spaces from CPDC, a subsidiary of AEV. Rental rates are comparable with prevailing market prices. These transactions are covered with lease contracts for a period of three years.

No other transaction, without proper disclosure, was undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect), or any member of his immediate family was involved or had a direct or indirect material interest.

AEV employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest surface and brought to the attention of management.

(ix) Patents, Copyrights, Franchises and Government Approvals

As a holding company, AEV does not own or possess patents, copyrights, franchises, or other similar rights. However, the businesses of AEV's power subsidiaries are dependent on government franchises granted them.

AEV's power distribution subsidiaries either have congressional franchises and certificate/s of public convenience issued by the ERC or its predecessor, or PEZA licenses for the distribution companies operating within special economic zones.

AboitizPower's Generation Companies, as well as Davao Light and Cotabato Light, which own generation facilities, are required under the EPIRA to obtain a COC from the ERC for its generation facilities. They are also required to comply with technical, financial, and environmental standards provided in existing laws and regulations in their operations.

The business of supplying electricity is currently being undertaken solely by franchised distribution utilities. However, once Retail Competition and Open Access starts, the supply function will become competitive. Like power generation, the business of supplying electricity is not considered a public utility operation under the EPIRA. However, it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the Contestable Market, other than distribution utilities within their franchise areas, to obtain a license from the ERC in accordance with the ERC's rules and regulations. In preparation for the implementation of Retail Competition and Open Access, AboitizPower's wholly owned subsidiary, AESI, obtained a license to act as a RES (issued on December 6, 2006) and a license to act as a WA (issued on January 26, 2007).

AboitizPower owns the following trademarks, "Cleanergy", "A Better Future", "Better Solutions" and "Alterspace", among others.

As banking institutions, the business operations of UnionBank and CitySavings are regulated by the BSP, the SEC, and the Philippine Deposit Insurance Commission (PDIC). CitySavings, as an accredited lender institution under DepEd's APDS, also has to comply with the policies issued by the DepEd with regard to the setting of interest rate and other fees on loans being lent out to public school teachers.

AEV's food subsidiary Pilmico owns the trademarks for its various flour products such as "Wooden Spoon", "Sun Moon Star", "Sunshine", "Glowing Sun", "Kutitap", and "Megastar". PANC owns the trademarks for products such as "Pork Solutions" and "Poultry Solutions".

As of the date of this report, these subsidiaries and affiliates have the necessary government approvals, franchises, permits or licenses necessary to operate their respective businesses. The Group always strives to maintain a track record of quality services, and comply with government regulations to justify and ensure renewal of such franchises or accreditations.

(x) Effect of Existing or Probable Governmental Regulations

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone, and continues to undergo, significant restructuring. Through the EPIRA, the Government has begun to institute major reforms with the goal of fully privatizing all sectors of the power industry. Among the provisions of the EPIRA which have or will have considerable impact on AboitizPower's businesses are the following:

Wholesale Electricity Spot Market

The WESM, a spot market for the buying and selling of electricity, is a mechanism established by the EPIRA to facilitate competition in the production and consumption of electricity. It aims to: (a) provide incentives for the cost-efficient dispatch of power through an economic merit order; (b) create reliable price signals to assist participants in weighing investment options; and (c) protect a fair and level playing field for suppliers and buyers of electricity, wherein prices are driven by market forces.

The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. Although generators are allowed under the WESM to transact through bilateral contracts, these contracts will have to be "offered" to the market for the purpose of determining the appropriate merit order of generators. Settlement for bilateral contracts will, however, occur outside the market between the contracting parties. Traded electricity, not covered by bilateral contracts, will be settled through the market on the basis of the market clearing prices for each of the trading periods.

Open Access and Retail Competition

The EPIRA likewise provides for a system of Open Access to transmission and distribution wires, whereby Transco, its concessionaire NGCP and any distribution utility may not refuse use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges. Conditions for the commencement of the Open Access system are as follows:

(a) Establishment of the WESM;

(b) Approval of unbundled transmission and distribution wheeling charges;

(c) Initial implementation of the cross subsidy removal scheme;

(d) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and

(e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

As provided in the EPIRA, Open Access shall be implemented in phases. The WESM began operations in Luzon in June 2006 and, in the Visayas, in December 2010.

In 2011, the ERC motu proprio initiated proceedings to determine whether Open Access may already be declared in Luzon and Visayas. Following various public hearings, the ERC declared December 26, 2011 as the Open Access Date when full operations of the competitive retail electricity market in Luzon and Visayas shall commence. All electricity end-users with an average monthly peak demand of one MW for the 12months preceding December 26, 2011, as certified by the Commission to be contestable customers, were given the right to choose their own electricity suppliers. However, on October 24, 2011, upon the request of the MERALCO, the Private Electric Power Operators Association (PEPOA) and the Philippine Rural Electric Cooperatives Association, Inc. (PHILRECA) for the re-evaluation of the feasibility of the December 26, 2011 Open Access Date, the ERC declared the deferment of the implementation of open access and retail competition in Luzon and Visayas in light of the inadequacy of rules, systems, preparations and infrastructure required therefor.

The implementation of Open Access will potentially result in various contracts entered into by utilities or suppliers being "stranded." Stranded contract costs refer to the excess of the contracted costs of electricity under eligible contracts over the actual selling price of the contracted energy under such contracts in the market.

In Mindanao, a truly competitive environment required by Retail Competition is not expected in the near future because the largest generating asset owned by NPC in Mindanao has yet to be privatized.

Unbundling of Rates and Removal of Subsidies

The EPIRA mandated the unbundling of distribution and wheeling charges from retail rates with such unbundled rates reflecting the respective costs of providing each service. It also mandated the removal of cross subsidies other than the lifeline rate for marginalized end-users which shall subsist for a period of 20 years, unless extended by law. The lifeline rate is a socialized pricing mechanism set by the ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity.

Implementation of the Performance-Based Rate-Setting Regulation (PBR)

On December 13, 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates (RDWR) for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the Return on Rate Base (RORB) mechanism which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a 4-year regulatory period is set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time of restoration to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Cotabato Light is entering the last Regulatory Year of its current Regulatory Period covering April 1, 2009 to March 31, 2013, for which the ERC has previously approved in its Final Determination the 4-year Annual Revenue Requirements and Performance Incentive Scheme. On December 2011, Cotabato Light filed with the ERC an application for rates translation, which will effectively be charged to its customers for the fourth Regulatory Year starting April 1, 2012 to March 31, 2013.

Likewise, Cotabato Light is already preparing for the upcoming reset process of its next Regulatory Period starting April 1, 2013 to March 31, 2017. The activities will include asset revaluation, forecasting operation and maintenance and capital expenditures, setting the new performance targets, among others.

In March 2011, VECO and Davao Light filed their rate translation application for the second regulatory year starting July 1, 2011 up to June 30, 2012. Since implementation by VECO of the rate translation in the first regulatory year was delayed by one month, recovery for the under-recovery was included in its application for the second regulatory year. On June 29, 2011, the ERC rendered its decision setting the distribution, supply and metering charges of Davao Light and VECO.

For SEZ and SFELAPCO, the ERC has issued last August 2011 the respective Final Determinations for the Distribution Utilities' 4-year Annual Revenue Requirement and Performance Incentive Scheme covering the Regulatory Period October 1, 2011 to September 30, 2015. Both SEZ and SFELAPCO have filed their respective applications for rates translation for the first Regulatory Year October 1, 2011 to September 30, 2012. The decision for SEZ was released last December 2011 and the effective rates resulting therefrom have been implemented starting this January 2012. The one for SFELAPCO is expected to be resolved by February 2012. The resulting under-recoveries from the lag starting from October 1, 2011 can be recovered in the rates filing on the second Regulatory Year. The PBR rules allow such mechanism in its MAP formula.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, former president Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation.

Proposed Amendments to the EPIRA

Since the enactment of the EPIRA, members of the Philippine Senate and House of Representatives have proposed amendments to the EPIRA and its implementing rules and regulations. Some of the proposed amendments include the following:

(a) Disallowance of the recovery of Stranded Contract costs;

(b) Requiring transmission charges, wheeling charges, connection fees, and retail rates to be approved by the ERC only after due notice and public hearing participated in by all interested parties;

(c) Exclusion from the rate base the following items that Transco and the distribution utilities charge the public corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over- adequate assets and facilities, and amount of all deposits as a condition for rendition and continuation of service;

(d) Prohibition of cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials, or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials, or directors within the fourth civil degree of consanguinity;

(e) Prohibit distribution utilities under a bilateral electric power supply contract from sourcing more than 33% of its total electric power supply requirements from a single generation company or from a group of generating companies wholly owned or controlled by the same interests. On the effectiveness of the proposed law, any distribution utility that has contracts which exceed the allowable 33% limit will be directed to desist from further awarding additional electric power supply contracts with any generation company or group of generating companies wholly owned or controlled by the same interests, until its present electric power supply requirements, when added to the proposed additional electric power supply contract or contracts with any generation company or group of generating companies wholly owned or controlled by the same interests shall comply with the 33% limit;

(f) Adding of the following exceptions under Section 45 of EPIRA (Cross Ownership, Market Power Abuse and Anti-Competitive Behavior): (1) generating companies utilizing or producing power from site-specific indigenous and renewable energy source such as hydro, geothermal and wind power and (2) if the breach in market share limits is due to the temporary or permanent shutdown or non-operation of other generating facilities;

(g) Exemption or deferral of some assets of NPC from privatization, such as the Unified Leyte (Tongonan) Geothermal Complexes, Agus and Polangui Complexes, and the Angat Dam;

(h) Expansion of the definition of host communities to include all barangays, municipalities and provinces or regions that protect and maintain watersheds that provide water supply to the dam or hydroelectric power generating facility;

(i) Requiring distribution utilities to pay a franchise tax equivalent to 3% of the distribution utility's gross income in lieu of all taxes; and

(j) Exemption of a distribution utility or the company holding its shares or its controlling stockholders from the mandatory divestment rule under Section 28 of the EPIRA, if the shares of the distribution utility, its parent company or its controlling stockholders are listed in the PSE at the time of the effectivity of RA 9136.

The Renewable Energy Act of 2008

Republic Act No. 9513, the Renewable Energy Act of 2008 (RE Law) was signed into law by the former president, Gloria M. Arroyo, on December 16, 2008 and became effective in January 2009.

The RE Law's declared policy is to encourage and develop the use of renewable energy resources of the country to reduce the country's dependence on fossil fuels and overall costs of energy, and reduce, if not prevent, harmful emissions to promote a healthy and sustainable environment.

The RE Law imposes a government share on existing and new RE development projects at a rate of 1% of gross income from sale of renewable energy and other incidental income from generation, transmission and sale of electric power except for indigenous geothermal energy which shall be at a rate of 1.50% of gross income. Micro-scale projects for communal purposes and non-commercial operations with capacities not exceeding 100 kW will not be subject to this government share.

The RE Law offers fiscal and non-fiscal incentives to RE developers, including developers of hybrid systems, subject to a certification from the Department of Energy (DOE), in consultation with the BOI. These incentives include income tax holiday for the first seven years of commercial operations; duty-free importations of RE machinery, equipment and materials effective within 10 years upon issuance of certification, provided, said machinery, equipment and materials are directly, exclusively and actually used in RE facilities; special realty tax rates on equipment and machinery not exceeding 1.50% of the net book value; net operating loss carry-over (NOLCO); corporate tax rate of 10% after the seventh year; accelerated depreciation; zero-percent value-added tax on sale of fuel or power generated from emerging energy sources and purchases of local supply of goods, properties and services of RE facilities; cash incentives for RE developers for missionary electrification; tax exemption on carbon emission credits; tax credit on domestic capital equipment and services. All fiscal incentives apply to all RE capacities upon effectivity of the RE Law. RE producers from intermittent RE resources are given the option to pay transmission and wheeling charges on a per kilowatt-hour basis at a cost equivalent to the average per kilowatt-hour rate of all other electricity transmitted through the grid. On the other hand, electricity generated from emerging RE resources such as wind, solar, ocean, run-of-river hydropower and biomass are likewise given priority dispatch. Electricity generated from RE resources for the generator's own consumption and/or for free distribution in off-grid areas are exempt from the universal charge. The RE Law further provides a financial assistance program from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

According to Department Circular No. DO2009-05-008 dated May25,2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, Bureau of Internal Revenue (BIR) and the Department of Finance (DOF) shall, within six months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified RE developers. However, as of this date, no specific guidelines or regulations has been issued by the relevant implementing agencies. Such being the case, the renewable energy companies of Aboitiz Power, such as APRI, LHC, Hedcor Sibulan, Hedcor Tamugan, SNAP-Magat and SNAP-Benguet filed on August 6, 2010 a request for ruling before the BIR Law Division on the application of zero-rated value-added tax on all its local purchases of goods and services needed for the development of the RE plant facilities, the exploration and development of RE sources and their conversion into power. To date, the said request is still pending with the BIR Law Division.

On May 16, 2011, the National Renewable Energy Board (NREB) filed in the ERC a petition for the adoption of the feed-in tariff (FIT) for the emerging RE resources, namely, wind, solar, ocean, run-of-river hydropower and biomass. The proposed FITs are as follows: (a) wind – ₱10.37/kWh; (b) solar – ₱17.95/kWh; (c) run-of-river hydropower – ₱6.15; (d) ocean – ₱17.65/kWh; and (e) biomass – ₱7.00/kWh. As of date, hearings are being held before the ERC for the determination of the justness and reasonableness of the proposed FITs.

NREB is likewise in the process of preparing the Renewable Portfolio Standards which, under the RE Law, shall be a market-based policy requiring electricity suppliers to source an agreed portion of their energy supply from eligible RE resources. It is further in the process of drafting rules enabling the net metering program for RE which shall govern distributed generation.

New ERC Regulation on Systems Loss Cap Reduction

Under ERC Resolution No. 17, Series of 2008,the actual recoverable systems losses of distribution utilities was reduced from 9.50% to 8.50%.The new system loss cap was implemented in January 2010.

Under the new regulation, actual company use of electricity shall be treated as an expense of the distribution utilities, particularly, as an O& M expense in the PBR applications.

In December 2009, VECO and Cotabato Light filed separate petitions in the ERC for the deferment of the implementation of the new system loss cap of 8.5%, citing circumstances peculiar to their franchise and beyond the control of VECO and Cotabato Light, which affect the system loss incidence in their areas.

(xi) Research and Developmental Activities

AEV and its Subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by its Subsidiaries and Affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

(xii) Compliance with Environmental Laws

Businesses under AEV are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations, such as the Clean Air Act (Republic Act No. 8749), address, among other things, air emissions, wastewater discharges, the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions and employee exposure to hazardous substances. These said companies have incurred, and are expected to continuously incur operating costs to comply with such laws and regulations. However, these costs and expenses cannot be segregated or itemized as these are embedded in, and are part and parcel of the companies' overall system, in compliance with both industry standards and the government's regulatory requirements.

Standard regulations that govern business operations other than Clean Air Act are Ecological Solid Waste Management Act (Republic Act No. 9003), Clean Water Act (Republic Act No. 9275), Toxic Chemical Substances and Hazardous Waste Act (Republic Act No. 6969), Philippine Environmental Impact Statement System (Presidential Decree No. 1586). Designated pollution control officers in the different business units closely monitor compliance to the requirements of these regulations.

In 2011, AboitizPower earned DENR Award for Philippine Environmental Partnership Program, the only power generation company in the country to receive three awards simultaneously. Specifically, AboitizPower business units HEDCOR, APRI – Makban and APRI – Tiwi were cited as companies that give premium to environmental protection as an integral business concern. To win the awards, these companies did not have cases filed against them with the Pollution Adjudication Board of DENR for three years and have fully complied with applicable environmental laws, rules and regulations and have proven record of superior environmental performance.

Ambuklao and Binga hydroelectric power plants of SN Aboitiz Power – Benguet are now registered Clean Development Mechanism projects, a program of the United Nations Framework Convention on Climate. Both plants are estimated to produce an estimated 180,000 CERs per year equivalent to carbon dioxide (CO^2) produced by about 80,000 cars.

In 2011, the Aboitiz Group initiated the APARK program, a biodiversity enhancement program that aims to plant three mn trees by 2015. The Group planted 930,000 trees in 2011 alone and continues to organize planting of trees all over the county through its various business units. Part of the trees planted will cover for the requirements under the environmental impact statements for projects and guided by stipulations in the environmental compliance certificates.

Each of the hydroelectric power projects of AboitizPower is subject to a mandated watershed management plan intended to maintain the integrity of the renewable resource used to generate electricity. This plan enables a company to adopt a watershed with the commitment to reforest and sustain its healthy vegetative state. The hydroelectric companies also continue to monitor the quality of water systems that they tap. Watershed management is also a serious consideration for geothermal power given its location and the ecosystem that exist therein.

In the food sector, PANC's feedmill passed the HACCP and ISO 9001:2008 certifications, while its swine breeder and nucleus farms passed the ISO 9001:2008 certification In July 2011.

(xiii) Employees

As of February 29, 2012, AEV has a total of 221 employees composed of executives, managers, supervisors, administrative, and clerical staff. There is no existing collective bargaining agreement covering AEV employees.

The following table provides a breakdown of total employee headcount per strategic business unit basis, divided by function, as of February 29, 2012:

Number of Employees	Business Unit			
	Aboitiz Equity Ventures, Inc.	City Savings Bank, Inc.	Pilmico Foods Corporation & Subsidiary	Aboitiz Power Corporation & Subsidiaries
Executives	43	15	18	97
Managers	33	33	34	161
Supervisors	22	122	146	510
Rank & File	123	270	174	1,576
Contractual	8	0	17	0
TOTAL	**229**	**440**	**389**	**2,344**
Unionized Employees	N/A	220	19 (Pilmico)	694
Expiry of CBA	N/A	May 31, 2015	May 31, 2015 (Pilmico)	APRI – Negotiations for a new CBA with a newly organized union is on-going Cotabato Light – June 30, 2014 Davao Light – June 15, 2016 Hedcor – September 19, 2013 VECO – December 31, 2011 (Negotiations for a new CBA with anewly organized union is on-going) SFELAPCO – May 9, 2014

(xiv) Major Risk/s Involved in the Business of AEV and its Significant Subsidiaries

An integral part of our Enterprise Risk Management efforts is to understand and anticipate the risks that are crucial to the success of AEV and its businesses. AEV constantly strives to address the risks it might encounter in the businesses in which it is involved. Certain risks however are inherent to specific industries that are not within the direct control of AEV or its investee companies. Of note are the following:

Reputation Risk

AEV recognizes that its reputation is its single most valuable asset. It is a competitive advantage that enables the Company to earn the trust of its stakeholders. The Company is cognizant of the fact that the reputation it has today took generations to firm up and it is therefore something that the Company wants to protect, build and enhance continuously.

Today's world of higher corporate governance standards coupled with the rise of civil society groups, social media, and greater scrutiny from key stakeholders, have created a new environment where corporate reputation has become a differentiating asset as well as the number one risk.

Managing AEV's reputation requires understanding of its reputational terrain, which has now expanded from the usual general public to its very own team members, partners, shareholders, lenders, communities in which it operate, non-governmental organizations, the regulators, advocacy groups, and those in traditional media and social media.

The views of its stakeholders and their perception of the image that the Company communicates over time determine the employer brand, societal and regulatory brand, customer brand, and shareholder brand.

Managing reputation risk, which could be the effect of an occurrence of another risk, requires building organization capability through a governance structure and an intelligence process. These are currently in the process of being implemented across the Aboitiz Group, to help ensure that issues are identified early, business units connect with the identified business strategies, prevention and preparation strategies are developed, and changes and issues are properly implemented and monitored.

Managing AEV's reputation through traditional public relations and corporate communications approach will no longer be enough. AEV needs to be equipped with the new rules of the game to be able to gain the valuable trust and credibility of its key stakeholders.

Competition Risk

As with other businesses, AEV and its subsidiaries and affiliates operate in highly competitive environments. As such, failure to properly consider changes in their respective markets and predict the actions of competitors can greatly diminish competitive advantage.

To strengthen this advantage and enable AEV and its Business Units to maximize opportunities, a more robust and comprehensive strategic planning processes have been put in place to formalize these processes and focus their efforts on maximizing their strengths and in addressing their weaknesses.

Initial integration of Enterprise Risk Management into the Strategic Planning process has also been performed, with the intent of creating synergy that leverages and reinforces both processes. On top of the Business Development Team of AboitizPower, a separate business development organization is also setup primarily to evaluate and maximize new non-power related business prospects for the Aboitiz Group.

Regulatory Risk

The complexity of the business and regulatory landscape is increasing dramatically. Several of AEV's investments particularly in the power and banking sectors are now being subject to more stringent regulations.

Companies are navigating through new stricter regulatory requirements with relatively higher stakeholder expectations, and are challenged to do so in ways that supports the performance objectives, protects the brand and sustains the value of the company.

To respond proactively to potential fundamental changes that have an impact to its businesses, the Power Group has a dedicated regulatory team that works very closely with the generation companies and Distribution Utilities and maintains working relations with the Department of Energy and other regulatory agencies. This includes actively participating in the consultative processes that lead to the development of rules and regulatory policy covering its industry. The regulatory group has also developed a strategy anchored on a long term perspective in anticipation of a possible new, or changes in existing regulations.

For AEV's Subsidiaries engaged in banking, compliance programs have been implemented and designed to ensure adherence not only to current and applicable laws and regulations, but also to the banks' internal policies, as well as to industry-accepted standards and corporate governance best practices and principles.

Business Interruption Due to Natural Calamities and Critical Equipment Breakdown

Loss of critical functions and equipment caused by natural calamities such as earthquakes, windstorms, typhoons and floods could result in a significant interruption of the businesses. Interruption may also be caused by other factors such as major equipment failures, fires and explosions, hazardous waste spills, workplace fatalities, product tampering, terrorism, and other serious risks.

Regular preventive maintenance of the facilities of the Aboitiz Group is being strictly observed and loss prevention controls are continually being evaluated and strengthened.

In addition, to ensure the continuity of operations in the event of a business interruption, AEV has started developing a Business Continuity and Crisis Management Plan in 2011. Business Interruption insurance has also been procured to cover the potential loss in gross profits in the event of a major damage to the Aboitiz Group's critical facilities and assets.

Financial Risks

In the course of the operation of the Company and its business units, the Company is exposed to financial risks namely, interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings.

Details of the risks abovementioned, including measures to mitigate them are discussed in the notes to the financial statements.

Commodity Risk

Certain AEV investee companies, specifically those engaged in the food and power businesses have raw material and fuel requirements that are subject to price, freight and foreign exchange volatility factors. Fluctuation in any these volatile elements individually or combined will result to increases in the operating costs of these companies.

To address these exposures, the respective management team of these companies have taken a more active role in understanding the markets, including entering into contracts and hedge positions with the different suppliers of these commodities. In 2011, a Financial Risk Management team was also created to help improve existing capabilities in managing and reducing uncertainty relating to certain commodities.

Working Capital

For 2011, AEV derived its working capital mainly from the steady cash flow generated and contributed by its Subsidiaries and associates.

Item 2. Properties

The office space occupied by AEV belongs to a wholly-owned subsidiary. As a holding company, AEV does not utilize significant amounts of office space.

On a consolidated basis, total property, plant and equipment of AEV were valued at ₱82.61 bn and ₱77.44 bn as of December 31, 2011 and 2010, respectively broken down as follows:

	2011	2010
Power, Plant & Equipment	74,250,636	73,370,137
Transmission & Distribution Equipment	5,460,360	4,998,903
Machinery & Equipment	3,969,925	3,857,808
Buildings, Warehouses and Improvements	4,222,562	2,433,942
Office Furniture, Fixtures and Equipment	1,291,832	625,181
Transportation Equipment	762,873	643,719
Land	872,036	347,260
Leasehold Improvements	328,966	397,616
Handling Equipment	112,128	111,525
Flight Equipment	561,218	301,364
Ships Under Refurbishment and Construction in Progress	5,197,632	1,722,190
Others	929,718	424,212
	97,959,886	**89,233,857**
Less: Accumulated Depreciation and Amortization	15,351,297	11,789,578
TOTALS	**82,608,589**	**77,444,279**

Note: Values for the above table are in Thousand pesos

Locations of Principal Properties and Equipment of AEV Subsidiaries are as follows:

SUBSIDIARY	DESCRIPTION	LOCATION/ADDRESS	CONDITION
Cotabato Light & Power Company	Industrial land, buildings/plants, eqpt. & machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light & Power Co., Inc.	Industrial land, buildings/plants, eqpt. & machineries	P. Reyes Street, Davao City; Bajada, Davao City	In use for operations
Pilmico Foods Corporation	Industrial land, buildings/plants, eqpt. & machineries	Kiwalan Cove, Dalipuga, Iligan City	In use for operations
Hedcor, Inc.	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet; Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet; Bakun, Benguet	In use for operations
Hedcor Sibulan, Inc.	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	In use for operations

SUBSIDIARY	DESCRIPTION	LOCATION/ADDRESS	CONDITION
Cebu Private Power Corporation	Bunker C thermal power plant	Cebu City, Cebu	In use for operations
East Asia Utilities Corporation	Bunker C thermal plant	Lapu-lapu City, Mactan, Cebu	In use for operations
AP Renewables, Inc.	Geothermal power plants	Tiwi, Albay Caluan, Laguna Sto. Tomas, Batangas	In use for operations
Therma Marine, Inc.	Barge-mounted diesel power plants	Nasipit, Agusan del Norte Barangay San Roque, Maco, Compostela Valley	In use for operations
Pilmico Animal Nutrition Corporation	Industrial land, building/plant equipment & machineries	Barangay Sto. Domingo II, Capas, Tarlac	In use for operations
Therma Mobile, Inc.	Barge-mounted diesel power plants	G/F PFDA Bldg. Navotas Fishport Complex, Navotas City	In use for operations
Vesper Industrial & Development Corp.	Land	Bato, Toledo, Cebu	For plant site
Therma South, Inc.	Land	Davao City; Davao del Sur	For plant site

Item 3. Legal Proceedings

Material Pending Legal Proceedings

AEV and its Subsidiaries and Affiliates are involved in various legal actions, most of which occur in the ordinary course of business. However, AEV does not expect that the results of any of these actions will have a material effect on Company's financial position.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

(1) Market Information

AEV's common shares are traded on the Philippine Stock Exchange.

The high and low stock prices of AEV's common shares for each quarter within the past two years and first quarter of 2012 were as follows:

	2012		2011		2010	
	High	Low	High	Low	High	Low
First Quarter	54.80	40.20	47.00	33.30	14.00	9.00
Second Quarter	NA	NA	42.15	37.50	21.00	13.75
Third Quarter	NA	NA	42.35	36.00	25.25	19.50
Fourth Quarter	NA	NA	41.20	36.00	40.50	24.50

As of March 30, 2012, AEV has 10,054 shareholders. Common shares outstanding as of the same date totaled 5,521,871,821. The closing price of AEV common shares as of March 30, 2012 is ₱50.10 per share.

(2) Holder

The top 20 stockholders of AEV as of March 30, 2012 are as follows:

	STOCKHOLDERS	NATIONALITY	NUMBER OF SHARES	PERCENTAGE
1	Aboitiz & Company, Inc.	Filipino	2,735,600,915	49.54%
2	PCD Nominee Corporation	Filipino	915,928,680	16.59%
3	PCD Nominee Corporation	Non-Filipino	452,828,551	8.20%
4	Ramon Aboitiz Foundation, Inc.	Filipino	420,915,863	7.62%
5	Sanfil Management Corporation	Filipino	116,790,211	2.12%
6	Chanton Management & Development Corporation	Filipino	62,118,484	1.12%
7	Windemere Management & Development Corporation	Filipino	47,666,352	0.86%
8	Donya 1 Management Corporation	Filipino	43,136,359	0.78%
9	Morefund Management & Development Corporation	Filipino	40,000,000	0.72%
10	Anso Management Corporation	Filipino	34,369,707	0.62%
11	Bauhinia Management, Inc.	Filipino	32,643,799	0.59%
12	Mario Ugarte	Filipino	23,531,731	0.43%
13	MYA Management & Development Corporation	Filipino	22,494,414	0.41%
14	Parraz Development Corporation	Filipino	22,380,003	0.41%
15	Les Folatieres Holdings, Inc.	Filipino	20,779,308	0.38%
16	Luis Miguel O. Aboitiz	Filipino	20,092,133	0.36%
17	Guada Valley Holdings Corporation	Filipino	17,688,445	0.32%
18	Melissa Marie O. Aboitiz	Filipino	15,654,815	0.28%
19	Mary Anne O. Aboitiz	Filipino	15,033,973	0.27%
20	Ma. Cristina; Jaime Jose Aboitiz; Luis Alfonso Aboitiz	Filipino	13,605,767	0.25%
	SUBTOTAL		**5,073,259,510**	**91.88%**
	Other Stockholders		**448,612,311**	**8.12%**
	TOTAL SHARES		**5,521,871,821**	**100.00%**
	NET ISSUED AND OUTSTANDING SHARES		**5,521,871,821**	

(3) Dividends

The cash dividends declared by AEV to common stockholders from fiscal year 2010 to the first quarter of 2012 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Record Date
2012	₱1.58	₱8.7 bn	3/16/2012
2011	₱1.58	₱8.7 bn	3/17/2011
2010	₱0.52	₱2.9 bn	3/24/2010

In a special meeting held on January 11, 2007, the AEV Board of Directors approved the policy of distributing at least one-third of its previous year's earnings as cash dividends to its stockholders for subsequent years.

(4) Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

(a) On November 28, 2006, AEV signed an Issue Management and Underwriting Agreement with BPI Capital Corporation (BPI Capital) as Issue Manager for the issuance of 150 mn cumulative, non-voting, nonparticipating, non-convertible, 5-year (Series "E") and 7-year (Series "F") redeemable preferred shares at the offer price of P10.00 per share, or for a total offering price of ₱1.5 bn. BPI Capital was the lead underwriter, PCI Capital Corporation, co-lead underwriter and First Metro Investment Corporation, BDO Capital & Investment Corporation, Multinational Investment Bancorporation, Citicorp Capital Philippines, Inc. and Union Bank of the Philippines were underwriters for the offer. AEV paid the amount of ₱7.5 mn as underwriting commission, excluding taxes for the issuance of the preferred shares.

Series "A" and "D" were redeemed on December 6 and 13, 2009, respectively. On December 6, 2006, AEV exercised its early redemption option over its Series "B" and "C" preferred shares at 105% of the face value plus accrued interest, and simultaneously AEV issued new Series "E" and "F" preferred shares. Part of the proceeds from the issuance of new Series E" and "F" preferred shares were used to finance the early redemption of the Series "B" and C" preferred shares. The Series "E" with fixed dividend rate of 8.25% per annum, and "F" with fixed dividend rate of 8.5% per annum preferred shares were issued to qualified buyers only pursuant to Section 10.1 (l) of the Securities Regulation Code.

AEV shall redeem the preferred shares are at the end of the corresponding agreed periods from issue dates (final redemption dates) regardless of the existence of unrestricted retained earnings or other amounts legally available for the payment of dividends in such period, provided that the issuer has, after redemption, sufficient assets in the books to cover debts and liabilities inclusive of capital stock, and subject to the Issuer's compliance with the applicable laws, rules and regulations, and SEC requirements.

On December 6, 2011, AEV redeemed its Series "E" preferred shares through a cash payment of 100% of the issue price plus all accrued and unpaid cash dividends on the final redemption date. On the same date, AEV simultaneously exercised its early redemption option over Series "F" preferred shares at 105% of the face value, with accrued interest and inclusive of the 5% prepayment penalty, and exercised early redemption over series "F" preferred shares. The preferred shares were redeemed through cash payment of 100% of the issue price plus all accrued and unpaid cash dividends on the final redemption date.

(b) On May 14, 2010, AEV signed a Notes Facility Agreement with a consortium of primary institutional lenders for the issuance of 6-year peso-denominated corporate fixed rate notes ("Notes") in the principal aggregate amount of up to ₱2.5 bn through a private placement to not more than 19 institutional investors pursuant to SRC Rule 9.2 (2) (B). First Metro Investment Corporation and Metropolitan Bank & Trust Company – Trust Banking Group acted as the Arranger and Notes Facility Agent, respectively. The proceeds of the Notes were used to fund AEV's investments in various projects, including capital expenditures and acquisitions.

The following are the details of the corporate notes held by institutional investors as of December 31, 2011:

NOTEHOLDERS TRANCHE 1	AMOUNT DUE
The Insular Life Assurance Co., Ltd.	₱ 700,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3011-00131-10	50,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3011-00011-10	50,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3011-00133-10	50,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3011-00132-10	50,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3011-00141-09	20,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3011-00001-09	50,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3015-00064-06	145,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for 3011-00064-09	35,000,000
The Philippine American Life & General Insurance Co.	440,000,000
Social Security System	250,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for De La Salle University	50,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for Xavier School	50,000,000
Metropolitan Bank & Trust Company – Trust Banking Group as Investment Manager for The Government Service Insurance System	50,000,000
TOTAL	**₱ 1,990,000,000**

NOTEHOLDERS TRANCHE 2	AMOUNT DUE
First Metro Investment Corporation	₱ 198,000,000
Metropolitan Bank & Trust Company	198,000,000
Philippine Savings Bank	108,000,000
TOTAL	**₱ 504,900,000**

(c) On November 23, 2010, AEV signed a Notes Facility Agreement with a consortium of primary institutional lenders for the issuance of 5-year and 1 day peso-denominated corporate fixed rate notes ("Notes") in the principal aggregate amount of up to ₱1.5 bn through a private placement to not more than 19 institutional investors pursuant to SRC Rule 9.2 (2) (B). BPI Capital Corporation and Bank of the Philippine Islands – Asset Management and Trust Group acted as the Arranger and Notes Facility Agent, respectively. The proceeds of the Notes were used for refinancing and for general corporate use of AEV.

The following are the details of the corporate notes held by institutional investors as of December 31, 2011:

NOTEHOLDERS	AMOUNT DUE
Bank of the Philippine Islands	₱ 498,750,000
BPI AMTG as Investment Manager for ALFM Peso Bond	698,250,000
BPI AMTG as Trustee	299,250,000
TOTAL	**₱ 1,496,250,000**

The underwriting fees paid to the Arrangers of the ₱2.5 bn and ₱1.5 bn corporate notes were ₱10.7 mn and ₱4 mn, respectively.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations or Plan of Action

Year ended December 31, 2011 vs. Year ended December 2010

The following discussion and analysis of Aboitiz Equity Ventures, Inc.'s ("AEV" or the "Company" or the "Parent Company") consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying schedules and disclosures set forth elsewhere in this report.

Top Five Key Performance Indicators

Management uses the following indicators to evaluate the performance of registrant Aboitiz Equity Ventures, Inc. ("AEV" or the "Company" or the "Parent Company") and its subsidiaries (the Company and its subsidiaries are hereinafter collectively referred to as the "Group"):

KEY PERFORMANCE INDICATORS
(Amounts in thousands except financial ratio data)

	JAN-DEC 2011	JAN-DEC 2010
EQUITY IN NET EARNINGS OF INVESTEES	**11,229,066**	6,843,156
EBITDA	**38,906,442**	40,030,498
CASH FLOW GENERATED:		
Net cash provided by operating activities	**23,568,689**	29,550,862
Net cash used in investing activities	**(5,791,837)**	(5,719,574)
Net cash used in financing activities	**(14,333,987)**	(3,254,452)
Net Increase in Cash & Cash Equivalents	**3,442,864**	20,576,836
Cash & Cash Equivalent, Beginning	**26,097,203**	5,582,228
Cash & Cash Equivalent, End	**29,543,492**	26,097,203
CURRENT RATIO	**2.96**	2.36
DEBT-TO-EQUITY RATIO	**1.12**	1.23

DESCRIPTION OF KEY PERFORMANCE INDICATORS:

1. **EQUITY IN NET EARNINGS OF INVESTEES.** Equity in net earnings (losses) of investees represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates profitability of the investments and investees' contribution to the Group's consolidated net income.

   Manner of Computation: Investee's Net Income (Loss) x Investor's % ownership - Goodwill Impairment Cost.

2. **EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance

expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts and to finance its capital expenditure and working capital requirements.

3. **CASH FLOW GENERATED.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. **CURRENT RATIO.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt paying ability. The higher the ratio, the more liquid the Group.

5. **DEBT-TO-EQUITY RATIO.** Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

DISCUSSION ON KEY PERFORMANCE INDICATORS:

Amidst external market volatilities and challenges, management expected 2011 to be another outstanding year for the group in terms of sustainable profitability and financial stability. As can be gleaned from the resulting key performance indicators, these expectations were achieved.

Equity in net earnings of investees registered a 64% year-on-year (YoY) increase. This improvement was largely attributed to the strong performance of the majority of the power associates. Bulk of the increase was coming from the growth in the combined income contributions of SN Aboitiz Power-Magat, Inc. (SNAP-Magat) and SN Aboitiz Power-Benguet, Inc. (SNAP-Benguet) due to significant upsurge in their ancillary service revenues.

The growth in equity earnings of associates more than offset the 3% decrease in EBITDA. The drop in EBITDA was mainly due to the decline in gross profit of the power generation group as sales volume dipped and average selling prices softened during the current year. Increase in coal and steam supply costs likewise put a squeeze on the profit margins of the group.

Management teams of the different businesses continued to effectively handle and monitor their respective operating performances and financial requirements. As a result, profitability was sustained, generating positive cash inflows from operations, and the needed funds were raised to finance various investments and projects. The group registered healthy financial ratios at year-end 2011. This strong financial position enabled the Group to deliver higher value directly to its shareholders while continuing to invest in its growth opportunities.

Review of 2011 Operations versus 2010

Results of Operations

AEV and its subsidiaries recorded a consolidated net income of ₱21.19 billion (bn), a 3% YoY decrease, which translated to a lower earnings per share of ₱3.84. In terms of income contribution, power group still accounted for the lion's share at 78%, followed by the banking and food groups at 16% and 6% each.

The Group generated a non-recurring net gain of ₱366 million (mn) (versus ₱30 mn in 2010), which comprised of the following: (1) a ₱266 mn gain from a power subsidiary's revenue adjustment that resulted from the favorable ruling by the industry regulator involving its ancillary services tariff structure; (2) a ₱163 mn gain from a power associate's recovery of costs relating to its fuel importation; (3) a ₱149 mn gain from a power subsidiary's reversal of an accrued expense relating to its IPPA contract ; (4) a net foreign exchange loss of ₱123 mn from the revaluation of dollar-denominated loans and placements; and (5) ₱89 mn loan pre-termination fees. Sans one-off items, the Group's core net income for the current year amounted to ₱20.82 bn, down 5% YoY.

Power

Aboitiz Power Corporation (AboitizPower or AP) and its subsidiaries ended the year with an income contribution of ₱16.50 bn, a 14% decline from last year's ₱19.13 bn.

AP's generation group posted a 16% YoY drop in earnings contribution to AEV, from ₱18.63 bn to ₱15.61 bn, resulting from the decline in profit margins given the lower average selling prices and net generation recorded during the current year. As compared to 2010 levels, average selling prices dipped 7% as spot market prices softened amid flat demand for electricity and increase in supply in Luzon's Wholesale Electricity Spot Market (WESM). This negative impact on revenues was cushioned by the group's strategic move to enter into more bilateral agreements, thus, increasing its contracted sales and lowering its exposure to the price volatility of the spot market. Meanwhile, the group's attributable net generation decreased by 3%, from 9,762 GWh to 9,422 GWh, as sales made through the WESM reduced owing to prevailing low prices. The higher costs of coal and steam supply also contributed to the decline in earnings as it reduced the profit margins on contracted sales.

Partially offsetting the decrease in income contributions were the higher earnings of SNAP-Magat, SNAP-Benguet, STEAG State Power Inc. (STEAG), and Therma Marine, Inc. (TMI), and the full contributions of Cebu Energy Development Corporation (Cebu Energy) and Hedcor Sibulan, Inc. (Hedcor Sibulan). For the SNAPs, the improvement was due to the increase in their ancillary service revenues. STEAG's earnings growth was attributed to higher coal margins and its recording of some non-recurring gains, vis-à-vis last year's non-recurring loss. TMI's increase was likewise due to increase in profit margins brought about by higher sales and its one-time billing of a tariff rate adjustment amounting to ₱348 mn.

AP's distribution group registered a 24% YoY rise in earnings contribution to AEV, from ₱1.48 bn to P1.83 bn. Driving this growth was the 3% YoY expansion in attributable electricity sales, from 3,606 GWh to 3,727 GWh, mainly coming from the 6% increase in the power consumption of industrial customers. Higher selling prices resulting from the implementation of the rate increase (under a Performance Based Regulation scheme) by certain Distribution Utilities also complemented the group's profit improvement. Furthermore, Davao Light & Power Company, Inc.'s (Davao Light) operating expenses declined YoY, as operation of its back-up power plant was not required given the improved power supply situation in Mindanao during the current year.

Financial Services

Income contribution from the financial services group grew by 31%, from last year's ₱2.63 bn to ₱3.44 bn. Union Bank of the Philippines (UnionBank) ended the current year with an earnings contribution of ₱2.91 bn, an increase of 26% YoY, while City Savings Bank Inc.'s (CitySavings) share in earnings was ₱531 mn, up 69% YoY. The main drivers of this growth were the improvement in the operating performances of UnionBank and CitySavings, and AEV's increased ownership in both banks.

UnionBank's 2011 net income was higher at ₱6.6 bn (vs ₱5.35 bn in 2010) mainly due to the 56% YoY increase (₱9.56 bn vs ₱6.13 bn) in its non-interest income, which more than made up for the 17% decline (₱5.21 bn vs ₱5.16 bn) in net interest income after impairment losses. AEV's higher ownership in UnionBank, from 40.91% to 43.27%, also boosted UnionBank's income contribution.

The 7% YoY increase in CitySavings' net income, from ₱499 mn to ₱535 mn, was attributed mainly to the 33% growth in its interest income on loans and service fees as total loan booked during the year in review was up by 52% YoY to ₱9.9 bn. Enhancing the growth in CitySavings' earnings contribution was the full-year recognition of AEV's 99.3% share of CitySavings' net income (vis-à-vis last year's 99.3% equity up based only on the 4th quarter earnings with the rest still computed based on the old 40.6% ownership).

Food

Income contribution from Pilmico Foods Corporation (Pilmico) and its subsidiaries amounted to ₱1.23 bn, down 19% YoY. In the flour division, increase in wheat cost outpaced the growth in sales, resulting to a 36% YoY decline in its income contribution. The swine business' earnings contribution also fell by 75% YoY due to lower margins coming from the decrease in average selling prices (ASP) and higher input costs. Partially offsetting these decreases was feeds division's 14% improvement in income contribution, as higher ASP countered the rise in raw material costs.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

AEV's consolidated net income attributable to equity holders registered a 3% decline, from last year's ₱21.86 bn to ₱21.19 bn.

Operating profit amounted to ₱22.92 bn, a 21% drop from the ₱28.87 bn generated in 2010. This was brought about by the ₱2.55 bn decrease in consolidated revenues and the ₱3.39 bn increase in costs and expenses. Both power and food groups recorded lower operating margins during the year in review.

Power subsidiaries reported a combined 22% YoY decline in operating margins resulting from the 9% decrease in consolidated revenues and the 2% increase in costs and expenses. Revenues were lower at ₱54.48 bn (vs ₱59.55 bn in 2010) substantially due to the decrease in sales of Therma Luzon, Inc. (TLI) and Aboitiz Power Renewable Inc. (APRI). For both subsidiaries, it was mainly due to the drop in average selling prices and sales volume as WESM prices softened and sales made thru WESM correspondingly lessened due to the prevailing low prices. This decrease was partially tempered by the increase in sales of the distribution subsidiaries.

Food Group reported a 9% YoY decrease in operating margins as the ₱2.05 bn increase in costs and expenses more than offset the ₱1.87 bn rise in revenues. The 15% improvement in sales (₱14.75 bn vs ₱12.88 bn in 2010) was largely attributed to growth in sales volume for swine and feeds, and the higher selling prices for both flour and feeds. The 19% spike in costs (₱12.96 bn vs ₱10.92 bn in 2010) was mainly due to the increasing costs of raw materials of these three businesses.

The decline in consolidated operating profit was partially offset by the ₱148 mn increase in gross margin contribution of CitySavings and the ₱4.38 bn growth in equity earnings.

Share in net earnings of associates registered an 64% YoY improvement (₱11.23 bn vs ₱6.84 bn in 2010) due to the strong performance of the majority of the power associates and of UnionBank. Bulk of the increase was coming from the combined income contributions of SNAP-Magat and SNAP-Benguet due to the upsurge of their ancillary service revenues. Growth in ancillary service sales was a result of the higher level of acceptance by the National Grid Corporation of the Philippines of these hydro plants' nominated capacities. With the elevated water levels during the current year, both SNAP plants' capability to provide ancillary services was significantly enhanced. The fresh income contribution of Cebu Energy which had its full commercial operation of its 246 MW coal plant in 2011, the higher earnings of STEAG due to the increase in its coal margins and recording of a one-off gain on cost reimbursements from NPC on fuel importations (vis-à-vis last year's refinancing costs), and the increase in UnionBank bottomline attributable to substantial trading gains realized during the year in review, further boosted this growth in equity earnings of associates.

While net interest expense remained flat in 2011, other income decreased by 49% substantially due to lower foreign exchange (FX) gains (₱12 mn vs ₱1.39 bn in 2010). This was the result of the restatement of the dollar-denominated debt of the power group under an unchanged peso scenario as of year-end 2011 when FX rate for the US$ stood at ₱43.84 to a dollar, exactly the same rate as of the start of the year, compared to the ₱2.36 peso appreciation as of year-end 2010 when FX rate was at ₱43.88, coming from a ₱46.20 rate as of the start of that year.

The 6% increase in provision for income tax (₱1.73 bn vs ₱1.62 bn in 2010) was mainly due to the higher taxable income of CitySavings and the majority of the power distribution subsidiaries.

Discontinued operations posted a nil net income in 2011, compared to the P1.47 bn net loss in 2010. For the year ended 2011, the net income of the Group was entirely generated from continuing operations. In contrast, a portion of 2010 net income was reported under discontinued operations. With the sale of AEV's stake in Aboitiz Transport System Corp. (ATS) in 2010, the P1.01 bn net loss contribution of ATS and AEV's P456 mn loss from said sale were reflected under "Discontinued Operations" in the consolidated income statement.

The 9% dip in net income attributable to minority interests was mainly due to the decline in power group's net income, 24% of which, belongs to minority shareholders.

AEV's consolidated comprehensive income attributable to equity holders decreased by 3%, from ₱22.21 bn in 2010 to ₱21.49 bn in 2011. This was mainly due to the decline in the 2011 consolidated net income.

Changes in Registrant's Resources, Liabilities and Shareholders Equity

Assets

Compared to year-end 2010 levels, consolidated assets increased 15% to ₱200.99 billion as of December 31, 2011, due to the following:

a. Cash & Cash Equivalents increased by ₱3.45 bn mainly due to the excess cash generated from operations and cash dividend collections from associates, after the group spent for various asset acquisitions, debt servicing and cash dividend payments.

b. Trade and Other Receivables increased by 40% (₱22.02 bn vs ₱15.7 bn in December 2010) mainly due to TMI's higher collectibles from customers, CitySavings and Food Group's rise in revenues which resulted in higher trade receivables, and the ₱2.5B cash dividend receivable from a power associate.

c. Inventories increased by 21% (₱4.93 bn vs ₱4.08 bn in December 2010) mainly due to the increase in wheat inventory of food group and coal inventory of TLI.

d. Other Current Assets increased by 18% (₱2.22 bn vs ₱1.88 bn in December 2010) mainly due to the build-up of Value Added Tax (VAT) inputs by power generation subsidiaries.

e. Gross of depreciation expense, the resulting increase in Property Plant and Equipment was mainly due to the following: 1) purchase of 4 barge-mounted floating power plants 2) APRI's plant rehabilitation 3) on-going construction of Hedcor Irisan hydro plant and Davao coal plant and 4) capital expenditures of AP distribution group and food group.

f. Intangible Asset – Service Concession Right increased by 344% (₱4.16 bn vs ₱937 mn in December 2010) due to first-time consolidation of LHC's plant which is booked as an intangible asset under IFRIC 12.

g. Investments in and Advances to Associates increased by 9% (₱48.76 bn vs ₱44.85 bn in December 2010) mainly due to the purchase of ₱910 mn worth of UnionBank shares, the ₱856 mn additional capital infusion into Manila Oslo Renewable Enterprise, Inc. (MORE), and recording of ₱11.23 bn share in earnings of associates during the current year. This increase was partially reduced by the ₱7.14 bn cash dividends received and ₱367 mn collection of advances from associates, and the ₱1.71 bn downward adjustment due to the consolidation of LHC in 2011 (as compared to being equitized in 2010).

h. Deferred Income Tax Assets increased by 7% (₱269 mn vs ₱251 mn in December 2010) mainly due to the first-time consolidation of LHC's accounts.

i. Other Noncurrent Assets increased by 195% (₱4.22 bn vs ₱1.43 bn in December 2010) mainly due to the ₱2.2 bn downpayment made on purchase of turbines by a power subsidiary and the increase in VAT input tax credit certificates of certain AP subsidiaries.

Liabilities

Consolidated short-term bank loans decreased by 6% (₱5.3 bn vs ₱5.67 bn in December 2010) while long-term liabilities increased by 9% (₱80.74 bn vs ₱74.06 bn in December 2010). The decline in short-term loans was mainly due to the prepayments made by power group using internally-generated funds. The upward movement in long term debt was mainly due to the following: 1) ₱1.7 bn net proceeds by AP Parent from its issuance of additional ₱5.0 bn peso-denominated corporate fixed rate notes in 2011, less the prepayment made during the same year on the ₱3.33 bn 5-year corporate notes it issued in 2008; 2) ₱4.4 bn increase in the finance lease obligation of TLI resulting from interest accretion; 3.) first-time consolidation of LHC's ₱510 mn long term debt; 4) ₱600 mn additional long-term loan availed by Subic EnerZone Corporation (SEZ); 5) ₱800 mn net loan availment by CitySavings; and 6) ₱1.5 bn increase in Food Group's account to replace short-term loans with long-term debt. Said increase was partially offset by AEV Parent's redemption of its ₱1.5 bn preferred shares and the Group's ₱1.3 bn amortization payments on existing loans.

Trade and other payables and deposit liabilities was up by 20%, from ₱14.24 bn to ₱17.14 bn, mainly due to the growth in CitySavings depositors. The currently maturing portion of CitySavings deposit liabilities are lodged under Trade Payables account. Out of the ₱2.9 bn increase, ₱2.6 bn could be attributed to the expansion of CitySavings deposit liabilities in 2011. The remaining ₱300 mn was due to the increase in payables to suppliers of certain subsidiaries.

Income tax payable decreased by 25%, from ₱300 mn to ₱223 mn, mainly due to the build-up of unapplied prepaid taxes.

Customer deposits were higher by 8% mainly due to the growth in the customer base of power distribution subsidiaries.

Deferred income tax liabilities increased by ₱76 mn mainly due to TLI's recognition of the corresponding income tax provision on the unrealized foreign exchange gains booked during the current year.

Equity

Equity attributable to equity holders of the parent grew by 20% from year-end 2010 level of ₱64.31 bn to ₱77.08 bn, mainly due to the following: (1) ₱12.47 bn increase in Retained Earnings, resulting from the ₱21.19 bn net income recorded during the current year and offset by the ₱8.72 bn cash dividends paid to common stockholders; and (2) the recognition of AEV's ₱802 mn share in UBP's unrealized fair valuation gain on AFS investments, net of the ₱402 mn share of current translation adjustments recorded by a power generation associate in marking to market its hedged instruments.

Material Changes in Liquidity and Cash Reserves of Registrant

For the year ended 2011, the group continued to support its liquidity mainly from cash generated from operations, additional loans availed, and dividends received from associates.

Compared to the cash inflow of 2010, consolidated cash generated from operating activities decreased by ₱5.98 bn to ₱23.57 bn. This decline was largely a result of lower net income generated during the year in review.

The current year ended up with a ₱5.79 bn net cash used in investing activities, slightly more than the ₱5.72 bn spent last year. This was due to higher investment acquisitions made in 2011.

Net cash used in financing activities was higher at ₱14.33 bn, compared to the ₱3.25 bn in 2010. This increase in fund usage was substantially due to higher cash dividends paid and lower debt availed in 2011.

For the current year, net cash inflows surpassed cash outflows, resulting to an 13% increase in cash and cash equivalents, from ₱26.10 bn as of year-end 2010 to ₱29.54 bn as of year-end 2011.

Financial Ratios

Backed by strong operating cash inflows, liquidity was adequately preserved. Cash and cash equivalents stood at ₱29.5 bn as of end-2011, 13% higher than end-2010 level, keeping current ratio at a high level of 2.96:1 (versus last year's 2.36:1). Further enhancing liquidity was the collection of ₱4.6 bn cash dividends from associates. Likewise, debt-to-equity ratio improved, from 1.23:1 as of Dec. 2010 to 1.12:1 as of December 2011, and net debt-to-equity ratio was also lower at 0.59x (versus year-end 2010's 0.70x), as the growth in equity surpassed the increase in consolidated liabilities.

Outlook for the Upcoming Year/Known Trends, Events, Uncertainties which may have Material Impact on Registrant

Notwithstanding external and uncontrollable economic and business factors that affect its businesses, AEV believes that it is in a good position to benefit from the opportunities that may arise in 2012. Its sound financial condition, coupled with a number of industry and company specific developments, should bode well for AEV and its investee companies. These developments are as follows:

Power (Generation Business)

1. Continued growth in the Power Group's attributable capacity

76%-owned subsidiary AboitizPower ended the year with a 15% YoY expansion in its total attributable generating capacity, from 2,051 MW to 2,350 MW. The capacity growth was mainly due to the following:

- Assumption of full ownership and control of LHC

  In May 2011, AboitizPower's 100% owned ARI assumed full ownership and control of LHC after meeting all conditions set out in a Memorandum of Agreement with PHBI. PHBI, a wholly owned subsidiary of Pacific Pty Ltd of Australia is the joint venture partner of ARI in LHC, which owns and operates the 70 MW Bakun run-of-river hydropower plant in Ilocos Sur. As a result of having full control and ownership in LHC, an additional 35 MW of attributable capacity was added to AboitizPower's portfolio of generation assets.

- Acquisition of the 242 MW Navotas Power Barges

  In May 2011, Therma Mobile a wholly owned subsidiary of AboitizPower, acquired four (4) barge-mounted floating power plants including their respective operating facilities from Duracom Mobile Power Corporation and East Asia Diesel Power Corporation. Upon turnover, rehabilitation works commenced with completion by the fourth quarter of 2011 for 123 MW and the balance estimated within 2012.

- Completion of the rehabilitation project of the Ambuklao Hydro Power Facility

  In September 2011, SNAP-Benguet was awarded by the ERC a COC for the operation of the Ambuklao hydropower plant. The COC, which was approved on August 31, 2011, shall be effective for a period of five years. Upon the turnover of the facility by the PSALM to SNAP-Benguet in 2008, rehabilitation works were implemented on the Ambuklao hydrowpower facility. Its completion resulted to the increase in generation capacity, from 75 MW to 105 MW. AboitizPower has an effective stake of 50% in this facility.

- Partial completion of the rehabilitation of the Binga Hydro Power Plant

  Rehabilitation works on one of the units in the Binga hydropower facility was completed in the fourth quarter of 2011. As a result, total capacity of the Binga hydropower plant increased by 5 MW, from 100 MW to 105 MW. AboitizPower has an effective stake of 50% in this facility.

- Completion of the 4-MW Irisan Hydro Power Greenfield project

  AboitizPower's wholly owned subsidiary Hedcor completed the construction of the 4-MW Irisan hydropower plant in Tuba, Benguet. The plant was commissioned in September 2011.

  Moving forward, AboitizPower's attributable generation capacity is seen to further increase as the following events take place:

- Completion of the rehabilitation of the Binga Hydro Power Plant

  In 2011, AboitizPower, together with its partner SN Power, commenced the programmed rehabilitation of the 100 MW Binga hydropower plant, which is consisted of four units with a capacity of 25 MW each. To date, the program involves the rehabilitation of three units, given the completion of the works done on the first unit in December 2011. Works on the second unit have commenced and are expected to be completed in June 2012. Rehabilitation of the remaining two units will commence thereafter. Full completion will result to Binga's total capacity reaching 120 MW, from the current 105 MW. AboitizPower has an effective stake of 50% in this facility.

- Completion of the rehabilitation of the Tiwi-Makban Geothermal Power Facilities

  100%-owned APRI is currently undertaking the rehabilitation of several units of the Tiwi-Makban geothermal power plant complex. Works on the Tiwi facilities are targeted for completion by the third quarter of 2012, while those for Makban are seen to be finished by first quarter of 2013. Enhancements in the plants' availability rate are expected following the completion of the refurbishment, rehabilitation and resource improvements.

- Greenfield and Brownfield developments

  600 MW Coal-fired Power Plant in Subic. This is a project by RP Energy, a joint venture company formed by AboitizPower's wholly owned subsidiary TPI and TCIC. In June 2011, Meralco's wholly owned subsidiary, Meralco PowerGen Corporation (MPGC), announced its decision to acquire an ownership interest in the project. On July 22, 2011, MPGC, TPI and TCIC signed a shareholder agreement under which MPGC took a controlling interest in RP Energy, with TPI and TCIC owning the remaining stake equally. The project involves the construction and operation of a 2x300 MW circulating-fluidized-bed coal-fired power plant in the Subic Bay Freeport Zone. In January 2012, RP Energy submitted to the DENR an application to amend the existing ECC to cover two high-efficiency 300-MW units with main steam reheat systems. Site preparation and the finalization of the EPC contract are

anticipated to take place in the second quarter of 2012. Completion of the first unit is targeted by the second half of 2015, with the second unit to follow 6 months thereafter.

300 MW Coal-fired Power Plant in Davao. AboitizPower, through 100%-owned subsidiary TSI, is planning to put up a 2x150 MW coal-fired power plant in Davao, which is the biggest load center in the island of Mindanao. TSI acquired the project site in August 2011. The DENR issued the ECC for the project on September 9, 2011. The company is currently in the process of obtaining all necessary permits and government clearances in addition to the ECC. Once done, construction will commence immediately. The first generating unit (150 MW) is expected to be completed 34 months after, with the second unit (150 MW) to follow in 3 months.

400 MW Coal-fired Power Plant in Pagbilao, Quezon. On September 27, 2011, AboitizPower signed a Memorandum of Understanding with Marubeni Corporation (Marubeni) to formalize their intention to jointly develop, construct and operate a coal-fired power plant with a capacity of approximately 400 MW. The proposed location will be within the premises of the existing 700 MW Pagbilao Unit I and II Coal Fired Thermal Power Plant in Quezon. The terms and conditions of the joint investment will be finalized in a definitive agreement to be agreed upon by the parties. Marubeni is part-owner of Team Energy Corporation, which owns and operates the Pagbilao Power Plant under a build-operate-transfer contract with the National Power Corporation. On the other hand, AboitizPower, through wholly owned subsidiary TLI is the Independent Power Producer Administrator of the Pagbilao Power Plant under the IPP Administration Agreement with PSALM.

150 MW Coal-fired Power Plant in Misamis Oriental. On June 28, 2010, AboitizPower and its partners in STEAG State Power, Inc., owner of the 232 MW coal plant located at the Phividec Industrial Estate in Villanueva, Misamis Oriental, firmed up their collective intention to develop a third unit of approximately 150 MW capacity adjacent to the existing facility. AboitizPower and its partners agreed to maintain their shareholdings in the same proportions in the new corporation to be established for the planned additional capacity. Certain essential facilities, such as the jetty, coal handling facilities and stockyards and the 138-kV interconnection with the Mindanao Grid are to be shared with the existing facilities. Depending on the interest the market demonstrates, the agreement contemplates the possibility of putting up another unit.

13.7 MW Tudaya 1 and 2 Hydro Power Plant Project. AboitizPower's wholly owned subsidiary Hedcor Tudaya will implement a Greenfield project involving the construction of run-of-river power plants to be located in the upper and downstream sections of the existing Sibulan hydro power plants, tapping the same water resource, which are the Sibulan and Baroring rivers. The two plants will have a combined capacity of 13.7 MW. The project has been issued its ECC and endorsed by the local communities. Hedcor Tudaya is currently working in obtaining the water permits and awaiting finalization of its RE contract. Target groundbreaking is by May 2012. Construction is estimated to be completed in 22 months.

13.2 MW Sabangan Hydro Power Plant Project. This involves the construction and operation of a hydropower plant facility in Mt. Province, a province located in Northern Luzon. This project will be undertaken by a wholly owned subsidiary of AboitizPower, Hedcor Sabangan, Inc. The project was already granted an ECC by the DENR. Engineering and design are underway. Groundbreaking is targeted in the fourth quarter of 2012, with completion expected after a 2-year construction period.

11.5 MW Hedcor Tamugan Hydro Power Plant Project. In 2010, AboitizPower's wholly owned subsidiary, Hedcor Tamugan, has reached an agreement with the Davao City Water District on the use of the Tamugan river. Originally planned as a 27.5 MW run-of-river facility, Hedcor Tamugan submitted a new proposal, which involves the construction of an 11.5 MW hydropower plant. Hedcor Tamugan is waiting for the Davao City council to approve the project. Once approval and permits are secured, the two-year construction period will commence.

Other Greenfield and Brownfield developments. AboitizPower, together with its subsidiaries and associate company, is conducting feasibility studies for potential Greenfield and Brownfield projects.

- The SN Aboitiz Power Group (SNAP Group) is in the process of evaluating several hydropower plant projects. A Brownfield project is being evaluated for its Magat hydropower plant, which involves the construction of a pumped storage facility that could potentially increase its capacity by at least 90 MW. The SNAP Group is likewise evaluating several Greenfield hydropower plant projects that have at least 70 MW of potential capacity each.

- Hedcor is conducting feasibility studies for potential hydropower projects located in both Luzon and Mindanao. Based on current findings, Hedcor sees the potential of building plants with capacities ranging from 5 MW to 50 MW. When the projects pass the evaluation stage and once permits are secured, the two-year construction period for the hydropower plant facilities will commence.

2. Participation in the Government's Privatization Program for its Power Assets

AboitizPower continues to closely evaluate the investment viability of the remaining power generation assets that PSALM intends to auction off.

AboitizPower is also keen on participating in PSALM's public auction for the Independent Power Producer (IPP) Administrator contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP administrators.

Distribution Business

AboitizPower remains optimistic that it will realize modest growth on its existing distribution utilities. It continually seeks efficiency improvements in its operations to maintain healthy margins.

The implementation of the rate adjustment formula for the distribution companies under the Performance-Based Regulation (PBR) is on a staggered basis. In addition to annual adjustments, PBR allows for rate adjustments in between the reset periods to address extraordinary circumstances. There is also a mandatory rate-setting every four years wherein possible adjustments to the rate take into account current situations.

Cotabato Light's 4-year regulatory period commenced on April 1, 2009 and ends on March 31, 2013. The company is currently in its third year of its regulatory period. Cotabato Light is the first distribution utility in the AboitizPower group to implement this incentive-based scheme.

VECO and Davao Light are part of the third group (Group C) of private distribution utilities that shifted to PBR, which implemented their approved rate structures in August 2010. Both companies implemented their approved rates for the second year of its regulatory period in August 2011.

SFELAPCO and SEZ are part of the fourth batch (Group D) of private distribution utilities to enter PBR. In July 2011, the ERC released the final determination on the applications for annual revenue requirements and performance incentive schemes for the regulatory period October 2011 to September 2015. Implementation of the approved rate structure of SEZ and SFAll under-recoveries since October 2011 are allowed to be recouped in the next regulatory year.

Market and Industry Developments

Open Access and Retail Competition (Open Access)

Per EPIRA, the conditions for the commencement of the Open Access and Retail Competition are as follows:

(a) Establishment of the WESM;
(b) Approval of unbundled transmission and distribution wheeling charges;
(c) Initial implementation of the cross subsidy removal scheme;
(d) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
(e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

Under Open Access and Retail Competition, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a RES license from the ERC. Eligible suppliers shall include the following:

- Generation companies that own, operate or control 30% or less of the installed generating capacity in a grid and/or 25% or less of the national installed capacity

- NPC-Independent Power Producers with respect to capacity which is not covered by contracts

- IPP Administrators with respect to the uncontracted energy which is subject to their administration and management

- Retail Electricity Suppliers (RES) duly licensed by the ERC

The implementation of Open Access presents a big opportunity for AboitizPower, as it has two wholly owned subsidiaries (i.e. Aboitiz Energy Solutions, Inc. and AdventEnergy, Inc.) that are licensed Electricity Retail Suppliers, which can enter into contracts with the eligible contestable customers. Moreover, AboitizPower's generation assets that have uncontracted capacity will be able to have direct access to eligible contestable customers through AboitizPower's licensed RES.

In June 2011, ERC declared December 26, 2011 as the Open Access Date to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. However, after careful deliberation, the ERC acknowledged that not all the necessary rules, systems and infrastructures required for the implementation of the Open Access and Retail Competition have been put in place to meet the contemplated timetable for implementation. In October 2011, the ERC announced the deferment of the Open Access Date. A definitive timeline leading to the eventual implementation will be issued by the ERC after consultation with all the stakeholders.

Financial Services

UnionBank's initiatives on strengthening its customer franchise will continue to be at the forefront as it prioritizes customer satisfaction through enhanced retail focus and stronger sales management approach. UnionBank will continue to invest in technology, cultivate partnerships and rationalize branch network expansion in strategic areas to maximize growth channels with respect to both deposits and loan accounts. In 2012, the bank plans to open 10 new branches in support of its objective of enhancing customer experience and in support of its community banking strategy.

UnionBank will continue to focus on improving the performance of its earning assets portfolio, with loan asset acquisition in the retail, middle-market and corporate sectors. It will implement a disciplined asset allocation built on good governance and effective risk management to ensure momentum of recurrent income stream. At the same time, UnionBank is focusing on improving its deposit liabilities mix by targeting low-cost funds (i.e. CASA).

UnionBank will, likewise, continue to enhance operating efficiencies through cost containment efforts and improvements in its business processes to align with best and leading practices.

CitySavings will continue to strengthen its market position in its present niche by improving its products and services further. Other government employees, aside from public school teachers, and private company employees will be tapped. CitySavings plans to expand its branch network by putting up new branches and extension offices in areas outside of its present coverage. The bank is targeting to add six (6) branches to its network, all to be located in Luzon.

To support its expansion program, CitySavings is in the process of putting in place a new core banking system called Finacle, which is designed to improve processes and systems to better serve the bank's growing clientele. With this system, operating efficiencies are seen to be enhanced as branch processes will be standardized and backroom operations will be automated.

Food Manufacturing

In line with the logistics initiatives to mitigate higher freight cost, Pilmico has implemented dredging works in its harbor in Iligan to enable it to accommodate higher tonnage vessels. Pilmico will likewise invest in a pneumatic unloader to improve its unloading capacity. Both projects are expected to be completed by January 2012. As a result, the facility's unloading rate will improve to 10,000 metric tons per day (MTPD) from 7,500 MTPD.

Construction of additional silos to support the storage requirements of the second production line of its Iligan feedmill is underway. Target completion date is by second quarter of 2012.

PANC aims to continue its swine business' expansion phase by growing further its breeding capacity. The company's goal is to increase its sow capacity by 28% by 2014, with 70% of the finishing farms owned and operated by the company. To do this, PANC will continue to expand the existing breeder farm, build a new nursery farm and increase the capacity of the growing-finishing farms.

Year ended December 31, 2010 vs. Year ended December 31, 2009

The following discussion and analysis of the Company's consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying schedules and disclosures set forth elsewhere in this report.

With the sale of the Company's investment in Aboitiz Transport System Corp. (ATS) in December, 2010, the 2010 net loss of ATS Group, except Aboitiz Jebsen Bulk Transport Corp, (AJBTC), Jebsen Maritime, Inc. (JMI) and Aboitiz Jebsen Manpower Solutions, Inc. (AJMSI), is reported separately under the item "Net Income (Loss) from Discontinued Operations" in the AEV consolidated income statement. ATS's 2010 profit and loss (P&L) items are no longer reported on a line-by-line consolidation.

To be comparative with the 2010 presentation, the AEV consolidated income statements for 2009 and 2008 are re-presented to also deconsolidate ATS's P&L accounts, and instead, reflect its net income under "Net Income (Loss) from Discontinued Operations".

The 2010 AEV consolidated balance sheet no longer includes the ATS Group accounts as a consequence of the sale of ATS. This results in the substantial decrease in certain AEV balance sheet items when 2010 account balances are compared with those of 2009, considering that ATS was still consolidated in 2009.

On the other hand, with the Group's step-acquisition of almost the entire stake in City Savings Bank (CSB) during the 4th quarter of 2010, CSB is now treated as a subsidiary, and consequently, is consolidated in AEV's financial statements starting 2010. The first-time consolidation of CSB accounts causes the upward movements of certain income statement and balance sheet items in

2010 when compared to 2009, considering that CSB, formerly an associate, was still not consolidated in 2009.

Top Five Key Performance Indicators

Management uses the following indicators to evaluate the performance of registrant Aboitiz Equity Ventures, Inc. ("AEV" or the "Company" or the "Parent Company") and its subsidiaries (the Company and its subsidiaries are hereinafter collectively referred to as the "Group"):

Key Performance Indicators
(Amounts in thousands except financial ratio data)

	DEC 31/2010	DEC 31/2009
EQUITY IN NET EARNINGS OF INVESTEES	6,843,156	4,264,551
EBITDA	40,030,498	15,639,274
CASH FLOW GENERATED:		
Net cash provided by operating activities	29,550,862	11,338,049
Net cash used in investing activities	(5,719,575)	(26,373,366)
Net cash provided by (used in) financing activities	(3,254,452)	4,471,161
Net Increase (Decrease) in Cash & Cash Equivalents	20,576,835	(10,294,155)
Cash & Cash Equivalent, Beginning	5,582,228	16,037,473
Cash & Cash Equivalent, End	26,097,203	5,582,228
CURRENT RATIO	2.36	0.79
DEBT-TO-EQUITY RATIO	1.23	1.62

Description of Key Performance Indicators:

1. **EQUITY IN NET EARNINGS OF INVESTEES.** Equity in net earnings (losses) of investees represents the group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates profitability of the investments and investees' contribution to the Group's consolidated net income.

   Manner of Computation: Investee's Net Income (Loss) x Investor's % Ownership - Goodwill Impairment Cost

2. **EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts and to finance its capital expenditure and working capital requirements.

3. **CASH FLOW GENERATED.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. **CURRENT RATIO.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt paying ability. The higher the ratio, the more liquid the Group.

5. **DEBT-TO-EQUITY RATIO.** Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

Discussion on Key Performance Indicators:

2010 is another record year for AEV, and again, all the key performance indicators exceeded management's expectations.

Equity in net earnings of investees registered a 60.5% year-on-year ("YoY") increase. This improvement was attributed to the strong performance of Union Bank of the Philippines (UBP) and the majority of the power associates. Bulk of the increase was coming from the growth in the combined income contributions of VECO, SNAP-Magat and SNAP-Benguet due to significant upsurge in revenues. Likewise, UBP contributed higher earnings during the current year on the back of higher net interest margins and trading gains.

The 156% increase in EBITDA was attributable to the rise in equity earnings of associates and the robust gross profit generated by the group as a result of higher revenues and effectively-controlled costs and expenses. The full year gross margin contributions of Aboitiz Power Renewable Inc. ("APRI") and Therma Luzon, Inc. ("TLI") which started commercial operations in June, 2009 and October, 2009, respectively, the fresh gross profit contributions of Therma Marine, Inc. ("TMI") and Hedcor Sibulan, Inc. ("HSI") which commenced commercial operations in February, 2010, and March, 2010, respectively, and the first time consolidation of CSB gross income also significantly enhanced this growth in EBITDA.

The improvement in both current and debt-to-equity ratios from year-end 2009 levels was mainly due to the combined effect of the increase in current assets and the decline in current liabilities, and the increase in equity which more than offset the increase in consolidated liabilities, respectively. The higher level of current assets was mainly attributed to the movement in cash and trade and other receivables which correspondingly rose with the higher volume of revenues generated during the period in review. Equity attributable to equity holders of the parent also registered a commendable growth with the ₱21.86 billion net income recorded during the current year, net of the ₱2.87 billion cash dividends paid by AEV parent.

Operating in a challenging economic environment and dealing with external market volatilities, management teams across the Group strive to effectively handle and monitor their respective operating performances and financial requirements. This results in the generation of positive cash inflows from operations and raising of the needed funds to finance various investments and projects, and still registering healthy financial ratios in the process. This strong financial position enables the Group to deliver higher value directly to its shareholders while continuing to invest in its growth opportunities.

Period ended December 31, 2010

Results of Operations

For the year ended December 31, 2010, AEV and subsidiaries posted a consolidated net income of ₱21.86 billion, a 163% YoY increase, which translated to a ₱3.96 in earnings per share. This impressive operating performance was driven by robust income contributions of the majority of the industry groups, with the power group still accounting for the lion's share at 85% and followed by the banking and food groups at 12% and 7% each, offsetting transport group's negative share.

The group recorded a non-recurring net gain of ₱30 million (versus ₱961 million in 2009), attributable to the ₱786 million foreign-exchange gains recognized in the revaluation of dollar-denominated liabilities under an appreciating Philippine peso scenario, net of its ₱304 million share in one of the power associate's refinancing cost and the ₱456 million loss recognized on the sale of ATS. Sans one-off items, AEV's core net income grew at a very healthy rate of 197% YoY, from ₱7.34 billion to ₱21.84 billion.

Power

Aboitiz Power Corp. ("AP") and its subsidiaries ended the current year with an income contribution of ₱19.13 billion, a 342% jump YoY.

The power generation group recorded a 424% YoY surge in earnings contribution to AEV, from ₱3.56 billion to ₱18.63 billion, mainly due to the 111% increase in total attributable power sales, from 4,619 GWh to 9,762 GWh. This revenue growth substantially resulted from the fresh contributions of Therma Marine, Inc. ("TMI"), the owner of the two power barges, and Hedcor Sibulan, Inc. ("HSI"), the owner of the Sibulan plant. Aboitiz Power Renewable Inc. ("APRI"), the owner of the Tiwi- Makban geothermal power plants which were turned over in May 2009, and Therma Luzon, Inc. ("TLI"), the IPP administrator of the Pagbilao plant starting October, 2009, also contributed to the growth with their respective full year contributions in 2010. As at December 31, 2010, AP's attributable capacity was at 2,051 MW, posting an 18% YoY increase, with the takeover of the two 100 MW power barges in the first quarter of 2010 and the start of operations of the 42.5 MW Sibulan hydro power and the 26%-owned 246-MW Cebu coal-fired power plant in 2010. This remarkable performance of the generation group could also be attributed to: a.) improved pricing and volume sales as average selling prices for bilateral contracts and transactions in the spot market significantly grew by 42% and 183% YoY, respectively; and b.) the spike in ancillary revenues generated by Magat and Binga hydropower plants.

The power distribution group likewise posted a 23% YoY improvement in earnings contribution to AEV, from ₱1.2 billion to ₱1.48 billion. Its attributable electricity sales rose by 9% YoY, from 3,322 GWh to 3,606 GWh, as power consumption of the residential, commercial and industrial customers increased by 6%, 5% and 11%, respectively. Customer base still grew, with the residential and non-residential segments increasing by 4% and 3%, respectively. The growth in GWh sales, coupled with the implementation of the rate increase (under a Performance Based Regulation scheme) by two power distribution utilities in August, 2010 and the full year effect of a rate increase (under the Return on Rate Base scheme) effected by one of these two firms, more than compensated for the higher expenses incurred during the first half of 2010. These higher expenses resulted from the operation of the back-up power plant of a Davao-based distribution utility to provide the much-needed power to the Mindanao grid, and the reduction in the systems loss allowance in January 1, 2010, from 9.5% to 8.5%.

Financial Services

Income contribution from the financial services group registered a 45% YoY improvement, from previous year's ₱1.81 billion to ₱2.63 billion. UBP ended the current year with an earnings contribution of ₱2.31 billion, up by 35% YoY, while CSB's share in earnings was P315 million, up 228% YOY. The main drivers of this growth were the impressive operating performances of both banks and AEV's increased ownership in both.

UBP's 2010 net income increased to ₱5.35 billion (vs ₱4.32 billion in 2009) mainly due to the 9% YoY expansion in net interest income to ₱7.07 billion. This improvement was attributable to the 13% YoY reduction in the bank's interest expense, which more than offset the 1% YoY decrease in interest income mainly resulting from lower average asset yields. The 4% increase in trading gains and other non-interest revenues and the 73% decline in provision for loan impairment losses also added to the bank's bottomline growth.

The 78% YoY increase in CSB's net income, from ₱280 million in 2009 to ₱499 million in 2010, was attributed mainly to the 40% growth in its interest income on loans and service fees as total loan booked during the year was up by ₱1.6 billion to ₱6.5 billion.

Transport

The transport group ended the current year with a net loss contribution of ₱821 million, in contrast to last year's net income contribution of ₱387 million. This was mainly attributable to the substantial increase in operating expenses brought about by higher international charter rates and fuel costs.

Food

For the period under review, income contribution from Pilmico Foods Corporation ("PFC") and its subsidiaries amounted to ₱1.53 billion, up 25% YoY. In the flour division, increase in sales volume more than offset the decline in average selling price, resulting to a 79% YoY improvement in its income contribution. The swine business' earnings contribution likewise improved by 34% YoY due to higher margins coming from increases in both sales volume and selling prices, complemented by lower input costs and enhanced operating efficiencies. These increases more than offset the 9% dip in feeds division's income contribution resulting from lower average selling price and higher input costs.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

For full year 2010, AEV's consolidated net income attributable to equity holders registered a 163% growth, reaching₱.86 billion from ₱8.31 billion posted in 2009.

From continuing operations, operating profit for the current year amounted to ₱28.87 billion, a 304% increase from the ₱7.14 billion generated in 2009. This improvement was brought about by the ₱39.62 billion increase in consolidated revenues, which more than offset the ₱17.9 billion increase in costs and expenses. All the industry groups recorded higher operating margins during the year under review.

Power subsidiaries reported a combined 381% YoY increase in operating margins resulting from the 157% growth in consolidated revenues which surpassed the corresponding hike in costs and expenses. Improvement in revenues (₱59.55 billion in 2010 vs ₱23.17 billion in 2009) was largely due to the full year contributions of APRI and TLI which started commercial operations in May and October, 2009, respectively, and the new contributions TMI and HSI which commenced operations in February and March, 2010, respectively. The 88% rise in consolidated costs and expenses (₱33.28 billion in 2010 vs ₱17.72 bllion in 2009) was mainly due to the operating costs of these same companies which accounted for 76% of the total increase.

Food group reported a 38% YoY increase in operating margins as the ₱1.83 billion increase in revenues more than compensated for the ₱1.29 billion rise in costs and expenses. The 16% rise in sales (₱12.88 billion in 2010 vs ₱11.05 billion in 2009) was largely attributed to the higher sales volume of flour, feeds and swine and better selling prices of swine. The 13% increase in costs (₱10.92 billion in 2010 vs ₱9.63 billion in 2009) was mainly attributed to the higher cost of raw materials for feeds, which was partially tempered by the lower average wheat costs for flour and the decrease in operating costs for swine resulting from enhanced operating efficiencies of the company-owned farms.

The newly-consolidated operating margins of CSB amounting to ₱652 million also contributed to the growth in AEV consolidated operating profit.

Share in net earnings of associates registered a 60.5% YoY improvement (₱6.84 billion in 2010 vs ₱4.26 billion in 2009) primarily due to the strong performances of the majority of the power associates and UBP. Bulk of the increase was coming from the growth in the combined income contributions of VECO, SNAP-Magat and SNAP-Benguet due to rise in revenues. UBP contributed higher earnings during the current year on the back of higher net interest margins and trading gains, coupled with the increased ownership of AEV in said bank.

The growth in consolidated operating profit and equity earnings was enhanced by the increase in other income and partially offset by the rise in net interest expense and provision for income tax. Other income increased by 14% (₱2.06 billion in 2010 vs ₱1.81 billion in 2009) as foreign exchange gains inched up by ₱827 million mainly due to the restatement of the dollardenominated debt of the power group under an appreciating peso scenario as of year-end 2010. Said increase was partially offset by the Company's non-duplication in 2010 of the reversal made in 2009 of a ₱575 million impairment provision that was set up in 2008 on its ATS investment.

The ₱4.14 billion increase in net interest expense (₱6.87 billion in 2010 vs ₱2.74 billion in 2009) was due to higher average debt level in 2010, which included the finance lease obligation booked by TLI in October, 2009. This finance lease obligation generated ₱5.12 billion in accreted interest expense in 2010 (vs ₱1.23 billion in 2009).

The ₱586 million increase in provision for income tax (₱1.62 billion in 2010 vs ₱1.04 billion in 2009) was mainly due to the ₱290 million rise in power group's tax provision resulting from higher taxable income, and the newly-consolidated ₱212 million tax provision of CSB.

The discontinued operations posted a ₱1.47 billion net loss in 2010, a 388% decline from the ₱510 million net income in 2009. The 2010 net loss contribution consisted of the ₱734 million net loss of ATS and some of its subsidiaries (also referred to as Disposal Group), the ₱276 million eliminated gain on sale of Aboitiz Jebsen shares, and the ₱456 million loss recorded by AEV parent on its sale of ATS. The disposal group registered a net loss in 2010 mainly due to the decrease in operating margins. This drop in operating margins resulted from the increase in costs and expenses which was principally attributed to higher international charter rates and fuel costs.

The 261% increase in net income attributable to minority interests was mainly due to the significant surge in power group's net income, 24% of which, belongs to minority shareholders, and the first-time consolidation of ₱184 million minority interest's share in CSB net income.

AEV's consolidated comprehensive income attributable to equity holders rose by 157%, from ₱8.65 billion in 2009 to ₱22.21 billion in 2010. This was mainly due to the increase in net income (₱21.86 billion in 2010 vs ₱8.31 billion in 2009) as other comprehensive income registered a very minimal decline.

Changes in Registrant's Resources, Liabilities and Shareholders Equity

Assets

Compared to year-end 2009 levels, consolidated assets increased 22% to ₱174.97 billion as of December 31, 2010, due to the following:

a. Cash & Cash Equivalents increased by ₱20.51 billion mainly due to higher funds held by AEV parent and power group. For AEV parent, the increase was due to unused proceeds from the additional debt availed and the sale of its ATS investment in 2010. For power group, the upsurge in its EBITDA translated to higher excess cash at year-end 2010.

b. Trade and Other Receivables rose by 106% from ₱7.63 billion to ₱15.7 billion, primarily due to the newlyconsolidated receivables of CSB amounting to ₱6.97 billion and the fresh receivables of TMI and HSI, and the rise in trade receivables of APRI and TLI resulting from higher sales, which accounted for ₱2.32 billion of the increase. This growth was partially offset by the ₱1.88 billion deconsolidated receivables of ATS.

c. Inventories increased by 25% (₱4.08 billion vs ₱3.27 billion) mainly due to the ₱735 million spike in power group's inventory resulting from higher cost of coal of TLI and the newly-consolidated fuel and spare parts inventory ofTMI, and the ₱638 million rise in wheat inventory of the food group. Said increase was partially offset by the ₱567 million deconsolidated inventory of ATS.

d. Intangible Asset - Service Concession Rights increased by ₱55 million due to the capital expenditures incurred by one of AP's ecozone subsidiaries.

e. Investment Properties increased by ₱96 million due to the newly-consolidated properties of CSB.

f. Investments and Advances totalled ₱44.85 billion, up by 16% from year-end 2009 level of ₱38.57 billion. This increase was mainly attributed to the following: (1) ₱647 million purchase of additional UBP shares; (2) ₱1.0 billion capital infusion into SNAP-Benguet to finance the on-going Ambuklao plant rehabilitation; (3) P1.09 billion stockholder's advances given to LHC and RP Energy; (4) recognition of a ₱387 million share in unrealized valuation gains on UBP's AFS investments; and (5) increase in accumulated equity earnings coming from the ₱6.88 billion share in associates' net earnings recorded during the year, reduced by the ₱2.14 billion cash dividends received from certain associates. The ₱1.26B redemption of EAUC preferred shares and the ₱279 million step-acquisition of CSB to a subsidiary partially offset the increase.

g. Pension Asset increased by ₱74 million resulting from the one-time funding of power group's past service liabilities in 2010.

The above increases were tempered by the following decreases in:

a. Property, Plant & Equipment (PPE) which declined by ₱3.12 billion primarily due to the deconsolidation of ₱4.76 billion PPE of ATS. Said reduction was partially offset by the ₱1.74 billion increase attributed to the purchase of two power barges by TMI and the additional costs in the construction of Sibulan hydro-power plant.

b. Goodwill which dipped by 10% (₱1.64 billion vs ₱1.81 billion) mainly due to the deconsolidated goodwill of the disposal group totalling ₱817 million, partially offset by the ₱644 million new goodwill generated from the stepacquisition of CSB in 2010.

c. Deferred Income Tax Assets which reduced by 51% (₱251 million vs ₱514 million) mainly due to the deconsolidation of ATS's ₱245M account in 2010.

d. Other Noncurrent Assets which declined by 30% (₱1.43 billion vs ₱2.04 billion) mainly due to: a.) the deconsolidation of ATS's ₱307M account in 2010; and b.) the release of AP's restricted cash that was used to secure a long-term loan of an associate when said loan was paid off in 2010.

Liabilities

Consolidated short-term bank loans decreased by 37% (₱5.67 billion in 2010 vs ₱9.04 billion in 2009) while long-term liabilities went up by 11% (₱74.06 billion in 2010 vs ₱66.46 billion in 2009). The decline in short-term was mainly due to the prepayments made by power group using internally-generated funds. The upward movement in long term debt was principally due to the: a.) ₱4.0 billion fixed-rate notes issuance by AEV parent, proceeds of which were used to preterminate an expensive ₱1 billion long-term debt and the balance kept as cash over the yearend; b.) ₱2.69 billion net increase in the finance lease obligation of TLI resulting from interest accretion, net of the monthly payments made and foreign exchange adjustments; c.) ₱800 million loan availment by power subsidiary Cebu Private Power Corp., and d.) ₱2.13B first-time consolidated CSB long-term loans. Said increase was partially offset by the ₱974 million amortization payments of existing loans.

The ₱3.68 billion increase in deposit liabilities was due to the first-time consolidation of CSB's accounts.

Income tax payable decreased by 34% mainly due to the lower levels maintained by the power group resulting from the availment of income tax holiday incentive by certain subsidiaries.

Customer deposits was higher by 13% mainly due to the growth in the customer base of DLP as well as the new deposits recorded in APRI and TLI from their bilateral contracts.

Deferred income tax liabilities increased by ₱279 million mainly due to TLI's recognition of the corresponding income tax provision on the unrealized foreign exchange gains booked during the current period.

Equity

Equity attributable to equity holders of the parent increased by 44% from year-end 2009 level of ₱44.70 billion to ₱64.31 billion, mainly due to (1) the ₱18.99 billion increase in Retained Earnings, resulting from ₱21.86 billion net income recorded during current year and offset by the ₱2.87 billion cash dividends paid to common stockholders; and (2) the ₱380 million increase in Share in Unrealized Valuation Gains on AFS Investments and Underwriting Accounts of an associate resulting from the improvement in the market prices of these financial instruments as of the end of the current period.

Material Changes in Liquidity and Cash Reserves of Registrant

For the year ended 2010, the group continued to support its liquidity mainly from cash generated from operations and dividends received from associates. External borrowings were also a source of liquidity.

Compared to the cash inflow in 2009, consolidated cash generated from operating activities in 2010 increased by ₱18.21 billion to ₱29.55 billion. This improvement was largely a result of the higher EBITDA generated during the current period, partially offset by the rise in trade receivables and inventories.

Net cash used in investing activities was lower at P₱.72 billion, versus ₱26.37 billion in 2009, as business acquisitions slowed down during the period under review.

The current year posted a ₱3.25 billion net cash used in financing activities, compared to the ₱4.74 billion net cash provided by long-term loan availments in 2009. As against last year, short-term loan prepayments and cash dividend distribution using funds generated from operations were higher while long-term loan availments were lower.

For the current period, net cash inflows surpassed cash outflows, resulting to a 368% increase in cash and cash equivalents, from ₱5.58 billion in December, 2009 to ₱26.10 billion in December, 2010.

Financial Ratios

The improvement in current ratio, from 0.79:1 as of Dec. 2009 to 2.36:1 as of Dec. 2010, was due to the sharp increase in current assets, complemented by the decline in current liabilities. The growth in current assets was mainly attributed to the movement in cash and trade receivables which correspondingly rose with the higher volume of revenues generated during the period in review. Current liabilities dipped due to prepayment of bank loans using internally-generated funds. Likewise, debt-to-equity ratio improved, from 1.62:1 as of Dec. 2009 to 1.23:1 as of Dec. 2010, and net debt-to-equity ratio stood at 0.7x (versus year-end 2009's 1.3x), as the increase in equity outpaced the increase in consolidated liabilities. The rise in equity attributable to equity holders of the parent was substantially the result of the ₱21.86 billion net income recorded during the current year.

Year ended December 31, 2009 vs. Year ended December 31, 2008

Key Performance Indicators for 2009 and 2008 are as follows:

	Dec 31/2009	Dec 31/2008
EQUITY IN NET EARNINGS OF INVESTEES	4,264,551	3,631,338
EBITDA	15,639,274	8,607,000
CASH FLOW GENERATED:		
Net cash provided by operating activities	11,785,904	2,027,018
Net cash used in investing activities	(26,735,726)	(7,402,511)
Net cash provided by (used in) financing activities	4,655,667	2,961,164
Net Decrease in Cash & Cash Equivalents	(10,294,155)	(2,414,329)
Cash & Cash Equivalent, Beginning	16,037,473	17,986,518
Cash & Cash Equivalent, End	5,582,228	16,037,473
CURRENT RATIO	0.79	1.90
DEBT-TO-EQUITY RATIO	1.62	0.62

Note: Amounts in thousands except financial ratio data.

All the key performance indicators exceeded management's expectations during the year under review.

Despite the anticipated downward trend of LHC net income as a result of its declining capacity fee rate structure and the non-recurrence of 2008 provision reversals, and the lower income contribution of STEAG Power due to the decrease in coal margins, equity in net earnings of investees registered a 19% year-on-year (YOY) increase. This improvement was attributed to the strong performance of the bank associates which generated higher net interest margins, trading gains and other non-interest revenues during the current year. The spike in their income contributions more than offset the decrease in equity earnings from the two power associates.

The 82% increase in EBITDA was attributable to the rise in equity earnings of associates and the robust gross profit generated by the Group as a result of higher revenues and effectively-controlled costs and expenses. The fresh gross margin contributions of the newly-acquired subsidiaries, APRI and Therma Luzon, also significantly enhanced this growth in EBITDA.

Current ratio declined and debt-to-equity ratio increased from year-end 2008 levels mainly due to AP's deployment of funds and issuance of additional fixed-rate notes and retail bonds to finance its various investing activities in 2009.

Despite today's challenging economic environment and external market volatilities, management teams across the Group continue to effectively handle and monitor their respective operating performances and financial requirements. This results in the generation of positive cash inflows from operations and raising of the needed funds to finance various investments and projects, and still registering healthy financial ratios in the process. This strong financial position enables the Group to deliver higher value directly to its shareholders while continuing to invest in its growth opportunities.

Results of Operations

For the year 2009, AEV posted a consolidated net income of ₱8.31 billion, a 102% YOY increase, which translated to a ₱1.49 in earnings per share. This record performance was driven by robust income contributions of all the industry groups, with the power group still accounting for the lion's share at 56%, followed by the banks at 23%, the food group at 16% and the transport group at 5%.

In 2009, the group generated a non-recurring income of ₱961 million, which includes (1) a foreign exchange net gain of ₱380 million at the parent and subsidiary levels; (2) a ₱575 million reversal of impairment provision and a ₱58 million revenue from the forfeited option money booked by AEV parent in consideration of the aborted sale of its investment in ATS; (3) a ₱78 million share in the reversal of NPC charges for ancillary services to two of AP's generation companies, and (4) an P84 million share in the gains booked by ATS on the sale of a vessel and its logistics business, net of the ₱178 million one-off costs incurred in the acquisition of the Tiwi-Makban geothermal power plants and the Pagbilao IPP Administrator contract, and the ₱36 million goodwill impairment in one of transport group's investments.

Sans one-off gains, AEV's consolidated recurring net income was still strong at ₱7.34 billion, up 50% YOY from ₱4.9 billion.

For the year 2009, income contribution by AP and its subsidiaries amounted to ₱4.32 billion, recording a 30% YOY increase.

The power generation business recorded a 68% YOY expansion in earnings contribution to AEV, from ₱2.11 billion to ₱3.56 billion. This strong showing was mainly due to the 167% YOY increase in total attributable power sales, from 1,728 GWh to 4,619 GWh. The expansion mainly came from the improved generation of the hydro assets, which resulted from the higher rainfall during the year and the full-year operation of the 100-MW Binga hydro power plant. In addition, the Tiwi-Makban geothermal power plants, which were turned over in May 2009, and the Pagbilao coal-fired power plant, which AP took over its dispatch control on October 1, 2009, contributed a combined energy sales of 2,653 GWh, accounting for 58% of the total sales for the year.

As of yearend 2009, AP's attributable capacity was at 1,745 MW, posting a 202% YOY increase. The growth was due to the turnover of the Tiwi-Makban geothermal plants in May 2009, which recorded peak generation of 467 MW during the year, and the turnover of the dispatch control over the 700-MW contracted capacity of the Pagbilao plant.

Likewise, the power distribution business posted a 5% YOY increase in its income contribution, from ₱1.14 billion to ₱1.2 billion. Electricity sales for the year grew by 6% YOY, from 3,142 GWh to 3,322 GWh. Improvement in electricity consumption growth rates, complemented with enhancements in operating efficiencies, offset the impact of the under recovery of cost of purchased power by these distribution utilities in March 2009. The attributable power consumption of residential and non-residential customers improved by 7% and 5%, respectively. The group's customer base still grew with the residential segment increasing by 5% and the non-residential inching up by 1%.

Income contribution from the financial services group registered a hefty 106% YOY improvement, from previous year's ₱880 million to ₱1.81 billion. UBP ended the period with an earnings contribution of P1.71 billion, up by 103% YOY, while CSB contributed earnings of ₱96 million, up by 163% YOY.

A 109% YOY increase in UBP's net income from ₱2.07 billion in 2008 to ₱4.32 billion in 2009, coupled with the increase in AEV's equity ownership to 38.66%, led to the higher contribution. Interest income for the year increased by 14% YOY to ₱11.89 billion, mainly due to the 30% YOY expansion in interest earnings on loans and receivables to ₱6.99 billion. The bank's loan portfolio recorded an 11% YOY increase to ₱100.7 billion, as lending to all market segments, i.e. corporate, middle market and consumer, expanded. With the additional interest earnings from investments and trading securities improving by 13% YOY to ₱3.96 billion, net interest income rose by 10% YOY, from ₱5.88 billion to ₱6.46 billion, despite the 20% increase in interest expense brought about by the hike in deposit liabilities and bills payable. Higher net securities trading and foreign exchange gains led to a 95% YOY increase in other income from ₱3.01 billion to ₱5.88 billion. Meanwhile, other expenses only grew by 16% YOY as UBP continued to implement cost containment and efficiency improvements.

The 163% YOY increase in CSB's contributed earnings of ₱96 million was attributed mainly to the bank's loan volumes expansion for the period which translated to a 67% spike in interest income. It ended the year with a total loan book of ₱4.9 billion, up by 41% from ₱3.5 billion in 2008.

The transport group shored in an income contribution of ₱387 million, a marked improvement over last year's ₱81 million. This was mainly attributed to the ₱2 billion reductions in ATS's consolidated operating expenses that resulted from lower fuel costs, its single largest expense. The average fuel price in 2009 was lower by 36% YOY. The decrease in operating expenses more than made up for the ₱1 billion drop in consolidated revenues resulting from the loss of one of its ships and the subsequent temporary suspension of all its roro-passenger vessels in September 2009, the typhoons which negatively affected operations during the last quarter of the year, and the decline in its international chartering business.

Income contribution from Pilmico and its subsidiaries, amounted to ₱1.2 billion, up by 168% YOY. Increase in sales volume in the flour business more than offset the decline in its average selling prices, resulting to a 25% YOY improvement in income contribution. Growth in operating margins, resulting from higher sales volume and lower freight and raw material costs, led to the 2707% YOY jump in the feeds business' income contribution. The swine business' earnings contribution likewise improved by 13% YOY due to operating efficiencies that resulted to higher margins, despite the 11% YOY decline in sales volume.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

For the year 2009, AEV's consolidated net income attributable to equity holders registered a 102% growth, reaching ₱8.31 billion from ₱4.12 billion in 2008.

Operating profit for the current year amounted to ₱7.53 billion, a 222% increase from the ₱2.34 billion generated in 2008. This improvement was brought about by the ₱10.37 billion increase in consolidated revenues, which more than offset the ₱5.18 billion increase in costs and expenses. All the industry groups recorded higher operating margins during year under review.

The power subsidiaries reported a combined 230% YOY increase in operating margins resulting from the 89% growth in consolidated revenues which surpassed the corresponding hike in costs and expenses. Improvement in revenues (₱23.2 billion vs ₱12.2 billion) was largely due to the fresh contributions of APRI, which took over operations of the Tiwi-MakBan geothermal power plants in May 2009, and Therma Luzon, which assumed dispatch control of the Pagbilao plant as an Independent Power Producer (IPP) Administrator. The combined revenues from these plants accounted for almost 90% of the increase in AP's consolidated revenues. The rest of the increase could be attributed to the spike in revenues of the distribution utilities brought about by kWhr sales growth and higher passed-on costs of purchased power. The 67% rise in consolidated costs and expense (₱17.7 billion vs ₱10.6 billion) was mainly due to the incremental operating costs of APRI and Therma Luzon the higher costs of purchased power of distribution subsidiaries resulting from the approved NPC rate increase in March 2009.

The food group reported a 94% YOY increase in operating margins as the ₱360 million increase in revenues was complemented by a ₱503 million decrease in costs and expenses. The 3% rise in sales (₱11.0 billion vs ₱10.7 billion) was largely attributed to the improved selling prices of feeds and higher sales volume of both flour and feeds. The 5% decline in costs and expenses (₱9.7 billion vs ₱10.2 billion) was brought about by the decrease in raw material and freight costs of feeds and the operating efficiencies of the swine business.

Share in net earnings of associates registered a 19% YOY improvement (₱4.32 billion vs ₱3.62 billion) primarily due to the substantial increase in the income contribution of the bank associates. The banks generated higher net interest margins, trading gains and other non-interest revenues during the current year. The increase in AEV's equity ownership in UBP from 36.34% to 38.66% also contributed to the growth. This improvement more than made up for the decline in earnings contribution of certain power associates brought about by the drop in the Japanese Power Utilities

Index (JPU) which resulted in the decrease of STEAG's JPU-indexed coal margins, and LHC's declining capacity fee rate structure and the non-recurrence of 2008 provision reversals that negatively affected its 2009 bottomline.

The overall growth in consolidated operating profit was further boosted by the 395% increase in other income (₱2.11 billion vs ₱426 million) resulting from (1) the Company's reversal in the first quarter 2009 of the ₱575 million impairment provision set up in 2008 to adjust the carrying amount of the assets of ATS and the recognition as revenue of the ₱83 million forfeited option money resulting from the termination of the planned sale of its ATS investment in April 2009, and the (2) ₱560 million net foreign exchange gains, the bulk of which was recognized by Therma Luzon in the restatement of its future minimum dollar payments to PSALM as part of its IPPA agreement. This increase in other income was offset by the (1) 20% decrease in interest income (₱517 million vs ₱645 million) due to lower cash balances; (2) the 335% spike in finance expense (₱3.31 billion vs ₱761 million) attributed to higher average debt level in 2009; and (3) the 23% rise in provision for income tax (₱1.2 billion vs ₱978 million) resulting from higher taxable income generated during the current year.

Net income from disposal group represents the net earnings of the ATS Group, except AJBTC, AJMSI and JMI. Net income from the discontinued operations registered a 1962% increase, from ₱25 million during the previous year to ₱510 million for 2009. This turnaround performance was achieved on the back of a 12% drop in costs and expenses (₱11.3 billion vs ₱12.9 billion), which more than compensated for the 8% decline in revenues (₱11.8 billion vs ₱12.9 billion). The decrease in costs and expenses was mainly due to the drop in fuel prices. The dip in consolidated revenues was due to lower freight and passage revenues resulting from the slowdown of its international charter business, the loss of one ship and the temporary suspension of vessels in September 2009, and the devastating typhoons which hampered operations in the fourth quarter.

The 40% increase in net income attributable to minority interests was mainly due to the growth in the power and transport groups' net income, 24% and 23%, respectively.

AEV's consolidated comprehensive income attributable to equity holders rose by 111%, from ₱4.09 billion in 2008 to ₱8.65 billion in 2009. This was mainly due to the increase in both net income (₱8.31 billion vs ₱4.12 billion) and other comprehensive income (₱346 million income vs ₱29 million loss). The rise in other comprehensive income was a result of the ₱235 million share in net unrealized gains on AFS investments of UBP, a significant improvement from the ₱434 million share in net unrealized losses booked in 2008, as market conditions favorably affected the bank's mark-to-market valuation of its investment securities. This was partially offset by the decline in the share of cumulative translation adjustments (₱102 million in 2009 vs ₱409 million in 2008) of power associates using functional currency accounting. With the US dollar depreciation in 2009, these power associates recognized lower foreign currency translation adjustments in 2009 compared to those in 2008 when the US dollar appreciated.

Changes in Registrant's Resources, Liabilities and Shareholders Equity

Assets

Compared to yearend 2008 levels, consolidated assets increased by 89% to ₱143.28 billion as of December 31, 2009, due to the following:

a. Inclusive those of the disposal group as of yearend 2008, Trade and Other Receivables increased by 70% from ₱4.49 billion to ₱7.63 billion, primarily due to the newly-consolidated receivables of APRI and Therma Luzon and the higher non-trade receivables of the transport group.

b. Inclusive those of the disposal group as of yearend 2008, Property, Plant & Equipment (PPE) registered an increase of 512%, from ₱13.15 billion to ₱80.56 billion, primarily due to the ₱19.35 billion purchase of the Tiwi-MakBan geothermal power plants, the ₱44.52 billion finance lease acquisition of the Pagbilao coal-fired power plant, and the additional ₱1.91 billion costs incurred in the ongoing construction of the 42.5-MW Sibulan hydropower plant in Davao del Sur. The transport group's PPE also increased with the purchase of two freighters, two fast crafts and one roro-passenger vessel totalling ₱1.94 billion, reduced by the disposal of certain assets with a combined book value of ₱410 million.

c. Inclusive those of the disposal group as of yearend 2008, Investments and Advances totalled ₱38.57 billion, up by 18% from yearend 2008 level of ₱32.64 billion. This increase was mainly attributed to the following: (1) purchase of ₱297 million worth of UBP shares; (2) capital infusion into CEDC, the project company for the 3X82-MW coal plant in Toledo City, Cebu, and into MORE, the holding company of SNAP-Magat and SNAP-Benguet, amounting to ₱1.34 billion and P353 million, respectively; (3) recognition of a ₱235 million share in unrealized valuation gains on UBP's AFS investments and a ₱347 million increase in gain on dilution resulting from the purchase of additional UBP shares; and (4) increase in accumulated equity earnings resulting from the recording of a ₱4.32 billion share in associates' net earnings and the receipt of ₱1.12 billion cash dividends from certain associates.

d. Inclusive those of the disposal group as of yearend 2008, pension asset was up 111% to P106 million mainly due to actuarial adjustments that increased the pension asset of one of AP's distribution subsidiaries.

e. Inclusive those of the disposal group as of yearend 2008, Deferred Income Tax Assets increased by 19% (P514 million vs ₱433 million) mainly due to the unrealized foreign exchange losses on dollar cash holdings and net operating loss carryover (NOLCO) recognized by AP parent during the current year, both of which required a corresponding deferred income tax asset set up.

f. Inclusive those of the disposal group as of yearend 2008, goodwill increased by 45%, from ₱1.25 billion to ₱1.81 billion, due to the reversal in 2009 of the ₱575 million impairment provision recorded by AEV parent on its ATS investment in 2008. Said reversal was made to adjust the carrying amount of the transport assets in consideration of the terminated sale of ATS. With this reversal, the ₱560 million goodwill in ATS was effectively reinstated in 2009.

g. Inclusive those of the disposal group as of yearend 2008, Other Noncurrent Assets increased by 72% to ₱2.04 billion mainly due to the prepaid rental recorded by APRI on its advance lot rental payment to PSALM and the build-up of unused VAT inputs generated from the Sibulan plant construction.

The above increases were partially offset by the following decreases:

a. Cash & Cash Equivalents stood at ₱5.58 billion, 65% lower than the ₱16.04 billion reported as at yearend 2008 which was inclusive of the disposal group's funds amounting to ₱860 million. This decrease was mainly due to AEV's purchase of ₱297 million worth of UBP shares and AP's ₱1.34 billion capital infusion into Abovant to fund its Cebu coal project and ₱9.1 billion extension of stockholder's advances to APRI to fund the purchase of the Tiwi-Makban geothermal plants.

b. Inclusive those of the disposal group as of yearend 2008, Inventories decreased by 2% (₱3.27 billion vs ₱3.34 billion) mainly due to lower wheat inventory carried by Pilmico as of end of year under review, partially offset by the increase in power group's supplies & materials and coal inventories resulting from the first-time consolidation of the inventories of APRI and TLI.

Liabilities

Inclusive of the ₱551 million loan of the disposal group as of yearend 2008, consolidated short-term bank loans increased by 11% (₱9.04 billion vs ₱8.16 billion) while long-term liabilities increased by 435% (P66.46 billion vs ₱12.41 billion). This substantial surge in debt was due to (1) AP parent's net availment of ₱952 million short-term loans and its issuance of additional ₱8.0 billion fixed-rate bonds and notes to fund the purchase of the Tiwi-Makban geothermal plants for ₱19.5 billion, ₱11.6 billion of which was financed through debt; (2) Therma Luzon's recording of a ₱45.59 billion obligation under finance lease related to the acquisition of the Pagbilao plant; (3) Hedcor Sibulan's additional ₱1.85 billion loan draw down to finance the construction of its 42-MW hydro plant, and (4) the Transport group's incremental short-term borrowings of ₱562 million to finance its capital expenditures. These increases were partially offset by the payment of close to ₱1.25 billion long-term loan amortizations due in 2009 and the food group's ₱739 million prepayment of its short-term loans using internally-generated funds.

Inclusive of the ₱3.02 billion payables of the disposal group as of yearend 2008, trade and other payables increased by 61% from ₱6.68 billion to ₱10.74 billion, mainly due to the first-time consolidation of APRI and Therma Luzon trade payables and accruals.

The first-time recognition of a ₱16.48 million derivative liability represented the booking of the unrealized mark-to-market losses on the foreign currency forwards entered into by AP parent and Therma Marine.

Income tax payable increased by 366% due to the higher current income tax provisions recorded by subsidiaries during the year under review.

Customer deposits was higher by 13% mainly due to the growth in the customer base of DLP as well as the new deposits recorded in APRI from its bilateral contracts.

Deferred income tax liabilities decreased by ₱16 million, mainly due to the reversal of a portion of this liability that was set up on previous year's unrealized foreign exchange gains that were realized during the current year.

Equity

Equity attributable to equity holders of the parent increased by 18% from yearend 2008 level of ₱37.79 billion to ₱44.70 billion, mainly due to (1) the ₱6.80 billion increase in Retained Earnings, resulting from the ₱8.31 billion net income recorded and offset by the ₱1.51 billion cash dividends paid to common stockholders; (2) the ₱235 million increase in Share in Unrealized Gains on AFS Investments and Underwriting Accounts of an associate resulting from the improvement in the market prices of these financial instruments as of the end of the current year; and (3) ₱353 million increase in Gain on Dilution account resulting from AEV's recognition of its additional share in UBP's accumulated prior periods' earnings as it increased its ownership in UBP. These increases were partially offset by the additional ₱464 million worth of treasury shares acquired by the Company in 2009.

Material Changes in Liquidity and Cash Reserves of Registrant

In 2009, the group continued to support its liquidity mainly from cash generated from operations and dividends received from associates. External borrowings were also a source of liquidity.

Compared to the cash inflow in 2008, consolidated cash generated from operating activities in 2009 increased by ₱9.76 billion to ₱11.78 billion. This increase was largely a result of a higher net income generated during the current year, the lower funds used in financing food group's inventory build-up and the rise in trade payables.

Net cash used in investing activities reached ₱26.74 billion (versus ₱7.40 billion last year) as business acquisitions were higher in 2009.

Net cash provided by financing activities during the current year was ₱4.66 billion, compared to the ₱2.96 billion in 2008. This increase in generated cash was mainly from the proceeds of the loans availed by the power group, partially offset by the cash used in the payment of cash dividends and interest.

For the year ended 2009, net cash outflows were higher than cash inflows, resulting to a 65% decrease in cash and cash equivalents, from ₱16.04 billion in December 2008 to ₱5.58 billion in December 2009.

Financial Ratios

Lower cash balances and higher short-term debt accounted for the decrease in current ratio, from 1.9:1 as of Dec. 2008 to 0.8:1 as of Dec. 2009. Higher total debt level in 2009 resulted in the increase in debt-to-equity ratio from 0.6:1 as of Dec. 2008 to 1.6:1 as of Dec. 2009, and in net debt-to-equity ratio at 1.3x (versus yearend 2008's 0.1x).

Item 7. Financial Statements

The audited consolidated financial statements of AEV are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Information on Independent Accountant and other Related Matters

(A) External Audit Fees and Services

The external audit and consultancy fees of the Registrant for the years 2011 and 2010 were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Audit Fees	₱352,800.00	₱336,000.00
Audit-Related Fees	-	-
Tax Fees	-	-
Consultancy Fees	-	-
Total	**₱352,800.00**	**₱336,000.00**

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre–approves audit plans, scope and frequency before the audit is conducted.

Audit services of external auditors for the years 2011 and 2010 were pre–approved by the Board Audit Committee. The Committee had also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

(B) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The accounting firm of Sycip, Gorres, Velayo & Company (SGV) has been AEV's Independent Public Accountant for the last 18 years. Mr. Ladislao Z. Avila, Jr., is the audit partner of AEV for 2011. He replaced Mr. J. Carlitos G. Cruz who served as audit partner from 2009 up to 2010. AEV complies with the requirements of Section 3(b)(iv) of SRC Rule 68 on the rotation of external auditors or signing partners. Representatives of SGV will be present during the annual meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions if needed.

There was no event in the past 18 years where AEV and SGV or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

In its regular meeting last February 29, 2012, the Board Corporate Governance Committee of AEV approved the inclusion in the agenda for the resolution to submit for the the Annual Stockholders' Meeting a proposal to the Board of Directors the authority to appoint the Company's external auditors for 2011. The proposal is intended to give the Board Audit Committee sufficient time to evaluate the different auditing firms who have submitted engagement proposals to act as AEV's external auditor for 2011.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

(a) (1) Directors for 2011-2012

Below is a list of AEV's directors for 2011-2012 with their corresponding positions and offices held for the past five years. The directors assumed their directorship during AEV's annual stockholders' meeting in 2011, for a term of one year.

JON RAMON ABOITIZ
Chairman – Board of Directors, Chairman – Board Corporate Governance Committee and Member - Board Risk Management Committee

Mr. Jon Ramon Aboitiz, 63 years old, Filipino, has been Chairman of the Board of Directors of AEV since January 2009. He was President and Chief Executive Officer of AEV since 1994 until his retirement last December 2008. Mr. Aboitiz began his career with the Aboitiz Group in 1970. From a manager of the Aboitiz Shipping Corporation, Mr. Aboitiz was promoted to President of the company in 1976 and became President of Aboitiz & Company, Inc. in 1991 until 2008. He is also Chairman of the Board of Directors of Aboitiz & Company, Inc., Aboitiz Jebsen Corporation; Vice Chairman of Aboitiz Power Corporation; and Director of City Savings Bank, Inc., and International Container Terminal Services, Inc. Mr. Aboitiz is also the Vice Chairman of the Board of Directors of Union Bank of the Philippines. He is Chairman of the bank's Executive Committee, Risk Management Committee and Corporate Governance Committee, including the latter's Compensation and Remuneration, and Nominations Sub-Committees. He is President of the Aboitiz Foundation, Inc.; Trustee and Vice President of the Ramon Aboitiz Foundation, Inc.; Trustee of the Santa Clara University, California and The Philippine Business for Social Progress Foundation; and member of the Board of Advisors of the Association of Foundations as well as The Coca Cola Export Corporation in the Philippines. Mr. Aboitiz holds a Bachelor of Science Commerce degree with a major in Management from the Santa Clara University, California.

ERRAMON I. ABOITIZ
President and Chief Executive Officer

Mr. Erramon I. Aboitiz, 55 years old, Filipino, has served as President and Chief Executive Officer of AEV since January 2009. He has been a Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to December 2008. He is also President and Chief Executive Officer of Aboitiz & Company, Inc. and Aboitiz Power Corporation; Chairman of the Board of Directors of Davao Light & Power Company, Inc., San Fernando Electric Light and Power Company, Inc., Cotabato Light & Power Company, Subic Enerzone Corporation, SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., Aboitiz Renewables, Inc., Therma Marine, Inc., Therma Power, Inc., Visayan Electric Company, Inc. and City Savings Bank, Inc.; and Director of STEAG State Power, Inc., Union Bank of the Philippines and Pilmico Foods Corporation. He is also Chairman of Aboitiz Foundation, Inc. and a director of the Family Business Development Center (Ateneo de Manila

University). He received a Bachelor of Science degree in Business Administration, major in Accounting and Finance from Gonzaga University, Spokane, U.S.A.

ROBERTO E. ABOITIZ
Director, Member – Board Audit Committee and Board Corporate Governance Committee

Mr. Roberto E. Aboitiz, 62 years old, Filipino, has been a Director of AEV since 1994. He served as Chairman of AEV from 2005 until December 2008. He is Chairman of the Board of Directors of Aboitiz Construction Group, Inc., Cebu Industrial Park Developers, Inc., and Propriedad Del Norte, Inc.; President of Ramon Aboitiz Foundation, Inc.; Director of City Savings Bank, Inc., Tsuneishi Heavy Industries (Cebu), Inc., Metaphil International, Inc., Aboitiz Land, Inc., Aboitiz & Company, Inc.; Trustee of the Aboitiz Foundation, Inc.; and Vice President and Trustee of Tsuneishi Foundation (Cebu) Inc., and West Cebu Foundation, Inc. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Behavioral Science.

ENRIQUE M. ABOITIZ, JR.
Director, Chairman– Board Risk Management Committee, Senior Vice President

Mr. Enrique M. Aboitiz, Jr., 58 years old, Filipino, has served as Director of AEV since 1994. He is also Senior Vice-President of AEV since 2011; Chairman of the Board of Directors of Aboitiz Power Corporation and Aboitiz Land, Inc.; Director of Aboitiz & Company, Inc., AP Renewables, Inc., Manila-Oslo Renewable Enterprise, Inc., and Therma Luzon, Inc. Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration (Major in Economics) from Gonzaga University, Spokane, Washington, U.S.A.

JUSTO A. ORTIZ
Director, Member – Board AuditCommittee and Board Risk Management Committee

Mr. Justo A. Ortiz, 54 years old, Filipino, has served as Director of AEV since 1994. He is also Chairman and Chief Executive Officer of Union Bank of the Philippines, Director of MegaLink, Member of Philippine Trade Foundation, Inc. and World Presidents Organization. Prior to his stint in UnionBank, he was Managing Partner for Global Finance and Country Executive for Investment Banking at Citibank N.A. He graduated magna cum laude with a degree in Economics from Ateneo de Manila.

ANTONIO R. MORAZA
Director

Mr. Antonio R. Moraza, 55 years old, Filipino, has served as Director of AEV since May 2009. He is currently a Director of Aboitiz Power Corporation and Executive Vice President and Chief Operating Officer of its Power Generation Group. He is also Chairman of the Board of Directors of AP Renewables, Inc., Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, East Asia Utilities Corporation, Inc. and Cebu Private Power Corporation; Chairman and Chief Executive Officer of Hedcor, Inc. and Hedcor Sibulan, Inc.; Vice Chairman of Propriedad Del Norte, Inc. and Aboitiz Land, Inc. He is likewise a Director and Senior Vice President of Aboitiz & Company, Inc.; President and Chief Executive Officer of Abovant Holdings, Inc. and Aboitiz Renewables, Inc.; President of Manila-Oslo Renewable Enterprise, Inc.; and Director of SN Aboitiz Power-Benguet, Inc., SN Aboitiz Power-Magat, Inc., Luzon Hydro Corporation, Southern Philippines Power Corporation, STEAG State Power, Inc., and Western Mindanao Power Corporation. He is also Director and President of Therma Marine, Inc., Therma Power, Inc. and Therma Luzon, Inc. He holds a degree in Business Management from Ateneo de Manila University.

ROBERTO R. ROMULO
Independent Director, Member – Board Corporate Governance Committee and Board Audit Committee

Mr. Roberto R. Romulo, 73 years old, Filipino, has served as Independent Director of AEV since 2002. He is the Chairman of Chartis Philippines Insurance, Inc. (formerly Philam Insurance, Inc.) PETNET, Inc., and Medilink Network, Inc. He also holds various board positions in other corporations including A. Soriano Corporation, Philippine Long Distance Telephone Co., and Equicom Savings Bank. He is also chairman of non-profit foundations: Carlos P. Romulo Foundation for Peace and Development, Foundation for IT Education and Development (FIT-ED), Philippine Foundation for Global Concerns, Asia-Europe Foundation of the Philippines and The Zuellig Family Foundation. He graduated from Georgetown University in 1960 with a Bachelor of Arts in Political Science and completed his Bachelor of Laws degree in 1964 from Ateneo de Manila University.

JOSE C. VITUG
Independent Director, Chairman – Board Audit Committee, Member - Board Corporate Governance Committee

Justice Jose C. Vitug (ret.), 77 years old, Filipino, has served as Independent Director of AEV since 2005. He is a Senior Professor at the Philippine Judicial Academy and Consultant of the Committee on Revision of the Rules of the Supreme Court of the Philippines; Chairman of the Angeles University Foundation Medical Center; Network Ombudsman of ABS-CBN Corporation; Trustee of the Mission Communications Foundation, Inc.; Dean of the Angeles University Foundation School of Law and a Graduate Professor of the Graduate School of Law of San Beda College. He was formerly an Associate Justice of the Supreme Court, Chairman of the House of Representatives Electoral Tribunal and senior member of the Senate Electoral Tribunal.

STEPHEN CUUNJIENG
Independent Director, Member – Board Audit Committee, Board Corporate Governance Committee and Board Risk Management Committee

Mr. Stephen CuUnjieng, 53 years old, Filipino, has served as Independent Director of AEV since 2010. He has a long and extensive experience in investment banking with a number of major international investment banks. He has led several high profile transactions in the Philippines and Asia, and has won nine Deals of the Year awards since 2005. He is currently Chairman for Asia for Evercore Partners, a New York Stock Exchange listed investment bank; Adviser to the Board of SM Investments Corporation; Director of Manila North Tollways Corporation and Adviser to the Board of Atlas Consolidated Mining and Development Corporation. He previously held Vice Chairman, Managing director or Director positions with Macquarie, Merrill Lynch and Salomon Brothers, among others.

Nominations for Independent Directors and Procedure for Nomination

The procedure for the nomination and election of the independent directors is in accordance with Rule 38 of the Securities Regulation Code (SRC Rule 38), AEV's Amended By-laws and AEV's Guidelines. These Guidelines were approved by the AEV Board on February 10, 2003 and disclosed to all stockholders.

Nominations for independent directors were accepted starting January 1, 2012, as provided for in Section 2 of the Guidelines and the table for nominations was closed on February 15, 2012 as provided for in Section 3 of the Guidelines.

SRC Rule 38 and the Guidelines further require that the Board Corporate Governance Committee shall meet to prescreen all nominees, and shall submit a Final List of Candidates to the Corporate Secretary no later than February 22, 2012 so that such list will be included in the Corporation's Preliminary and Definitive Information Statements. Only nominees whose names appear on the Final List shall be eligible for election as independent directors. No other nominations shall be entertained after the Final List of Candidates has been prepared. The name of the person or group of persons who recommend the nomination of an independent director shall be identified in such report including any relationship with the nominee. All these procedures were complied with.

In approving the nominations for independent directors, the Board Corporate Governance Committee considered the guidelines on the nominations of independent directors prescribed in SRC Rule 38, the Guidelines and AEV's Revised Manual on Corporate Governance.

No nominations for independent director shall be accepted at the floor during the stockholders' meeting at which such nominee is to be elected. However, independent directors shall be elected in the stockholders' meeting during which other members of the Board are to be elected.

Ret. Justice Jose C. Vitug, Mr. Stephen CuUnjieng and Mr. Raphael P.M. Lotilla are the nominees for Independent Directors of AEV. They are neither officers nor employees of the Company or any of its affiliates, and do not have any relationship with the Company which would interfere with the exercise of independent judgment in carrying out the responsibilities of an independent director.

AEV stockholders Leah I. Geraldez, Cresilda D. Gantuangco and Katrina Aliman have recommended Ret. Justice Jose C. Vitug Mr. Stephen CuUnjieng and Mr. Raphael P.M. Lotilla, respectively, as the Company's independent directors. None of the nominating stockholders have any relation to Justice Vitug, to Mr. CuUnjieng nor to Mr. Lotilla.

Other Nominees for Election as Members of the Board of Directors

As conveyed to the Corporate Secretary, the following will also be nominated as members of the Board of Directors for the ensuing year 2012-2013:

Jon Ramon Aboitiz
Erramon I. Aboitiz
Roberto E. Aboitiz
Enrique M. Aboitiz, Jr.
Justo A. Ortiz
Antonio R. Moraza

Pursuant to Section 1 (Paragraph 4), Article II of the Amended By-Laws of AEV, nominations for members of the Board of Directors other than Independent Directors must be submitted in writing to the Corporate Secretary at least 15 working days before the regular Annual Stockholders' Meeting on May 21, 2012, or not later than April 27, 2012.

All other information regarding the positions and offices held by the abovementioned nominees are integrated in Item 5 (a) (1) above:

Officers for 2011-2012

Below is a list of AEV officers for 2011-2012 with their corresponding positions and offices held for the past five years. Unless otherwise indicated hereunder, the officers assumed their positions during AEV's annual organizational meeting in 2011 for a term of one year.

ERRAMON I. ABOITIZ
President and Chief Executive Officer

Mr. Erramon I. Aboitiz, 55 years old, Filipino, has served as President and Chief Executive Officer of AEV since January 2009. He has been a Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to December 2008. He is also President and Chief Executive Officer of Aboitiz & Company, Inc. and Aboitiz Power Corporation; Chairman of the Board of Directors of Davao Light & Power Company, Inc., San Fernando Electric Light and Power Company, Inc., Cotabato Light & Power Company, Subic Enerzone Corporation, SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., Aboitiz Renewables, Inc., Therma Marine, Inc., Therma Power, Inc., Visayan Electric Company, Inc. and City Savings Bank, Inc.; and Director of STEAG State Power, Inc., Union Bank of the Philippines and Pilmico Foods Corporation. He is also Chairman of Aboitiz Foundation, Inc. and a director of the Family Business Development Center (Ateneo de Manila University). He holds a degree in Bachelor of Science in Business Administration, major in Accounting and Finance from Gonzaga University, Spokane, U.S.A.

STEPHEN G. PARADIES
Senior Vice President/Chief Financial Officer/Corporate Information Officer/Ex-Officio Member – Board Audit Committee and Board Risk Management Committee

Mr. Stephen G. Paradies, 58 years old, Filipino, has been Senior Vice President, Chief Financial Officer and Corporate Information Officer of AEV since 2004. He was Compliance Officer of AEV until November 2005. From 2002 to 2004, he was Senior Vice President and Chief Audit Executive of AEV. He is also Senior Vice President for Finance and a member of the Board of Advisers of Aboitiz & Company, Inc.; Director and Senior Vice President and Treasurer of Aboitiz Construction Group, Inc.; Director of Union Bank of the Philippines, Union Properties, Inc., International Container Terminal Services, Inc., Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, City Savings Bank, Inc. and Metaphil International, Inc.; Director and Vice President of AEV Aviation, Inc.; Trustee and Treasurer of Aboitiz Foundation, Inc.; and Treasurer of Cebu Industrial Park Developers, Inc. He obtained his Bachelor of Science in Business Management from Santa Clara University, California, U.S.A.

MIKEL A. ABOITIZ
Senior Vice President/Chief Information Officer/Chief Strategy Officer

Mr. Mikel A. Aboitiz, 57 years old, Filipino, has served as AEV's Senior Vice President and Chief Information Officer since 2004 and its Chief Strategy Officer since 2009. He has been a Director of Aboitiz Power Corporation; Director and Senior Vice President for Strategy of Aboitiz & Company, Inc.; President and Chief Executive Officer of City Savings Bank, Inc.; Director of Visayan Electric Company, Inc., Cotabato Light & Power Company, Davao Light & Power Company, Inc., Aboitiz Land, Inc., Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, Cebu Praedia Development Corporation, Aboitiz Construction Group, Inc., AP Renewables, Inc., AEV Aviation, Inc., Metaphil International, Inc., Therma Power, Inc., Therma Luzon, Inc.; and Trustee and Treasurer of Ramon Aboitiz Foundation, Inc. He holds a degree in Bachelor of Science (Major in Business Administration) from Gonzaga University, Spokane, U.S.A.

ENRIQUE M. ABOITIZ, JR., Director
Senior Vice President Chairman– Board Risk Management Committee

Mr. Enrique M. Aboitiz, Jr., 58 years old, Filipino, has served as Director of AEV since 1994. He is also Senior Vice-President of AEV since 2011; Chairman of the Board of Directors of Aboitiz Power Corporation and Aboitiz Land, Inc.; Director of Aboitiz & Company, Inc., AP Renewables, Inc., Manila-Oslo Renewable Enterprise, Inc., and Therma Luzon, Inc. Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration (Major in Economics) from Gonzaga University, Spokane, Washington, U.S.A.

JUAN ANTONIO E. BERNAD
Senior Vice President

Mr. Juan Antonio E. Bernad, 55 years old, Filipino, is AEV's Senior Vice President since 1995. He was AEV's Senior Vice President – Electricity Regulatory Affairs from 2004 to 2007 and Senior Vice President - Chief Financial Officer from 1995 to 2004. He is Executive Vice President for Strategy and Regulation of Aboitiz Power Corporation; Executive Vice President - Regulatory Affairs of Davao Light & Power Company, Inc.; Director and Senior Vice President of Visayan Electric Company, Inc.; Director of Cotabato Light & Power Company, AEV Aviation, Inc., AP Renewables, Inc. and Union Bank of the Philippines; and Director and Vice President of Cebu Praedia Development Corporation.

He has a degree in Economics from the Ateneo de Manila University and a master's degree in Business Administration at The Wharton School, University of Pennsylvania, U.S.A.

XAVIER J. ABOITIZ
Senior Vice President - Chief Human Resources Officer, Ex-Officio Member - Board Corporate Governance Committee

Mr. Xavier J. Aboitiz, 52 years old, Filipino, has been Senior Vice President – Chief Human Resources Officer of AEV since 2004. He is also Senior Vice President for Human Resources and a member of the Board of Advisers of Aboitiz & Company, Inc.; Director of Pilmico Foods Corporation, Visayan Electric Company, Inc. and City Savings Bank, Inc.; and Trustee of Aboitiz Foundation, Inc. Mr. Aboitiz has worked in various capacities in different companies under the Aboitiz Group of companies since 1983. He took up Business Administration – Finance at Gonzaga University, Spokane, U.S.A.

GABRIEL T. MAÑALAC
Senior Vice President - Group Treasurer

Mr. Gabriel T. Mañalac, 55 years old, Filipino, has been Senior Vice President - Group Treasurer of AEV since January 2009. He joined AEV as Vice President for Treasury Services in 1998 before he was promoted to First Vice President for Treasury Services in 2004. He is also Senior Vice President and Treasurer of Aboitiz Power Corporation; Vice President and Treasurer of Davao Light & Power Company, Inc.; and Treasurer of Cotabato Light & Power Company. Mr. Mañalac graduated cum laude with a degree of Bachelor of Science in Finance and Bachelor of Arts in Economics from De La Salle University. He obtained his Masters of Business Administration in Banking and Finance from the Asian Institute of Management and was awarded the Institute's Scholarship for Merit.

LUIS MIGUEL O. ABOITIZ
First Vice President

Mr. Luis Miguel O. Aboitiz, 47 years old, Filipino, has been First Vice President of AEV since 2004. He joined AEV in 1995 as Vice President. He is also Senior Vice President – Power Marketing and Trading of Aboitiz Power Corporation; President and Chief Executive Officer of Aboitiz Energy Solutions, Inc. and Adventenergy, Inc.; Director and Senior Vice President – Business Development of Hedcor, Inc.; and Director of STEAG State Power, Inc., Aboitiz Renewables, Inc., Therma Power, Inc., Aboitiz & Company, Inc., Pilmico Animal Nutrition Corporation, Pilmico Foods Corporation, Manila-Oslo Renewable Enterprise, Inc., Therma Luzon, Inc., AP Renewables, Inc., and Hedcor Sibulan, Inc. He graduated at Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering and took his Masters in Business Administration from the University of California at Berkeley, U.S.A.

M. JASMINE S. OPORTO
First Vice President – Chief Legal Officer/Corporate Secretary/Chief Compliance Officer, Ex-Officio Member – Board Corporate Governance Committee

Ms. M. Jasmine S. Oporto, 52 years old, Filipino, has been Corporate Secretary of AEV since 2004 and Chief Compliance Officer since November 2005. She is concurrently First Vice President - Chief Legal Officer of AEV. She is also Vice President for Legal Affairs of Davao Light & Power Company, Inc.; and Corporate Secretary of Aboitiz Power Corporation, Visayan Electric Company, Inc., Hijos de F. Escaño, Inc. and Luzon Hydro Corporation. Prior to joining AEV, she worked in various capacities at the Hong Kong office of Kelley Drye & Warren, LLP, a New York-based law firm, and the Singapore-based consulting firm Albi Consulting Pte. Ltd. She obtained her Bachelor of Laws from the University of the Philippines and is a member of both the Philippine and New York bars.

HORACIO C. ELICANO
First Vice President and Chief Technology Officer

Mr. Horacio C. Elicano, 52 years old, Filipino, has been First Vice President and Chief Technology Officer of AEV since 2009. Before he joined AEV, he was Managing Director of Catapult Communications. He was also Chief Technology Officer of Paysetter International Inc., from 2001 to 2007 and of Chikka Asia, Inc., from 2001 to 2005. Prior to that, he logged 20 years in the banking industry with Citibank and Union Bank of the Philippines. He is a B.S. Electrical Engineering graduate from the University of the Philippines.

ROLANDO C. CABRERA
First Vice President – Chief Risk Management Officer, Ex-Officio Member – Board Audit Committee and Board Risk Management Committee

Mr. Rolando C. Cabrera, 65 years old, Filipino, has been First Vice President – Chief Risk Management Officer of AEV since 2009. He was Director and Senior Risk Management and Corporate Governance Advisor of KPMG Philippines Manabat Sanagustin & Co. prior to his appointment in AEV. He was formerly the Executive Director and Principal Consultant of Risk Watch International, a consulting company which provides risk management, risk assessment, risk treatment, and business continuity management services to various companies from 2001 to 2005, and Business Risk Manager of Fort Bonifacio Development Corporation from 1998 to 2001. He started his career in insurance and risk management at San Miguel Corporation, where he was Insurance Manager from 1981 to 1987, Risk Manager from 1987 to 1992, and Risk and Safety Manager from 1992 to 1995. He is the Chairman of the Board and Founding Director of Risk & Insurance Management Association of the Philippines (RIMAP). He was past Chairman of the Board of the Safety Organization of the Philippines (SOPI) in 1992 and in 1998. In 1991, he was awarded a Certificate of Merit in the Search for Risk Manager of the Year by CIGNA Europe in conjunction with Post Magazine. He graduated cum laude from San Beda College with a Bachelor in Commercial Science, major in Accounting and Auditing. He obtained his Masters in Business Administration (MBA) from the University of the Philippines, and is a Certified Public Accountant. He specializes in Enterprise Risk Management, Insurance, Safety Management, Corporate Governance and Business Continuity Management, having trained in the USA, Japan, Singapore and Hong Kong.

PATRICK B. REYES
First Vice President – Corporate Finance

Mr. Patrick B. Reyes, 40 years old, Filipino, has been First Vice President – Corporate Finance of AEV since 2009. Before joining AEV, he was President of QBitron, a company that provides outsourcing services and management consulting to clients in the US and in the Philippines. He was a Senior Partner in The Ripples Group, a management consulting firm based in Newton, Massachusetts, from 2004 to 2006 and Chief Operating Officer of Citizens Health LLC, a healthcare company based in Boston, Massachusetts from 2002 to 2004. He was also a consultant with the international strategy-consulting firm, Bain & Company, Inc., from 1994 to 2002. Mr. Reyes earned his Bachelor of Science in Management, summa cum laude, from the Boston College Wallace E. Carroll School of Management and his MBA from Harvard University's Graduate School of Business Administration.

ROMÁN V. AZANZA III
First Vice President for Business Development

Mr. Róman V. Azanza III, 43 years old, Filipino, has been First Vice President for Business Development since October 2011. Before he joined AEV, Mr. Azanza was Asian Regional Treasurer and Director for Strategic Planning of CEMEX Asia Pte., Ltd. and CEMEX Malaysia, respectively. He was previously connected with ING Barings as Senior Manager for Debt Execution and at Citibank, N.A. as Assistant Manager with the North Asian Regional Audit team. He has extensive experience in banking, project finance, strategic planning and cash management. He holds an A.B. in Economics from Colby College, and earned his MBA from the Darden School of Business at the University of Virginia. He also completed the CEMEX International Management Program in 2003.

MELINDA RIVERA-BATHAN
Vice President – Controller

Ms. Melinda Rivera-Bathan, 52 years old, Filipino, has been Vice President-Controller of AEV since 2004. She was previously Assistant Vice President- Controller of AEV from 1997 until 2004. She graduated summa cum laude from St. Theresa's College with a Bachelor of Science degree in Commerce, major in Accounting and obtained her license as a Certified Public Accountant. She completed her Masters in Management from the University of the Philippines with honors.

NARCISA S. LIM
Vice President – Human Resources

Ms. Narcisa S. Lim, 48 years old, Filipino, has been Vice President for Human Resources of AEV since August 2008. She was Assistant Vice President for Human Resources of AEV from 2004 to 2008. She holds a degree in International Studies from Maryknoll College.

JOSEPH TRILLANA T. GONZALES
Vice President – Legal and Corporate Services

Mr. Joseph Trillana T. Gonzales, 45 years old, Filipino, has been Vice President – Legal and Corporate Services of AEV since 2008. He is also Corporate Secretary of AP Renewables, Inc. and Assistant Corporate Secretary of Aboitiz Power Corporation. He was previously Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group in 2007 as Assistant Vice President of the Corporate and Legal Services of Aboitiz & Company, Inc. He is a graduate of Bachelor of Arts in Economics and Bachelor of Laws from the University of the Philippines. He also has a Master of Laws degree from the University of Michigan.

MA. LUISA MOLINA-SALUD
Vice President – Branding

Ms. Ma. Luisa Molina-Salud, 47 years old, Filipino, has been Vice President for Branding of AEV since March 2011. Prior to joining AEV, she was previously connected with numerous advertising firms such as Hemisphere-Leo Burnett, McCann Erickson Philippines, Basic/Foote, Cone & Belding and Olbes, Ogilvy & Mather, Gallardo & Associates, Club Media Asia Inc., as head of the Account Group or as Strategic Planning Director. Her expertise is anchored on strategic brand planning and consumer research. Her scope of work experience goes beyond Philippine shores as she has worked on other Asian markets launching both local and Filipino brands in various countries. She is a graduate of Bachelor of Science in Commerce major in Marketing Management from St. Scholastica's College, with some units in Master of Business Administration from De la Salle University.

SUSAN V. VALDEZ
Chief Reputation Officer, Ex-offico Member — Board Corporate Governance Committee

Ms. Susan V. Valdez, 51 years old, Filipino, was appointed as Chief Reputation Officer last September 2011. Before joining AEV, Ms. Valdez was the Executive Vice President and Chief Executive Officer of the 2GO Freight Division of ATS Consolidated (ATSC), Inc. (formerly Aboitiz Transport System (ATSC) Corporation) for eight years. She was also President and Chief Executive Officer of ATS Express, Inc. and ATS Distribution, Inc. for the past two years. Prior to heading the freight and supply chain business of ATSC, she was Chief Finance Officer and Chief Information Officer of ATSC for eight years. Ms. Valdez is a graduate of Bachelor of Science in Commerce major in Accounting from St. Theresa's College and earned her Masters in Business Management from the University of the Philippines. She completed a program on Management Development at Harvard Business School, Boston, USA.

CAROLINE G. BALLESTEROS
Assistant Vice President - Corporate Communications

Ms. Caroline G. Ballesteros, 49 years old, Filipino, has been Assistant Vice President for Corporate Communications of AEV since 2011. She joined AEV in 2005 as Assistant Vice President for Branding and Corporate Communications. Before joining AEV, she was Corporate Communications Officer – VISMIN at Etelecare Global Solutions, and a TV Host/News Anchor of ABS-CBN, Cebu Regional Station. She graduated summa cum laude, Bachelor of Science in Commerce, major in Accounting from the University of San Jose-Recoletos, Cebu City.

RIELLA MAE CHRISTA B. GUIOGUIO
Assistant Vice President - Corporate Finance

Ms. Riella Mae Christa B. Guioguio, 34 years old, Filipino, has been Assistant Vice President for Corporate Finance of AEV since 2010. She has been with the Aboitiz Group for 13 years holding various accounting & finance positions. She was Accounting Manager of various companies including Aboitiz & Company, Inc. and Aboitiz Equity Ventures, Inc., from 2005 until her promotion to Assistant Vice President - Corporate Finance in 2010. A magna cum laude graduate of Bachelor of Science in Accountancy from the University of San Carlos, she obtained her Masters in Management major in Business Management from the University of the Philippines - Visayas, Cebu.

ROBIN PATRICK R. SARMIENTO
Assistant Vice President – Strategy

Mr. Robin Patrick R. Sarmiento, 31 years old, Filipino, has been Assistant Vice President for Strategy of AEV since 2010. Before joining AEV, Mr. Sarmiento was an Investment Analyst of ATR Kim Eng Securities. He was also Strategic Finance and Analysis Manager of American Golf Corporation in California. He earned his degree in Bachelor of Interdisciplinary Studies in Management and Communications from Ateneo de Manila University.

VIVIEN V. LIMJOCO
Assistant Vice President - Strategy and Corporate Finance

Ms. Vivien V. Limjoco, 41 years old, Filipino, was appointed as Assistant Vice President - Strategy and Corporate Finance of AEV since February 2012. Prior to joining AEV, she worked with ATS Consolidated (ATSC), Inc. (formerly Aboitiz Transport System (ATSC) Corporation) as Assistant Vice President – Corporate Finance, Corporate Planning and Investor Relations Officer. She has wide experience in corporate finance and strategy with focus on financial and investment analysis, forecasting, budgeting and control. Ms. Limjoco was also a Freelance Financial Consultant and was previously connected with PCI Capital Corporation as Senior Associate – Corporate Finance Group. Ms. Limjoco is a graduate of BA (Hons) Degree in International Business with specialization in Corporate Finance, International Economics and Spanish and Italian languages from the European Business School London in United Kingdom.

RONALDO S. RAMOS
Assistant Vice President - Business Risk Management

Mr. Ronaldo S. Ramos, 33 years old, Filipino, has been Assistant Vice President for Business Risk Management of AEV since 2009. He has extensive experience in risk management, internal and IT audits and business process reviews. Prior to joining AEV, he was Senior Manager for Risk Advisory Services of KPMG Philippines; Operations Auditor of Petron Corporation; and Audit and Business Advisory Services associate of SGV & Co. He is a graduate of Bachelor of Science in Accountancy from De La Salle University and is a Certified Public Accountant, Certified Internal Auditor and Certified Information Systems Auditor. He recently received an International Certificate in Risk Management from the Institute of Risk Management.

ANNACEL A. NATIVIDAD
Assistant Vice President for Financial Risk Management

Ms. Annacel A. Natividad, 42 years old, Filipino, was appointed as Assistant Vice President for Financial Risk Management of AEV's Risk Management Team last September 2011. Prior to joining AEV, Ms. Natividad was connected with ATS Consolidated (ATSC), Inc. (formerly Aboitiz Transport System (ATSC) Corporation) where she was Vice President - Chief Finance Officer and Risk Management Head since June 2007. Concurrently, she also served as the Chief Finance Officer of Scanasia Overseas, Inc., Kerry-ATS Logistics, Inc., Hapag-Lloyd Philippines, Inc., Aboitiz Project TS Corporation and Sea Merchants, Inc. She has a degree in Bachelor of Science in Commerce from the University of Sto. Tomas and earned her Masters in Business Administration from the De La Salle University.

JACKSON O. SOTINGCO
Assistant Vice President – Insurance Risk Management

Mr. Jackson O. Sotingco, 41 years old, Filipino, has been Assistant Vice President for Insurance Risk Management of AEV since 2011. Before joining AEV, Mr. Sotingco was Risk Management of the SN Aboitiz Power Group. He was Underwriting, Risk Management Manager of Unicon Insurance Brokers Corporation of the JG Summit Group of Companies and Risk Management Associate of San Miguel Corporation. He started his career in the field of insurance as a risk engineer with UCPB General Insurance Co., Inc. and has more than 15 years of experience in risk management and insurance. He is a graduate of Bachelor in Civil Engineering from De La Salle University.

M. CARMELA N. FRANCO
Assistant Vice President – Investor Relations

Ms. M. Carmela N. Franco, 40 years old, Filipino, has been Assistant Vice President for Investor Relations of AEV since 2008. Prior to her stint with AEV, she was connected with San Miguel Corporation as Investor Relations Officer of its Corporate Finance Group and later as Senior Project Analyst of its Corporate Planning Group. She was a Trader, Associate and Credit Analyst of Capital One Equities Corporation & Multinational Investment Bancorporation from 1992 to 1994 and was formerly an Investment Analyst of ING Barings (Phils), Inc. & ATR Kim Eng Securities (Phils), Inc. from 1994 to 1997. She was also an Investment Officer of Standard Chartered Bank from 1998 to 2000 and went on to serve as Project Analyst of Newgate Management, Inc. from 2000 to 2002. She graduated from the University of the Philippines (cum laude) with a Bachelor of Science degree in Business Economics.

JULIE ANN T. DIONGZON
Assistant Vice President - Treasury

Ms. Julie Ann T. Diongzon, 42 years old, Filipino, has been Assistant Vice President for Treasury of AEV since 2009. A B.S. Commerce graduate from the University of San Carlos, she has been with the Aboitiz Group for more than 20 years, holding various accounting and finance positions.

AYLMERITA C. PEÑALOZA
Assistant Vice President –Treasury

Ms. Aylmerita C. Peñaloza, 39 years old, Filipino, has been Assistant Vice President for Treasury of AEV since 2010. Prior to joining AEV, Ms. Peñaloza was Senior Assistant Vice President for Coverage Corporate and Financial Institution of Credit Agricole CIB Manila Offshore Branch and Relationship Manager for Corporate Banking of Banco de Oro Universal Bank and Security Bank Corporation. She holds a degree in Bachelor of Science in Commerce, Major in Accounting from the University of Santo Tomas and an MBA from the Ateneo Graduate School of Business. She also completed the Strategic Finance Program of the Asian Institute of Management. She is also a licensed Trader for Money Market and Foreign Exchange under the Bankers Association of the Philippines.

MA. KRISTINA V. RIVERA
Assistant Vice President - Human Resources

Ms. Ma. Kristina V. Rivera, 41 years old, Filipino, has been Assistant Vice President for Human Resources of AEV seconded to Aboitiz Power Corporation since 2009. She has 17 years experience in human resources management with a diverse background in human resource strategic planning, implementation and administration. Before joining the Aboitiz Group in 2003, she was with the PNOC-Energy Development Corporation. She holds Bachelor of Science and Masters degrees in Psychology from the University of the Philippines.

GERALDINE POLANCO-ONGANON
Assistant Vice President - Human Resources

Ms. Geraldine Polanco - Onganon, 42 years old, Filipino, has been Assistant Vice President for Human Resources seconded to the Food Group of AEV since 2009. She has been with the Aboitiz Group for over 15 years, holding various positions in human resources in different Aboitiz companies. Before she was seconded to FBMA Marine, Inc. as Assistant Vice President – Human Resources in 2005, she was Manager for Human Resources of Aboitiz & Company, Inc. from 2001 to 2005. She is a graduate of A.B. Behavioral Science from the University of Santo Tomas.

CHRISTOPHER M. CAMBA
Assistant Vice President - Human Resources

Mr. Christopher M. Camba, 33 years old, Filipino, has been Assistant Vice President for Human Resources of AEV since 2009, and seconded to AEV's affiliate, Aboitiz Land, Inc. since 2010. He joined the Aboitiz Group in 2001 as Corporate Auditor of Aboitiz & Company, Inc. He was assigned to the Human Resources Department of Aboitiz & Company, Inc. in 2004, where he was seconded as Human Resources Manager of Aboitiz Construction Group, Inc. He is a graduate of Bachelor of Science in Accountancy from the University of San Carlos.

NOEMI G. SEBASTIAN
Assistant Vice President – Human Resources and Quality

Ms. Noemi G. Sebastian, 49 years old, Filipino, has been Assistant Vice President for Human Resources and Quality since August 2011. Before joining AEV, she was Vice President for Human Resources, Corporate Communications and Quest Consulting Group of ATS Consolidated (ATSC), Inc. (formerly Aboitiz Transport System (ATSC) Corporation). She was previously connected with BayanTrade Dotcom, Inc. as Project Consultant and with SAP Philippines as Alliance Manager. She was also Executive Director of Institute of Advanced Computer Technology. Ms. Sebastian is a graduate of Bachelor of Science in Business Administration from the University of the Philippines.

BENEDICT JAMES B. DURAN
Assistant Vice President – Human Resources

Mr. Benedict James B. Duran, 41 years old, Filipino, has been appointed as Assistant Vice President – Human Resources of AEV since November 2011 seconded to City Savings Bank, Inc., as Vice President – Human Resources. Before joining AEV, he was Vice President for Human Resources and Administration of Matimco, Incorporated. He was previously connected with BlueMedia Communications, Inc. and Institute of Corporate Directors, where he was Director for Human Resources and Director for Operations, Marketing and Programs, respectively. He is a graduate of Bachelor of Arts in Philosophy from the University of Sto. Tomas, and earned his Masters in Business Administration from the Ateneo de Manila University. He holds several diplomas in the field of human resources, more particularly in Strategic Human Resources Development from the Ateneo Center for Organization Research and Development and the Yuchengco Group of Companies; Human Resource Management from the School of Professional and Continuing Education of De La Salle-

College of St. Benilde; and Industrial Relations from the School of Labor and Industrial Relations of the University of the Philippines, Diliman.

MARILOU P. PLANDO
Assistant Vice President – Business Administrator for Legal and Corporate Services

Ms. Marilou P. Plando, 36 years old, Filipino, has been Assistant Vice-President – Business Administrator for AEV's Legal and Corporate Services Department since 2011. Before joining AEV, Ms. Plando was Operations Director in Sykes Asia, Inc. She has extensive experience in operations and quality assurance management from working in various capacities with Sykes and Lear Automotive Services (Netherlands) B.V.–Phils. Branch. Ms. Plando is a graduate of Bachelor of Science in Industrial Engineering from the University of San Jose Recoletos.

SUSAN S. POLICARPIO
Assistant Vice President – Government Relations

Ms. Susan S. Policarpio, 55 years old, Filipino, has been AEV's Assistant Vice President for Government Relations since 2011. She is also Assistant Vice President for Government Relations of Aboitiz Power Corporation since 2009. Prior to her stint in AEV, she was Assistant Vice President for Government Relations of ATS Consolidated (ATSC), Inc. (formerly Aboitiz Transport System (ATSC) Corporation) since 2003. She was also Executive Director of Domestic Shipping Association from 2001 to 2003, and Executive Director of the Honorary Investments and Trade Representatives of the Department of Trade and Industry from 1998 to 2001. She is a member of the Philippine Chamber of Commerce and Industry, and a graduate of Bachelor of Arts in Communication from St. Paul College.

MARIA LOURDES Y. TANATE
Assistant Vice President - Audit

Ms. Lourdes Y. Tanate, 47 years old, Filipino, has been Assistant Vice President for Corporate Audit since November 2011. Prior to joining AEV, Ms. Tanate was the Chief Audit Executive of ATS Consolidated (ATSC), Inc. (formerly Aboitiz Transport System (ATSC) Corporation). She also served as Assistant Vice President for Finance and Senior Manager of ATS. She has extensive experience in internal audit, financial and investment analysis and corporate finance, with focus on budgeting, financial planning and control. She graduated cum laude with a degree of Bachelor of Arts in Economics from the University of the Philippines, Diliman and subsequently obtained her Masters in Business Administration from the same school. She earned her Masters in Engineering and Technology Management from the University of Queensland, Australia.

ANDY G. TORRATO
Assistant Vice President - Plant Security

Mr. Andy G. Torrato, 38 years old, Filipino, has been Assistant Vice President for Plant Security since January 2012. Before joining AEV, he worked with ATS Consolidated (ATSC), Inc. (formerly Aboitiz Transport System (ATSC) Corporation) and was assigned to its subsidiary, ATS Express, Inc., as Security and Safety Manager. He has extensive experience in security management from working in various capacities with Naval Sea Systems Command of the Philippine Navy, Armed Forces of the Philippines. He is a graduate of Bachelor of Science in Naval Systems from the Philippine Military Academy.

JOSEPH Y. TUGONON
Assistant Vice President – Tax Management Services for Legal and Corporate Services

Mr. Joseph Y. Tugonon, 38 years old, Filipino, has been appointed as Assistant Vice President – Tax Management Services for AEV's Legal and Corporate Services Department since 2011. He has extensive experience and training in the field of corporate taxation. He joined AEV in 2003 as Associate General Counsel and was promoted to Senior General Counsel in 2006. Before joining AEV, he was connected with the Legal Division of the Bureau of Internal Revenue. He is a graduate of Bachelor of Laws from the University of San Carlos and earned his degree in Bachelor of Arts major in Political Science from the same school.

CATHERINE R. ATAY
Assistant Corporate Secretary

Ms. Catherine R. Atay, 33 years old, Filipino, has been the Assistant Corporate Secretary of AEV since 2011. She is also Corporate Secretary of City Savings Bank, Inc., Aboitiz & Company, Inc., Aboitiz Construction Group, Inc., Aboitiz Renewables, Inc., Abovant Holdings, Inc., Cotabato Light and Power Company, Pilmico Animal Nutrition Corporation, Davao Light and Power Company, Inc., Hedcor Tamugan, Inc., Hedcor, Inc., Hydro Electric Development Corporation, Metaphil International, Inc., Pilmico Foods Corporation, Therma Power, Inc., Therma Power Visayas, Inc., Tsuneishi Foundation (Cebu), Inc., Tsuneishi Heavy Industries, Inc. and West Cebu Foundation, Inc. She is also the Assistant Corporate Secretary of Aboitiz Land, Inc., Aboitiz Foundation Inc., AEV Aviation, Inc., Balamban Enerzone Corporation, Cebu Industrial Park Developers, Inc., Cebu Industrial Park Services, Inc., Cebu Praedia Development Corporation, Cotabato Ice Plant, Inc., East Asia Utilities Corporation, Hedcor Bukidnon, Inc., Hedcor Sabangan, Inc., Hedcor Tudaya, Inc., Luzon Hydro Corporation, Mactan Enerzone Corporation, Misamis Oriental Development Corporation, Pilmico Bioenergy, Inc., Prism Energy, Inc., Therma Central Visayas, Inc., Therma Marine, Inc., Therma Mobile, Inc., Therma Southern Mindanao, Inc., and Therma Subic, Inc. Fil-Agri Holdings, Inc., Filagri, Inc., CSB Land, Inc. and Therma South, Inc., She earned her Bachelor of Science in Accountancy (Cum Laude) and Bachelor of Laws from the University of San Carlos. She is a member of the Integrated Bar of the Philippines and is a Certified Public Accountant.

Period in which the Directors and Executive Officers Should Serve

The directors and executive officers should serve for a period of one year.

Term of Office of a Director

Pursuant to the Company's Amended By-laws, the directors are elected at each annual stockholder's meeting by stockholders entitled to vote. Each director holds office until the next annual election for a term of one year and until his successor is duly elected unless he resigns, dies or is removed prior to such election.

Any vacancy in the Board of Directors other than by removal or expiration of term may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

(2) Significant Employees

AEV considers the contribution of every employee important to the fulfillment of its goals.

(3) Family Relationships

Messrs. Jon Ramon, Roberto and Mikel Aboitiz are brothers and are thus related to each other within the fourth civil degree of consanguinity.

Messrs. Erramon, Enrique, Jr. and Xavier Jose Aboitiz are brothers and are thus related to each other within the fourth civil degree of consanguinity. They are also related within the fourth civil degree of consanguinity to Mr. Stephen G. Paradies, who is their first cousin.

(4) Involvement in Certain Legal Proceedings as of March 30, 2012

People of the Philippines vs. Renato Francisco et. al.
(c/o Fuller O' Brien Paint Company, Inc., Reliance St., Mandaluyong City)
Criminal Case No. 35-5784
MTC Branch 66, Makati City
July 19, 2007

On July 23, 2008, the Metropolitan Trial Court (MTC) of Makati issued an Order finding probable cause to hold the alleged directors/stockholders of Fuller O'Brien Paint Company, Inc. (Fuller O'Brien), including Erramon I. Aboitiz, liable for violation of PD No. 1752 or the Pag-Ibig Fund Law, as amended.

Upon motion by Mr. Aboitiz, the MTC reconsidered its order finding probable cause against him. The MTC also directed the Office of the City Prosecutor (City Prosecutor) of Makati to conduct a preliminary investigation against Mr. Aboitiz.

In the preliminary investigation, Mr. Aboitiz explained that he should be exonerated from the charges filed against him as he was no longer a director of Fuller O'Brien when the alleged violations of the Pag-Ibig Fund Law occurred.

In a Resolution dated August 23, 2010, the City Prosecutor dismissed the case against Mr. Aboitiz (and three other respondents) for lack of probable cause. The City Prosecutor, however, ordered the filing of a criminal case against the five remaining respondents.

Renato Francisco and Ramon Mapa, who were among the five remaining respondents criminally charged, filed a motion with the City Prosecutor to reconsider the charges against them. Finding no compelling reason to warrant the reconsideration, the City Prosecutor issued an Order dated January 7, 2011 denying the motion of Messrs. Francisco and Mapa, and ordering the filing of the information against them with the MTC.

To the knowledge and/or information of AEV, other than as disclosed above, none of its nominees for election as directors, its present members of the Board of Directors or its executive officers, is presently or during the last five years, been involved in any legal proceeding or bankruptcy petition or has been convicted by final judgement, or being subject to any order, judgement or decree or violated the securities or commodities law in any court or government agency in the Philippines or elsewhere for the past five years and the preceding years until March 30, 2012 which would put to question their ability and integrity to serve AEV and its stockholders.

To the knowledge and/or information of AEV, the above-said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or by the laws of any other nation or country.

(a) Parent Company

The parent and the ultimate parent of AEV is Aboitiz & Company, Inc. As of March 30, 2012, ACO owns 49.54% of AEV.

(b) Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned nor declined to stand for re-election to the Board of Directors since the date of AEV's last annual meeting because of a disagreement with AEV on matters relating to its operations, policies and practices.

Item 10. Executive Compensation

(1) Summary of Compensation Table

Information as to the aggregate compensation paid or accrued to AEV's Chief Executive Officer and other highly compensated executive officers, as well as other officers and directors during the last two completed fiscal years and the ensuing fiscal year are as follows:

Name and Principal Position	Period	Salary	Bonus	Other Compensation
Top Highly-Compensated Executives: **Erramon I. Aboitiz** - Chief Executive Officer **Stephen G. Paradies** - Senior Vice President/Chief Financial Officer/Corporate Information Officer **Xavier Jose Aboitiz** - Senior Vice President/Chief Human Resources Officer **Patrick B. Reyes** - First Vice President - Corporate Finance **M. Jasmine S. Oporto** - First Vice President - Chief Legal Officer/Corporate Secretary/Compliance Officer				
All above named officers as a group	**Actual 2011**	**₱30,232,491**	**₱1,470,500**	**₱3,839,663**
	Actual 2010	₱14,178,146	₱1,085,000	₱2,403,021
	Projected 2012	₱39,301,245	₱2,050,500	₱5,716,514
All other officers and directors as a group unnamed	**Actual 2011**	**₱36,522,064**	**₱3,446,686**	**₱21,755,813**
	Actual 2010	₱18,499,851	₱1,763,250	₱13,889,848
	Projected 2012	₱56,018,534	₱3,999,150	₱28,424,820

(2) Compensation of Directors

(i) Standard Arrangements

In 2011, all of AEV's directors received a monthly allowance of ₱100,000 except for the Chairman of the Board who received a monthly allowance of ₱150,000. In addition, each director and the Chairmen of the Board and the Board Committees received a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱100,000	₱150,000

Type of Meeting	Committee Members	Chairman of the Committee
Committee Meeting	₱80,000	₱100,000

(ii) Other Arrangements

Other than payment of a director's allowance and per diem as stated, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

(3) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AEV and any executive in case of resignation or any other termination of employment or from a change in the management control of AEV.

(4) Warrants and Options Outstanding

To date, AEV has not granted any stock option to its directors or officers.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of March 30, 2012

Title of Class	Name/Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner	Citizenship	No. of Shares and Nature of Ownership (Record or Beneficial)	Percent of Class
Common	**1. Aboitiz & Company, Inc.**[3] Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City 6000 Stockholder	Aboitiz & Company, Inc.[4]	Filipino	2,735,600,915 (Record and Beneficial)	49.54%
Common	**2. PCD Nominee Corporation**[5] Stockholder	PCD participants acting for themselves or for their customers[6]	Filipino	915,928,680 (Record)	16.59%
Common	**3. PCD Nominee Corporation**[7] Stockholder	PCD participants acting for themselves or for their customers[8]	Non-Filipino	452,828,551 (Record and Beneficial)	8.20%
Common	**4. Ramon Aboitiz Foundation, Inc.**[9] 35 Lopez Jaena St., Cebu City Stockholder	Ramon Aboitiz Foundation, Inc.	Filipino	420,915,863 (Record and Beneficial)	7.62%

[3] Aboitiz & Company, Inc. (ACO) the major shareholder of AEV, is a corporation wholly owned by the Aboitiz family. No single stockholder, natural or juridical, owns 5% or more of the shareholdings of ACO.
[4] Mr. Erramon I. Aboitiz, ACO President and Chief Executive Officer, will vote for the shares of ACO in AEV in accordance with the directive of the ACO Board of Directors.
[5] Both PCD Nominee Corporations – Filipino and Foreign are not related to AEV. The beneficial owners of the shares held through a PCD participant are the beneficial owners thereof up to the extent of the number of shares registered under their respective accounts with the PCD participant.
[6] Of the 915,928,680 shares held by the PCD Nominee Corporation (Filipino), at least 718,199,322 shares or 13% of the voting stock of AEV are for the account Of Papa Securities Corporation (Papa Securities). AEV is not related to Papa Securities and it has no knowledge or information on how the shares in AEV will be voted by Papa Securities.
[7] Supra Note 5.
[8] AEV has no record relating to the power to decide how the shares held by PCD are to be voted. The Company was informed that none of the customers under a PCD participant beneficially owns more than 5% of the Company's common shares.
[9] Mr. Roberto E. Aboitiz, President of the Ramon Aboitiz Foundation, Inc. (RAFI), will vote for the shares of RAFI in AEV in accordance with the directive of the RAFI Board of Trustees.

(2) Security Ownership of Management as of March 30, 2012 (Record and Beneficial)

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)		Citizenship	Percentage of Ownership
Jon Ramon Aboitiz Chairman of the Board	Common	8,448	Direct	Filipino	0.00%
		128,487,172	Indirect		2.33%
Erramon I. Aboitiz Director President and Chief Executive Officer	Common	1,001,000	Direct	Filipino	0.02%
		40,897,668	Indirect		0.74%
Enrique M. Aboitiz Jr. Director Senior Vice President	Common	6,000	Direct	Filipino	0.00%
		2,898,000	Indirect		0.05%
Roberto E. Aboitiz Director	Common	10	Direct	Filipino	0.00%
		105,915,477	Indirect		1.92%
Justo A. Ortiz Director	Common	1	Direct	Filipino	0.00%
Antonio R. Moraza Director	Common	1,000	Direct	Filipino	0.00%
		26,402,419	Indirect		0.48%
Roberto R. Romulo Independent Director	Common	100	Direct	Filipino	0.00%
Jose C. Vitug Independent Director	Common	100	Direct	Filipino	0.00%
		72,020	Indirect		0.00%
Stephen T. CuUnjieng Independent Director	Common	100	Direct	Filipino	0.00%
Stephen G. Paradies Senior Vice President/Chief Financial Officer/Corporate Information Officer	Common	22,380,003	Indirect	Filipino	0.41%
Mikel A. Aboitiz Senior Vice President/Chief Information Officer/Chief Startegy Officer	Common	10	Direct	Filipino	0.00%
		93,399,799	Indirect		1.69%
Juan Antonio E. Bernad Senior Vice President	Common	730,351	Direct	Filipino	0.01%
		191,065	Indirect		0.00%
Xavier Jose Aboitiz Senior Vice President – Chief Human Resources	Common	1,998,236	Direct	Filipino	0.04%
		17,191,295	Indirect		0.31%
Gabriel T. Mañalac Senior Vice President – Group Treasurer	Common	40,610	Direct	Filipino	0.00%
Luis Miguel O. Aboitiz First Vice President	Common	21,315,087	Direct	Filipino	0.39%
M. Jasmine S. Oporto First Vice President – Chief Legal Officer/Corporate Secretary/ Compliance Officer	Common	33,073	Direct	Filipino	0.00%
Horacio C. Elicano First Vice President – Chief Technology Officer	Common	111,800	Direct	Filipino	0.00%
Rolando C. Cabrera First Vice President – Chief Risk Management Officer	Common	47,000	Direct	Filipino	0.00%
Patrick B. Reyes First Vice President – Corporate Finance	Common	47,199	Direct	Filipino	0.00%
Roman V. Azanza III First Vice President – Business Development	Common	108,888	Direct	Filipino	0.00%
Melinda R. Bathan Vice President – Controller	Common	61,609	Direct	Filipino	0.00%

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)		Citizenship	Percentage of Ownership
Narcisa S. Lim Vice President – Human Resources	Common	12,520	Direct	Filipino	0.00%
Joseph Trillana T. Gonzales Vice President – Legal and Corporate Services	Common	22,000	Direct	Filipino	0.00%
Ma. Luisa Molina-Salud Vice President – Branding	N/A	0	N/A	Filipino	0.00%
Susan V. Valdez Chief Reputation Officer	Common	503,463	Direct	Filipino	0.01%
Caroline G. Ballesteros Assistant Vice President – Corporate Communications	N/A	0	N/A	Filipino	0.00%
Robin Patrick R. Sarmiento Assistant Vice President – Strategy	N/A	0	N/A	Filipino	0.00%
Vivien V. Limjoco Assistant Vice President – Strategy and Corporate Finance	Common	8,000	Indirect	Filipino	0.00%
Ronaldo S. Ramos Assistant Vice President – Business Risk Management	N/A	0	N/A	Filipino	0.00%
Annacel A. Natividad Assistant Vice President – Financial Risk Management	Common	45,836	Direct	Filipino	0.00%
Jackson O. Sotingco Assistant Vice President – Insurance Risk Management	N/A	0	N/A	Filipino	0.00%
M. Carmela N. Franco Assistant Vice President – Investor Relations	Common	4,680	Direct	Filipino	0.00%
Julie Ann T. Diongzon Assistant Vice President – Treasury	N/A	0	N/A	Filipino	0.00%
Aylmerita C. Peñaloza Assistant Vice President – Treasury	N/A	0	N/A	Filipino	0.00%
Ma. Kristina V. Rivera Assistant Vice President – Human Resources	N/A	0	N/A	Filipino	0.00%
Geraldine Polanco-Onganon Assistant Vice President – Human Resources	N/A	0	N/A	Filipino	0.00%
Christopher M. Camba Assistant Vice President – Human Resources	N/A	0	N/A	Filipino	0.00%
Noemi G. Sebastian Assistant Vice President – Human Resources and Quality	Common	26,607	Direct	Filipino	0.00%
Benedict James B. Duran Assistant Vice President – Human Resources	N/A	0	N/A	Filipino	0.00%
Marilou P. Plando Assistant Vice President – Business Administrator for Legal and Corporate Services	N/A	0	N/A	Filipino	0.00%
Susan S. Policarpio Assistant Vice President – Government Relations	Common	1,000	Direct	Filipino	0.00%
Ma. Lourdes Y. Tanate Assistant Vice President – Audit	Common	16,000	Direct	Filipino	0.00%
Andy G. Torato Assistant Vice President for Plant	N/A	0	N/A	Filipino	0.00%

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)		Citizenship	Percentage of Ownership
Security					
Joseph Y. Tugonon Assistant Vice President – Tax Management Services for Legal and Corporate Services	N/A	0	N/A	Filipino	0.00%
Catherine R. Atay Assistant Corporate Secretary	N/A	0	N/A	Filipino	0.00%
TOTAL		463,985,646			8.40%

(3) Voting Trust Holders of 5% or More of Common Equity

No person holds more than 5% of AEV's common equity under a voting trust or similar agreement.

(4) Changes in Control

There are no arrangements that may result in a change in control of AEV during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

AEV and its subsidiaries and associates (the Group), in their regular conduct of business, have entered into related party transactions consisting of temporary advances, professional services and rental fees. These are made on an arm's length basis and at current market prices at the time of the transactions.

ACO, the parent company of AEV, and certain subsidiaries and associates have service contracts with AEV for corporate center services rendered, such as human resources, internal audit, legal, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transactions are priced on a cost recovery basis. In addition, transaction costs are always benchmarked on third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service.

The Group extends and/or avails of temporary interest-bearing advances to and from ACO and certain associates and affiliates for working capital requirements. These are made to enhance the lending parent companies' and affiliates' yield on their cash balances. Interest rates are determined by comparing prevailing market rates at the time of the transaction.

ACO and certain associates are leasing office spaces from Cebu Praedia Development Corporation (CPDC), a subsidiary of AEV. Rental rates are comparable with prevailing market prices. These transactions are covered with lease contracts for a period of three years.

No other transaction, without proper disclosure, was undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

AEV employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are determined and brought to the attention of management.

Parent Company

The majority shareholder of AEV is Aboitiz & Company, Inc. As of March 30, 2012 ACO owns 49.54% of AEV.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

AEV has a Manual of Corporate Governance (the Manual) and Code of Ethics and Business Conduct (the Code) to guide the attainment of its corporate goals and strategies. To ensure compliance, copies of the Manual and the Code were disseminated to the Board of Directors, management and employees of AEV. Company-wide orientations on the Manual and the Code were conducted as well.

AEV has in place a performance evaluation system for corporate governance. It also participated, and intends to participate in, the annual Corporate Governance Scorecard Survey of the SEC, PSE and the Institute of Corporate Directors (ICD) to benchmark its corporate governance practices against best practices. The Compliance Officer regularly monitors and evaluates compliance by the Board of Directors, management and employees of the Manual and existing laws and regulations. Together with the Human Resources Department, the Compliance Officer also ensures the implementation of AEV's rule against conflict of interests and the misuse of inside and proprietary information throughout the organization. The Compliance Officer regularly reports to the Board Governance Committee and the Board Audit Committee the Company's compliance status with existing laws and regulations, as well as the Board's and employees' compliance with internal governance policies.

Corporate governance is further fostered by the Board's active role in reviewing and approving corporate goals and strategies set by management as well as in monitoring and evaluating management performance in meeting such corporate goals. The different Board committees, which report regularly to the Board, are crucial to maintaining Board oversight in key management areas.

The Board of Directors regularly reviews the Manual to ensure that the same remains relevant and is responsive to the needs of the organization.

Board Attendance

The Board's primary objectives are to improve shareholder returns, to develop responsible long-term investors, and to achieve disciplined and sustainable growth.

In 2011, the Board held eight regular and special meetings. Below is a summary of the attendance of the Directors:

DIRECTORS	REGULAR AND SPECIAL MEETINGS 2011							
	4-Feb regular	3-Mar special	30-Mar regular	16-May regular	27-Jul regular	30-Sep regular	11-Nov special board strategy	9-Dec regular
JON RAMON ABOITIZ	Present	Present	Present	Present	Present	Present	Present	Present
ERRAMON I. ABOITIZ	Present	Present	Present	Present	Present	Present	Present	Present
ROBERTO E. ABOITIZ	Present	Present	Present	Absent	Present	Present	Present	Present
ENRIQUE M. ABOITIZ JR.	Present	Present	Present	Present	Present	Absent	Present	Present
JUSTO A. ORTIZ	Present	Present	Present	Present	Present	Present	Present	Present
ANTONIO R. MORAZA	Present	Present	Absent	Present	Present	Present	Present	Present
ROBERTO R. ROMULO (Independent Director)	Present	Present	Absent	Present	Present	Present	Present	Present
JUSTICE JOSE C. VITUG (Independent Director)	Present	Present	Present	Present	Present	Present	Present	Present
STEPHEN CUUNJIENG (Independent Director)	Present	Present	Present	Present	Present	Present	Present	Present
TOTAL NO. OF DIRECTORS PRESENT	9	9	7	8	9	9	9	9
PERCENTAGE NO. OF DIRECTORS PRESENT IN EACH MEETING	100%	100%	77.78%	88.89%	100.0%	100%	100%	100% 100%

Corporate Governance Initiatives

Going beyond mere compliance and box-ticking, the Company regularly updates its corporate governance policies to ensure that they are relevant to the needs of the organization, and at the same time, at par with global best practices.

In February 2009, the Board of Directors of AboitizPower approved the creation of additional board committees and the consolidation of existing ones. In the same year, the Investor Relations Committee was dissolved and the Board Nominations and Compensation Committee merged with the Board Corporate Governance Committee. On May 17, 2010, the Board approved an amendment to the Company's Amended Manual on Corporate Governance, folding in of the responsibility of the Board Strategy Committee under the functions of the Board of Directors. The reorganization aimed to a) enhance the role of the Board of Directors in governance, b) better represent and protect the interests of all stakeholders of the Company, c) ensure compliance with regulatory standards and provide appropriate information and updates.

More recently, on February 2012, management proposed to the Board Risk Management and the Board Corporate Governance Committees to remove the reputation oversight function of the Board from the Board Corporate Governance Committee and fold it in the Board Risk Management Committee. This is in line with the recognition of the Company that its reputation is its most valuable asset. Both committees approved the proposed reorganization. To implement the reorganization, the Board Risk Committee will revise and update its Board Risk Management Committee Charter and the Board Corporate Governance Committee will amend the Company's Amended Manual on Corporate Governance for submission and approval of the Board. Upon approval by the Board, the Company will submit for the approval of the SEC, the amendment to its Amended Manual of Corporate Governance.

The mandate as well as the composition of each Board committee are described below:

- The Board Corporate Governance Committee shall represent the Board in discharging its responsibility relating to issues around the Group's governance principles and guidelines, nomination of persons into Board and Group senior leadership roles and the various compensation matters. Independent Directors comprise majority of the voting members of the Board Corporate Governance Committee.

  Chairman: Jon Ramon Aboitiz; Members: Roberto E. Aboitiz, Jose C. Vitug, Roberto R. Romulo, Stephen CuUnjieng; Ex-Officio Members: M. Jasmine S. Oporto, Susan V. Valdez, Xavier Jose Aboitiz

- The Board Audit Committee shall represent the Board in discharging its responsibility related to audit matters for the Group. Independent Directors comprise majority of the voting members of the Board Audit Committee.

  Chairman: Joce C. Vitug, Members: Roberto R, Romulo, Stephen CuUnjieng, Roberto E. Aboitiz, Justo A. Ortiz; Ex-Officio Members: Stephen G. Paradies, Rolando C. Cabrera

- The Board Risk Management Committee shall represent the Board in discharging its responsibility relating to risk management related matters around the Group.

  Chairman: Enrique M. Aboitiz, Jr.; Members: Justo A. Ortiz, Jon Ramon Aboitiz, Stephen CuUnjieng; Ex-Officio Members: Stephen G. Paradies, Rolando C. Cabrera

PART V – EXHIBITS AND SCHEDULES

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

(a) Exhibits.

None

(b) Reports on SEC Form 17-C

Reports filed by the AEV on SEC Form 17-C from April 2011 to March 2012 are as follows:

Date	Disclosure Details
April 25, 2011	Appointmen of ms. Marilou Plando as Assistant Vice Presindent – Business Administrator for Legal and Corporate Services
May 6, 2011	First Quarter 2011 Financial and Operating Results
May 10, 2011	Purchase of 2,812,350 common shares of Union Bank of the Philippines
May 16, 2011	Result of the 2011 Annual Stockholders' Meeting
	a) Election of the members of the Board of Directors b) Delegation of the authority to elect the Company's external auditors for 2010 to the Board of Directors. c) Approval of Directors, compensation and per diem
July 1, 2011	Appointment of Mr. Joseph Y. Tugonon as Assistant Vice President – Tax Management Services for Legal and Corporate Services
July 26, 2011	Appointment of Independent Auditor
July 29, 2011	Second Quarter 2011 Financial and Operating Results
August 2, 2011	Intercompany Transfer of Ms. Leah I. Geraldez to City Savings Bank, Inc. as Vice President – Compliance Officer
August 8, 2011	Appointment of Ms. Noemi Sebastian as Assistant Vice President – Human Resources and Quality
August 9, 2011	Purchase of 2,794,981 common shares of Union Bank of the Philippines
August 26, 2011	Appointment of Ms. Susan V. Valdez as Chief reputation Officer
August 31, 2011	Appointment of ms. Annacel Natividad as Assistant Vice President for Financial Risk Management
September 7, 2011	Purchase of 885,382 common shares of Union Bank of the Philippines
Septemebr 15, 2011	Purchase of 5,724,290 common shares of Union Bank of the Philippines
September 16, 2011	Purchase of 1,951,500 common shares of Union Bank of the Philippines
Spetember 23, 2011	Purchase of 1,000,000 common shares of Union Bank of the Philippines
Septemebr 28, 2011	Intercompany Transfer of Ms. Stella Sucalit
September 29, 2011	Appointment of Mr. Roman V. Azanza II as First Vice President for Business Development
October 27, 2011	Appointment of Maria Lourdes Y. Tanate as Assistant Vice President-Audit
November 2, 2011	Appointment of Mr. Benedict James Duran as Assistant Vice President – Human resources
November 4, 2011	Third Quarter 2011 Financial and Operating Results
November 4, 2011	Intercompany Transfer of. Mr. Sebastian R. Lacson
December 19, 2011	Appointment of New Stock and Transfer Agent
January 3, 2012	Intercompany Transfer of Ms. Iris Louise Dorado
January 17, 2012	Appointment of Mr. Andy G. Torato as Assistant Vice President for Plant Security
February 6, 2012	Purchase of 31,650,900 common shares of Aboitiz Power Corporation
February 6, 2012	Appointment of Ms. Vivien V. Limjoco as Assistant Vice President – Strategy and Corporate Finance
February 22, 2012	Candidates for the Board of Directors for the year 2012-2013
March 1, 2012	Matters Approved by the Board
	- Setting of March 30, 2012 as the record date for stockholders entitled to

Date	Disclosure Details
	vote at this year's annual stockholders' meeting – Cash Dividend Declaration
March 2, 2012	Full Year 2011 Financial and Operating Results
March 9, 2012	Intercompany Transfer of Ms. Riella Mae Guioguio to City Savings Bank, Inc.

ANNEX "A"

ABOITIZ EQUITY VENTURES, INC.

- **POWER**
  - ABOITIZ POWER CORP. (76.83%)
    - **DISTRIBUTION**
      - DAVAO LIGHT & POWER CO. INC. (99.93%)
      - COTABATO LIGHT & POWER CO. (99.94%)
      - VISAYAN ELECTRIC CO., INC. (55.24%)
      - SAN FERNANDO ELECTRIC & POWER CO., INC. (43.78%)
      - SUBIC ENERZONE CORP. (99.97%)
      - MACTAN ENERZONE CORP. (100.00%)
      - BALAMBAN ENERZONE CORP. (100.00%)
    - **GENERATION**
      - THERMA POWER, INC. (100.00%)
        - THERMA LUZON, INC. (100.00%)
        - THERMA MARINE, INC. (100.00%)
        - THERMA MOBILE, INC. (100.00%)
        - THERMA SOUTH, INC. (100.00%)
        - THERMA POWER VISAYAS, INC. (100.00%)
        - THERMA SUBIC, INC. (100.00%)
        - THERMA SOUTHERN MINDANAO, INC. (100.00%)
        - THERMA CENTRAL VISAYAS, INC. (100.00%)
        - ABOVANT HOLDINGS, INC. (60.00%)
          - CEBU ENERGY DEVT. CORP. (44.00%)
        - REDONDO PENINSULA ENERGY, INC. (25.00%)
      - ABOITIZ RENEWABLES, INC. (100.00%)
        - HEDCOR, INC. (100.00%)
        - AP RENEWABLES, INC. (100.00%)
        - LUZON HYDRO CORP. (100.00%)
        - HEDCOR SIBULAN, INC. (100.00%)
        - HEDCOR TAMUGAN, INC. (100.00%)
        - HEDCOR SABANGAN, INC. (100.00%)
        - HEDCOR TUDAYA, INC. (100.00%)
        - CLEANERGY, INC. (100.00%)
        - HEDCOR BOKOD, INC. (100.00%)
        - HEDCOR BUKIDNON, INC. (100.00%)
        - MANILA-OSLO RENEWABLE ENTERPRISE, INC. (83.33%)
          - SN ABOITIZ POWER – MAGAT, INC. (60.00%)
          - SN ABOITIZ POWER – BENGUET, INC. (60.00%)
          - SN ABOITIZ POWER – RES, INC. (60.00%)
      - CEBU PRIVATE POWER CORP. (60.00%)
      - EAST ASIA UTILITIES CORP. (50.00%)
      - STEAG STATE POWER INC. (34.00%)
      - SOUTHERN PHILIPPINES POWER CORP. (20.00%)
      - WESTERN MINDANAO POWER CORP. (20.00%)
    - **RES**
      - ABOITIZ ENERGY SOLUTIONS, INC. (100.00%)
      - ADVENTENERGY, INC. (100.00%)
      - PRISM ENERGY, INC. (60.00%)
- **BANKING**
  - CITY SAVINGS BANK (99.32%)
  - UNION BANK OF THE PHILS. (43.27%)
- **FOOD**
  - PILMICO FOODS CORP. (100.00%)
    - PILMICO ANIMAL NUTRITION CORP. (100.00%)
    - FILAGRI, INC. (100.00%)
- **OTHERS**
  - AEV AVIATION, INC. (100.00%)
  - CEBU PRAEDIA DEV'T. CORP. (100.00%)
  - ABOITIZ JEBSEN CO. INC. (62.50%)
  - ABOITIZ JEBSEN MANPOWER SOLUTIONS, INC (62.50%)
  - JEBSENS MARITIME INC. (62.50%)

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, AEV has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cebu on ____APR 16 2012______.

By:

ERRAMON I. ABOITIZ
Principal Executive Officer

MELINDA R. BATHAN
Controller/Principal Accounting Officer

STEPHEN G. PARADIES
Principal Financial Officer

M. JASMINE S. OPORTO
Corporate Secretary mp

Before me, a notary public in and for the city named above, personally appeared:

NAMES	PASSPORT / DRIVER'S LICENSE NO.	DATE / PLACE OF ISSUE	CTC NO.	DATE/PLACE OF ISSUE
ERRAMON I. ABOITIZ	XX1560733	July 7, 2008; Manila	128458	February 7, 2012; Cebu City
STEPHEN G. PARADIES	ZZ202455	July 11, 2011; Cebu City	128451	February 7, 2012; Cebu City
MELINDA R. BATHAN	XX5580320	February 22, 2010; Cebu City	20137040	March 28, 2012; Cebu City
M. JASMINE S. OPORTO	XX1147714	May 13, 2008; Manila	20078518	February 27, 2012; Cebu City

who were identified by me through competent evidence of identity to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath/affirmation before me as to such instrument.

Witness my hand and seal this APR 16 2012________________.

Doc. No.: 94;
Page No. 19;
Book No. II;
Series of 2012.

ATTY. MAILENE M. DE LA TORRE
ROLL NO. 55885
NOTARY PUBLIC
CEBU CITY, PHILIPPINES

MAILENE M. DE LA TORRE
Notary Public for Cebu City
Notarial Commission No. 043-11
Until December 31, 2012
Aboitiz Corporate Center
Gov. M. Cuenco Ave., Cebu City
ROLL No. 55885
PTR No. 2157309 Cebu City 01.05.12
IPB Lifetime No. 880207 Makati City 01.06.12
MCLE Compliance No. III-0002588/3.19.08

COVER SHEET

CE02536
SEC Registration Number

ABOITIZ EQUITY VENTURES, INC.

(Company's Full Name)

Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City

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

Ms. Melinda Bathan
(Contact Person)

(032) 411-1800
(Company Telephone Number)

12 31
Month *Day*
(Calendar Year)

AAPFS
(Form Type)

05 16
Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

CFD
Dept. Requiring this Doc.

Not Applicable
Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign
10,195	**₱4.0 billion**	**Nil**

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

SEC
Cebu Extension Office
APR 13 2012
By:
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ORIGINAL

aboitiz
Equity Ventures

SECURITIES & EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Aboitiz Equity Ventures, Inc. (Parent)** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

JON RAMON M. ABOITIZ
Chairman of the Board

ERRAMON I. ABOITIZ
President & Chief Executive Officer

STEPHEN G. PARADIES
Senior Vice President - Chief Financial Officer

BUREAU OF INTERNAL REVENUE
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Signed this 1st day of March, 2012.

Passion for better ways

Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Cebu City, Philippines 6000
t. 63 32 411 1800
f. 63 32 231 4037

110 Legazpi St, Legaspi Village
Makati City, Philippines 1229
t. 63 2 793 2800
f. 63 2 817 3560
www.aboitiz.com

aboitiz
Equity Ventures

Republic of the Philippines)
City of Cebu) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC	Date/Place Issued
Jon Ramon M. Aboitiz	XX4393111	August 18, 2009, Manila
	00067760	January 18, 2012, Cebu City
Erramon I. Aboitiz	XX1560733	July 7, 2008, Manila
	128458	February 7, 2012, Cebu City
Stephen G. Paradies	ZZ202455	January 18, 2007, Manila
	128451	February 7, 2012, Cebu City

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this ____ day of MAR 22 2012 2012.

Doc. No. 28;
Page No. 6;
Book No. I;
Series of 2012.

ATTY. MAILENE M. DE LA TORRE
ROLL NO. 55885
NOTARY PUBLIC
CEBU CITY, PHILIPPINES

MAILENE M. DE LA TORRE
Notary Public for Cebu City
Notarial Commission No. 043-11
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PTR No. 2157309 Cebu City 01.05.12
IPB Lifetime No. 880207 Makati City 01.06.
MCLE Compliance No. III-000

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110 Legazpi St, Legaspi Village
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t. 63 2 793 2800
f. 63 2 817 3560
www.aboitiz.com

SGV & Co
Ernst & Young

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Cebu City

Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Aboitiz Equity Ventures, Inc., which comprise the parent company balance sheets as at December 31, 2011 and 2010, and the parent company statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

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

Auditors' Responsibility

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

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

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

SGV & Co
Ernst & Young

Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Aboitiz Equity Ventures, Inc. as at December 31, 2011 and 2010, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information under Revenue Regulations 19-2011 and 15-2010 in Notes 23 and 24 to the parent company financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic parent company financial statements. Such information is the responsibility of the management of Aboitiz Equity Ventures, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic parent company financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.

Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-2 (Group A),
February 4, 2010, valid until February 3, 2013
Tax Identification No. 109-247-891
BIR Accreditation No. 08-001998-43-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174866, January 2, 2012, Makati City

March 1, 2012

BUREAU OF INTERNAL REVENUE
LTDO - Cebu
DISTRICT OFFICE No. 123
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DATE

ABOITIZ EQUITY VENTURES, INC.
PARENT COMPANY BALANCE SHEETS

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 9)	**₱2,740,110,277**	₱5,551,192,024
Trade and other receivables (Notes 5 and 9)	**367,796,204**	921,873,244
Other current assets (Note 19)	**280,643,001**	250,197,566
Total Current Assets	**3,388,549,482**	6,723,262,834
Noncurrent Assets		
Investments in and advances to subsidiaries and associates (Notes 6 and 7)	**20,005,466,229**	19,039,167,127
Available-for-sale (AFS) investments (Note 21)	**339,225,807**	340,347,095
Property and equipment - net (Note 10)	**78,469,428**	89,154,970
Deferred income tax assets (Note 19)	**–**	2,505,457
Pension asset (Note 18)	**17,956,895**	4,081,427
Other noncurrent assets	**10,710,102**	43,537,241
Total Noncurrent Assets	**20,451,828,461**	19,518,793,317
TOTAL ASSETS	**₱23,840,377,943**	₱26,242,056,151
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 8 and 11)	**₱155,197,295**	₱527,823,844
Current portions of:		
Redeemable preferred shares (Note 12)	**–**	1,000,000,000
Long-term debt (Note 11)	**8,850,000**	608,850,000
Total Current Liabilities	**164,047,295**	2,136,673,844
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debt (Note 11)	**3,982,300,000**	3,991,150,000
Redeemable preferred shares (Note 12)	**–**	500,000,000
Deferred income tax liability (Note 19)	**2,716,383**	–
Total Noncurrent Liabilities	**3,985,016,383**	4,491,150,000
Equity		
Capital stock (Note 12)	**5,694,599,621**	5,694,599,621
Additional paid-in capital (Note 14)	**5,790,913,585**	5,790,913,585
Unrealized valuation gains on AFS investments	**7,987,931**	9,109,219
Retained earnings (Note 13)	**9,492,976,437**	9,414,773,191
Treasury stock at cost (Note 14)	**(1,295,163,309)**	(1,295,163,309)
Total Equity	**19,691,314,265**	19,614,232,307
TOTAL LIABILITIES AND EQUITY	**₱23,840,377,943**	₱26,242,056,151

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ EQUITY VENTURES, INC.

PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Dividend income	**₱8,714,718,212**	₱4,090,606,474	₱3,711,513,985
Management, professional and technical fees (Note 9)	**640,287,894**	503,444,375	429,967,492
	9,355,006,106	4,594,050,849	4,141,481,477
COST OF SERVICES (Note 15)	**228,722,972**	193,857,303	184,400,539
GROSS PROFIT	**9,126,283,134**	4,400,193,546	3,957,080,938
General and administrative expenses (Notes 9 and 16)	**(315,536,157)**	(197,412,443)	(114,418,861)
Interest income (Notes 4 and 9)	**208,080,027**	56,016,038	72,015,952
Interest expense (Note 11)	**(289,749,090)**	(261,350,609)	(168,528,921)
Dividends on redeemable preferred shares (Note 12)	**(119,112,091)**	(126,646,210)	(161,595,982)
	(516,317,311)	(529,393,224)	(372,527,812)
OTHER INCOME (CHARGES)			
Foreign exchange gains (losses) - net	**15,927**	24,695,034	(713,635)
Gain (loss) on sale of:			
Property and equipment	**264**	300,949	242,863
Investment in a subsidiary (Note 6)	**–**	(74,567,431)	–
AFS investments	**–**	–	296,078
Write-off of project costs and other assets	**(796,064)**	(27,272,776)	–
Reversal of provision for impairment of project costs	**40,247,435**	–	–
Others	**237,299,626**	188,411,979	215,931,169
	276,767,188	111,567,755	215,756,475
INCOME BEFORE INCOME TAX	**8,886,733,011**	3,982,368,077	3,800,309,601
PROVISION FOR INCOME TAX (Note 19)	**83,972,288**	36,047,942	74,953,512
NET INCOME (LOSS)	**₱8,802,760,723**	₱3,946,320,135	₱3,725,356,089

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
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ABOITIZ EQUITY VENTURES, INC.
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
NET INCOME (LOSS)	**₱8,802,760,723**	₱3,946,320,135	₱3,725,356,089
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized valuation gain (loss) on AFS investments	**(1,121,288)**	5,715,998	3,951,775
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱8,801,639,435**	₱3,952,036,133	₱3,729,307,864

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
LTDO - Cebu
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DATE APR 13 2012

ABOITIZ EQUITY VENTURES, INC.
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 2010 AND 2009

	Capital Stock (Note 12)	Additional Paid-in Capital (Note 14)	Unrealized Valuation Gains (Losses) on AFS Investments	Retained Earnings (Note 13)	Treasury Stock (Note 14)	Total
Balances at January 1, 2009	₱5,694,599,621	₱5,790,913,585	(₱558,554)	₱6,119,704,686	(₱830,656,987)	₱16,774,002,351
Net income for the year	–	–	–	3,725,356,089	–	3,725,356,089
Movement of unrealized valuation gains on AFS investments	–	–	3,951,775	–	–	3,951,775
Total comprehensive income for the year	–	–	3,951,775	3,725,356,089	–	3,729,307,864
Purchase of treasury shares (Note 14)	–	–	–	–	(464,506,322)	(464,506,322)
Cash dividends - ₱0.27 per common share (Note 13)	–	–	–	(1,505,234,373)	–	(1,505,234,373)
Balances at December 31, 2009	5,694,599,621	5,790,913,585	3,393,221	8,339,826,402	(1,295,163,309)	18,533,569,520
Balances at January 1, 2010	₱5,694,599,621	₱5,790,913,585	₱3,393,221	₱8,339,826,402	(₱1,295,163,309)	₱18,533,569,520
Net income for the year	–	–	–	3,946,320,135	–	3,946,320,135
Movement of unrealized valuation gains on AFS investments	–	–	5,715,998	–	–	5,715,998
Total comprehensive income for the year	–	–	5,715,998	3,946,320,135	–	3,952,036,133
Cash dividends - ₱0.52 per common share (Note 13)	–	–	–	(2,871,373,346)	–	(2,871,373,346)
Balances at December 31, 2010	5,694,599,621	5,790,913,585	9,109,219	9,414,773,191	(1,295,163,309)	19,614,232,307
Balances at January 1, 2011	5,694,599,621	5,790,913,585	9,109,219	9,414,773,191	(1,295,163,309)	19,614,232,307
Net income for the year	–	–	–	8,802,760,723	–	8,802,760,723
Movement of unrealized valuation gains on AFS investments	–	–	(1,121,288)	–	–	(1,121,288)
Total comprehensive income for the year	–	–	(1,121,288)	8,802,760,723	–	8,801,639,435
Cash dividends - ₱1.58 per common share (Note 13)	–	–	–	(8,724,557,477)	–	(8,724,557,477)
Balances at December 31, 2011	**₱5,694,599,621**	**₱5,790,913,585**	**₱7,987,931**	**₱9,492,976,437**	**(₱1,295,163,309)**	**₱19,691,314,265**

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ EQUITY VENTURES, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱8,886,733,011**	₱3,982,368,077	₱3,800,309,601
Adjustments for:			
Interest expense (Note 11)	**289,749,090**	261,350,609	168,528,921
Dividends on redeemable preferred shares (Note 11)	**119,112,091**	126,646,210	161,595,982
Depreciation and amortization (Note 10)	**35,058,587**	31,361,681	22,302,706
Amortization of computer software	**4,670,170**	2,504,922	6,102,521
Pension costs (Note 18)	**1,157,932**	5,254,306	16,526,488
Write-off of (reversal of impairment provision on) project costs and other assets	**(39,451,371)**	27,272,776	–
Unrealized foreign exchange loss (gain)	**(7,082)**	3,618	574,794
Loss (gain) on sale of:			
Property and equipment	**(264)**	(300,949)	(242,863)
Investment in a subsidiary (Note 6)	**–**	74,567,431	–
AFS investment	**–**	–	(296,078)
Interest income (Notes 4 and 9)	**(208,080,027)**	(56,016,038)	(72,015,952)
Operating income before working capital changes	**9,088,942,137**	4,455,012,643	4,103,386,120
Decrease (increase) in:			
Trade and other receivables	**556,770,815**	(799,191,067)	638,637,937
Other current assets	**(30,445,435)**	(69,331,263)	34,805,912
Increase (decrease) in accounts payable and accrued expenses	**(362,541,315)**	(173,770,276)	159,573,933
Net cash flows generated from operations	**9,252,726,202**	3,412,720,037	4,936,403,902
Income and final taxes paid	**(78,750,447)**	(31,972,236)	(75,310,946)
Net cash flows from operating activities	**9,173,975,755**	3,380,747,801	4,861,092,956
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**205,386,252**	52,119,721	73,395,958
Decrease (increase) in:			
Advances to subsidiaries and associates	**(5,176,546)**	1,974,173	22,742,674
Other noncurrent assets	**67,608,340**	2,071,327	(2,333)
AFS investments	**–**	(2,170)	6,324,082
Proceeds from sale of:			
Investment in a subsidiary (Note 6)	**–**	3,535,107,261	–
Property and equipment	**1,578,858**	6,761,794	252,382

(Forward)

	Years Ended December 31		
	2011	2010	2009
Contributions to pension fund (Note 18)	**(₱15,033,400)**	(₱16,404,800)	(₱20,126,403)
Acquisition of:			
Property and equipment (Note 10)	**(25,951,639)**	(33,382,900)	(48,331,625)
Investments (Notes 6 and 7)	**(961,122,556)**	(1,183,872,107)	(1,532,571,523)
Net cash flows from (used in) investing activities	**(732,710,691)**	2,364,372,299	(1,498,316,788)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on common shares (Note 13)	**(8,724,557,477)**	(2,871,373,346)	(1,505,234,373)
Redemption of preferred shares (Note 12)	**(1,500,000,000)**	–	(626,000,000)
Payments of:			
Long-term debt (Note 11)	**(608,850,000)**	(1,375,000,000)	(391,500,000)
Interest	**(291,153,768)**	(241,667,721)	(173,997,208)
Dividends on redeemable preferred shares	**(127,792,647)**	(126,646,210)	(165,417,851)
Proceeds from availment of long-term debts (Note 11)	**–**	4,000,000,000	–
Acquisition of treasury shares (Note 14)	**–**	–	(464,506,322)
Net cash flows used in financing activities	**(11,252,353,892)**	(614,687,277)	(3,326,655,754)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,811,088,828)**	5,130,432,823	36,120,414
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**7,081**	(3,618)	(574,794)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,551,192,024**	420,762,819	385,217,199
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,740,110,277**	₱5,551,192,024	₱420,762,819

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ EQUITY VENTURES, INC.
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Aboitiz Equity Ventures, Inc. (the Company) was incorporated in the Republic of the Philippines on September 11, 1989. It is registered with the Philippine Securities and Exchange Commission (SEC) and is the publicly-listed holding and management company of the Aboitiz Group of Companies. Through its subsidiaries and associates, it is engaged in various business activities, mainly in the Philippines, including electricity generation and distribution, banking and financial services, and food manufacturing. The parent and ultimate parent of the Company is Aboitiz & Company, Inc. (ACO), a company incorporated in the Philippines. As of December 31, 2011, ACO owns 49.54% of the Company's common shares.

The registered office address of the Company is Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City.

The financial statements of the Company as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2010 were authorized for issue by the Board of Directors (BOD) on March 1, 2012.

2. Summary of Significant Accounting Policies

Basis of Preparation

The parent company financial statements of the Company have been prepared on a historical cost basis, except for quoted AFS investments which are measured at fair value. The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency and all are rounded to the nearest peso except as otherwise indicated.

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements, presented in compliance with Philippine Financial Reporting Standards (PFRS). These may be obtained at Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City.

Statement of Compliance

The accompanying separate financial statements of the Company, which are prepared for submission to the SEC and the Bureau of Internal Revenue, have been prepared in compliance with PFRS.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRS and Philippine Interpretations which were adopted as at January 1, 2011.

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

amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

- PAS 32, *Financial Instruments: Presentation* (Amendment)
  The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company because it does not have these types of instruments.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)
  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Company is not subject to minimum funding requirements in the Philippines; therefore, the amendment of the interpretation has no effect on the financial position or performance of the Company.

<u>Improvements to PFRS (issued 2010)</u>
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- PFRS 3, *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2011. The Company, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements in Note 21.

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

Other amendments resulting from the 2010 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

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

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Standards Issued but not yet Effective
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- PAS 12, *Income Taxes - Recovery of Underlying Assets*
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

- PAS 19, *Employee Benefits* (Amendment)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

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

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

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

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-Controlled Entities Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Involvement with Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of the amendments to PAS 32.

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 as issued reflects the first phase 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, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed

with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash and cash equivalents in the parent company balance sheet consist of cash on hand and with banks and short-term deposits with an original maturity of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value.

Financial Instruments
Date of recognition
The Company recognizes a financial asset or a financial liability in the parent company balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Company also classifies them into financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the parent company statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the parent company 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' difference amount.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets held for trading and financial assets designated upon initial recognition as FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the parent company statement of income.

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on a different basis; or (ii) the assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset or financial liabilities at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities at FVPL are recorded in the parent company balance sheet at fair value. Subsequent changes in fair value are recognized in the parent company statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

As of December 31, 2011 and 2010, the Company has no financial assets and liabilities at FVPL.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not reclassified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are

an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the parent company 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 balance sheet date. Otherwise, they are classified as non-current assets.

Financial assets included in this classification are the Company's cash in banks and cash equivalents and trade and other receivables.

HTM investments
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, held to maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. Gains and losses are recognized in the parent company statement of income when the investments are impaired, as well as through the amortization process.

As of December 31, 2011 and 2010, the Company has no HTM investments.

AFS investments
Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated as at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the other comprehensive income and in equity as "Net unrealized valuation gains on AFS investments". When the investment is disposed of, the cumulative gains or loss previously recorded in equity is recognized in the parent company statement of income. The Company uses the specific identification method in determining the cost of securities sold. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Unquoted equity securities are carried at cost, net of impairment.

The Company's AFS investments as of December 31, 2011 and 2010 include investments in quoted and unquoted shares of stock.

Other financial liabilities
Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are initially recognized at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium. Gains and losses are recognized in the parent company statement of income when the liabilities are derecognized, as well as through the amortization process.

Included under this category are the Company's long-term debt, accounts payable and accrued expenses, and redeemable preferred shares.

Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Company determines 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.

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 financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

<u>Derecognition of Financial Assets and Liabilities</u>
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 where:

- the rights to receive cash flows from the asset expires;
- 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 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 parent company statement of income.

Embedded Derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- the hybrid or combined instrument is not recognized as at FVPL.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the parent company statement of income.

The Company has no embedded derivatives as of December 31, 2011 and 2010.

Financial Guarantee Contracts
Financial guarantee contracts issued by the parent company to its subsidiaries are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified subsidiaries fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the ability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognized less cumulative amortization.

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

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

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Redeemable Preferred Shares (RPS)

The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the parent company balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the parent company statement of income. On issuance of the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability at amortized cost until extinguished.

Investments in Subsidiaries and Associates

Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are carried at cost less any impairment in value.

Business combination of entities under common control is accounted for using a method similar to pooling of interest. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

Investments in associates

The Company's investment in its associates is accounted for using the cost method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

The Company's investments in subsidiaries and associates are accounted for under the cost method of accounting in the Company's separate financial statements. These investments are carried in the Company's balance sheet at cost less any impairment in value. The Company recognizes income from the investments only to the extent that the Company receives distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

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

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and accumulated impairment in value. Cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Repairs and maintenance costs are recognized in the parent company statement of income as incurred.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and available for use. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the refurbishment and construction period.

Depreciation and amortization are calculated on a straight-line basis over the useful lives of the assets, or the terms of the lease in case of leasehold improvements, whichever is shorter, as follows:

Category	Number of Years
Transportation equipment	5
Office equipment, furniture and fixtures	3-5
Leasehold improvements	5
Computer equipment	3

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The asset's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. 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 the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized.

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

Computer Development Cost

Costs incurred in the development of computer software are capitalized. Computer development costs, included under "Other noncurrent assets" account in the parent company balance sheet, are amortized using the straight-line method over a period of two (2) to three (3) years.

The carrying value of computer development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that carrying value may not be recoverable.

Impairment of Nonfinancial Assets
Investments in subsidiaries and associates, property, plant and equipment and project cost are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or may be impaired. 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 assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

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. Capital stock includes common stock and preferred stock.

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. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Treasury Shares
The Company's own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the parent company statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Foreign Currency Transactions
The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency based on the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences arising from settlement or restatement are taken to the parent company statement of income.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company assesses whether it is acting as a principal in all of its revenue arrangements.

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

Dividend income
Dividend income is recognized when the Company's right to receive payment is established.

Rendering of services
Management, professional and technical fees are recognized when the related services are rendered.

Interest income
Interest income is recognized as it accrues taking into account the effective yield on the asset.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Pension Benefits
The Company has a defined benefit pension plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded 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 plan.

The past service cost 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 asset or liability comprises the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and less 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 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.

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

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.

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

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in the parent company statement of comprehensive income and not in the parent company statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income 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, associates and interests in joint ventures, 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 income tax assets are recognized for all deductible temporary differences and carryforward benefits of net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward benefits of NOLCO and excess of MCIT over RCIT can be utilized except:

- where the deferred income 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, associates and interests in joint ventures, deferred income 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 income tax assets is reviewed at each balance sheet 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income 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 as of the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Sales tax
Revenues, expenses, and assets are recognized net of amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivable and payables that are stated with the amount of sales tax are included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the parent company balance sheet.

<u>Provisions</u>
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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

<u>Contingencies</u>
Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but disclosed when an inflow of economic benefits is probable.

<u>Events After the Balance Sheet Date</u>
Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

<u>Dividends on Common Shares</u>
Dividends on common shares are recognized as a liability and deducted from retained earnings when approved by the respective shareholders of the Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

3. Significant Accounting Judgments and Estimates

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, as of December 31, 2011, 2010 and 2009. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the parent company financial statements:

Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the pricing of management, professional and technical fees and the costs of providing such services.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed follow:

Estimating allowance for impairment losses on trade and other receivables

The Company maintains allowance for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with debtors, their payment behavior and known market factors. The Company reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The Company also evaluates its receivables from a portfolio perspective, to determine whether there are collective indicators of incurred loss. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for probable losses on receivables would increase the Company's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the account that have been endorsed to the legal department, non-moving account receivables, accounts of defaulted agents and accounts from closed stations.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility.

The Company has no allowance for impairment losses as of December 31, 2011 and 2010. Trade and other receivables amounted to ₱367.8 million and ₱921.9 million as of December 31, 2011 and 2010, respectively (see Note 5).

Estimating allowance for impairment losses on advances to subsidiaries and associates
Advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There are no impairment indicators in 2011, 2010 and 2009 based on management's assessment. As of December 31, 2011 and 2010, net advances from subsidiaries and associates amounted to ₱24.4 million and ₱29.5 million, respectively (see Notes 6 and 7). Allowance for impairment losses amounted to ₱29.0 million in 2011 and 2010.

Estimating useful lives of property and equipment
The Company estimates the useful lives of property and equipment based on their economic lives. The estimated useful lives of property and equipment 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 and equipment. However, it is possible that future results or 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. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the noncurrent assets. As of December 31, 2011 and 2010, the carrying amount of property and equipment amounted to ₱78.5 million and ₱89.2 million, respectively (see Note 10).

Assessing impairment of AFS investments
The computation for the impairment of AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In applying this judgment, the Company evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Company expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Company's investments. Fair value of AFS investments amounted to ₱339.2 million and ₱340.3 million as of December 31, 2011 and 2010, respectively. No impairment losses were recognized in 2011 and 2010 (see Note 21).

Assessing impairment of nonfinancial assets
PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property and equipment, investments in subsidiaries and associates, software development costs and other noncurrent assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can

materially affect its parent company financial statements. Future events could cause the Company to conclude that the property and equipment, investments in subsidiaries and associate, computer development costs and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations. The aggregate carrying values of these assets amounted to ₱20.1 billion and ₱19.2 billion and as of December 31, 2011 and 2010, respectively (see Notes 6, 7 and 10). While no impairment losses were recognized in 2010 and 2009, a reversal of an impairment provision on project costs amounting to ₱40.2 million was recorded in 2011.

Estimating realizability of deferred income tax assets
The Company reviews the carrying amounts of deferred income tax assets at each balance sheet 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 income tax assets to be utilized. The Company's assessment on the recognition of deferred income tax assets on nondeductible temporary differences is based on the budgeted taxable income of the following reporting period. This budget is based on the Company's past results and future expectations on revenue and expenses. As of December 31, 2011 and 2010, gross deferred income tax assets amounted to nil and ₱2.5 million, respectively (see Note 19).

Pension costs
The determination of the Company's retirement cost is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 18, *Pension Benefit Plan*, to the financial statements and include, among others, discount rates and rates of compensation increase. In accordance with PAS 19, actual results that differ from Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in the Company's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

Net benefit expense amounted to ₱1.2 million in 2011, ₱5.3 million in 2010 and ₱16.5 million in 2009. The Company has a pension asset amounting to ₱18.0 million and ₱4.1 million as of December 31, 2011 and December 31, 2010, respectively (see Note 18).

Fair value of financial instruments
PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect net income or loss and equity. The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in more detail in Note 21.

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the parent company financial statements as of December 31, 2011 and 2010.

4. Cash and Cash Equivalents

	2011	2010
Cash on hand and in banks (see Note 9)	**₱57,753,492**	₱24,205,025
Short-term investments (see Note 9)	**2,682,356,785**	5,526,986,999
	₱2,740,110,277	₱5,551,192,024

Cash in banks earn interest at prevailing bank deposit rates. Short-term investments 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 investment rates.

Interest income earned on cash and cash equivalents amounted to ₱204.7 million in 2011, ₱15.1 million in 2010 and ₱23.5 million in 2009.

5. Trade and Other Receivables

	2011	2010
Trade receivables (see Note 9)	**₱177,856,904**	₱131,171,280
Due from parent and subsidiaries (see Note 9)	**147,268,603**	–
Dividends receivable	**26,903,125**	783,422,831
Interest receivable	**6,697,933**	4,004,158
Others	**9,069,639**	3,274,975
	₱367,796,204	₱921,873,244

Trade receivables are non-interest bearing and are normally on 30 - 60 days' term. Accounts due from related parties are interest-bearing, on-demand advances extended by the Company.

6. Investments in Subsidiaries

		Percentage of Ownership			
	Nature of	**2011**		2010	
Subsidiaries	Business	**Direct**	**Indirect**	Direct	Indirect
AEV Properties, Inc. (API)*	Real Estate	**100.00**	–	100.00	–
AEV Aviation, Inc. (AVI)**	Service	**50.75**	**37.63**	100.00	–
Pilmico Foods Corporation (PILMICO) and Subsidiaries	Food Manufacturing	**100.00**	–	100.00	–
Archipelago Insurance PTE LTD (AIPL)***	Insurance	**100.00**	–	100.00	–
Cebu Praedia Development Corporation (CPDC)**	Real Estate	**100.00**	–	88.27	8.96
Aboitiz Power Corporation (AP) and Subsidiaries	Power	**76.40**	–	76.40	–
Aboitiz Jebsen Company, Inc. and Subsidiaries (ABOJEB)	Ship management	**62.50**	–	62.50	–
Jebsen Maritime, Inc. (JMI)	Manpower Services	**62.50**	–	62.50	–
Aboitiz Jebsen Manpower Solution, Inc. (AJMSI)	Manpower Services	**62.50**	–	62.50	–
City Savings Bank (CSB)	Banking	**59.32**	**40.00**	59.25	40.00

** No commercial operations*
*** The 2011 and 2010 financial statements of these subsidiaries were audited by other independent auditors. All other companies were audited by the principal auditors.*
****Incorporated in Singapore. All other companies are incorporated in the Philippines.*

The details of the Company's investments in subsidiaries accounted for under the cost method follow:

	2011	2010
AP	**₱10,119,763,093**	₱10,119,763,093
PILMICO	**1,658,885,002**	1,658,885,002
CSB	**595,830,454**	594,450,374
ABOJEB	**271,155,449**	271,155,449
CPDC	**226,546,023**	176,546,023
JMI	**71,398,918**	71,398,918
API	**25,000,000**	25,000,000
AIPL	**21,739,131**	21,739,130
AJMSI	**13,354,065**	13,354,065
AVI	**250,000**	250,000
	13,003,922,135	12,952,542,054
Advances from subsidiaries	**(25,688,330)**	(30,462,779)
	₱12,978,233,805	₱12,922,079,275

Acquisition of CSB shares

The Bangko Sentral ng Pilipinas (BSP) approved on November 17, 2010 the proposed acquisition by the Company and its wholly-owned subsidiary, PILMICO, of up to 60% and 40%, respectively, of the outstanding shares of stock of CSB. With this BSP approval, the Company completed its acquisition of additional 24.86% of CSB shares on November 26, 2010, increasing its ownership to 59.25% and gaining control on the financial and operating policies of the bank. This additional 24.86% interest represents 48,554 common shares of CSB with an acquisition cost of ₱515.4 million. CSB is an associate prior to this additional acquisition in which cost of investment amounted to ₱79.0 million (see Note 7).

Sale of Investment in ATS

On December 1, 2010, the BOD of the Company and ACO approved the sale of their entire holdings in ATS to Negros Navigation Co., Inc. (NENACO). The sale was finalized on December 28, 2010 for ₱1.88 per share for total proceeds of ₱3.5 billion. Loss on sale of ATS recognized in the 2010 parent company statement of income amounted to ₱74.6 million.

As part of the condition for the sale of ATS to NENACO, on the same date, the Company acquired ATS's respective 62.5% ownership in AJBTC, JMI and AJMSI for ₱355.9 million.

Following is the summarized financial information of significant subsidiaries (amounts in thousand pesos):

	2011	2010	2009
AP and Subsidiaries*			
Total current assets	**₱36,177,995**	₱27,920,246	₱9,915,103
Total noncurrent assets	**117,349,944**	106,636,626	101,425,614
Total current liabilities	**10,448,319**	10,824,973	14,655,779
Total noncurrent liabilities	**72,887,403**	65,997,689	61,638,011
Gross revenue	**54,475,637**	59,551,458	23,174,265
Net income	**21,883,907**	25,083,030	5,769,768

(Forward)

	2011	2010	2009
PILMICO and Subsidiaries			
Total current assets	**₱5,166,307**	₱3,902,808	₱3,035,263
Total noncurrent assets	**3,798,124**	3,321,168	2,281,180
Total current liabilities	**3,827,497**	4,598,985	2,470,387
Total noncurrent liabilities	**1,877,902**	226,715	474,789
Gross revenue	**14,752,836**	12,879,584	11,048,314
Gross profit	**2,895,220**	2,932,850	2,129,655
Net income	**1,447,339**	1,602,009	1,227,359
CSB*			
Total current assets	**12,683,312**	8,792,589	–
Total noncurrent assets	**260,195**	184,016	–
Total current liabilities	**1,598,534**	1,615,398	–
Total noncurrent liabilities	**9,562,049**	6,114,039	–
Gross revenue	**1,072,623**	911,503	–
Net income	**535,415**	444,030	–
ATS and Subsidiaries			
Total current assets	–	–	4,799,883
Total noncurrent assets	–	–	5,822,114
Total current liabilities	–	–	5,394,293
Total noncurrent liabilities	–	–	68,132
Gross revenue	–	–	11,824,431
Net income	–	–	622,717

** Amounts are based on cost model of accounting for investment properties. Investment properties are adjusted to fair values in the consolidated financial statements of the Company and its Subsidiaries to conform with the Group's uniform accounting policy for investment properties under the fair value model.*

7. Investments in and Advances to Associates

	Nature of Business***	Percentage of Ownership	
		2011	2010
Accuria, Inc. (Accuria)*	Holding company	**49.54**	49.54
Jardine Aboitiz Insurance Brokers, Inc. (JAIB)*	Insurance Brokerage	**49.00**	49.00
Union Bank of the Philippines (UBP) **	Banking	**43.27**	40.91
Cebu International Container Terminal, Inc. (CICTI)*	Transportation	**20.00**	20.00
South Western Cement Corporation (SWCC)**	Cement	**20.00**	20.00

** No commercial operations*
*** The 2011 and 2010 financial statements of these associates were audited by other independent auditors. All other companies were audited by the principal auditors*
****All companies are incorporated in the Philippines.*

The details of the Company's investments in and advances to associates accounted for under the cost method follow:

	2011	2010
UBP	**₱6,064,163,377**	₱5,154,420,902
Accuria	**719,739,476**	719,739,476
CICTI	**240,125,000**	240,125,000
SWCC	**28,995,322**	28,995,322
JAIB	**1,884,426**	1,884,426
	7,054,907,601	6,145,165,126
Less allowance for impairment losses	**28,995,322**	28,995,322
	7,025,912,279	6,116,169,804
Advances to associates	**1,320,145**	918,048
	₱7,027,232,424	₱6,117,087,852

Following is the summarized financial information of UBP, a significant associate (amounts in thousand pesos):

	2011	2010	2009
UBP and Subsidiaries			
Total current assets	**₱48,932,566**	₱61,929,911	₱58,908,760
Total noncurrent assets	**221,253,308**	191,069,906	185,452,558
Total current liabilities	**223,596,835**	211,977,367	208,043,868
Total noncurrent liabilities	**3,750,000**	5,037,100	5,037,100
Gross revenue	**11,750,432**	11,813,054	11,891,519
Net income	**6,595,398**	5,353,251	4,325,003

On various dates in 2011, the Company purchased additional 15.2 million shares in UBP for a total consideration of ₱909.7 million, increasing its share in UBP from 40.91% to 43.27%. In 2010, it also increased its stake from 38.66% to 40.91% by acquiring 14.4 million UBP shares worth ₱647.0 million.

The fair value of the investment in UBP for which there is a published price quotation amounted to ₱18.3 billion and ₱15.7 billion as of December 31, 2011 and 2010, respectively.

8. Accounts Payable and Accrued Expenses

	2011	2010
Accrued interest (see Notes 11 and 12)	**₱30,108,434**	₱31,513,112
Due to parent and subsidiaries (see Note 9)	**22,223,447**	24,359,344
Stocks purchase payable (see Note 6)	**–**	355,908,432
Others	**102,865,414**	116,042,956
	₱155,197,295	₱527,823,844

Stock purchase payable as of December 31, 2010 pertains to an outstanding obligation arising from account on the acquisition of shares in certain investees. This was subsequently paid in January 2011.

Other payables and accrued expenses as of December 31, 2011 and 2010 consist of expenses arising from the ordinary course of the business which are non-interest bearing and are normally on 30 days' terms.

9. **Related Party Disclosures**

In the normal course of business, the Company enters into transactions with related parties, principally consisting of the following:

a. Interest-bearing temporary advances due to or from ACO and certain subsidiaries. Net interest income earned on these advances amounted to ₱1.2 million, ₱37.6 million and ₱25.6 million in 2011, 2010 and 2009, respectively.

b. Aviation services from AVI for the use of aircraft during travel of the Company's officers and employees. Expenses amounted to ₱11.4 million, ₱12.7 million and ₱11.4 million in 2011, 2010 and 2009, respectively.

c. Service fees to CPDC for the use of CPDC's properties by the Company's officers and employees. Fees amounted to ₱1.5 million, ₱1.3 million and ₱0.8 million in 2011, 2010 and 2009, respectively.

d. Management and other professional and technical fees charged to related parties. Income amounted to ₱629.7 million, ₱491.9 million and ₱410.2 million in 2011, 2010 and 2009, respectively. Accounts receivable outstanding from these revenues amounted to ₱134.9 million in 2011 and ₱127.3 million in 2010.

e. Cash deposits and investments in UBP earn interest income at prevailing rates.

The parent company balance sheets include the following more significant balances resulting from the above transactions with related parties (amounts in thousand pesos):

	Cash and Cash Equivalents		Receivables (Payables)	
	2011	2010	**2011**	2010
Parent Company				
ACO	**₱–**	₱–	**₱3,694**	(₱647)
Subsidiaries				
CPDC	**–**	–	**143,920**	390
PILMICO	**–**	–	**23,766**	39,595
DLP	**–**	–	**23,333**	24,436
CSB	**–**	–	**4,464**	–
Subic Enerzone Corporation	**–**	–	**3,105**	2,154
Pilmico Animal Nutrition Corporation	**–**	–	**854**	1,263
AP	**–**	–	**430**	(9,560)
JMI	**–**	–	**350**	–
ABOJEB	**–**	–	**121**	–
AVI	**–**	–	**(22,223)**	–
ATS	**–**	–	**–**	6,715
Mactan Enerzone Corporation	**–**	–	**–**	2,825

(Forward)

	Cash and Cash Equivalents		Receivables (Payables)	
	2011	2010	**2011**	2010
Aboitiz One, Inc.	**₱–**	₱	**₱–**	₱729
Balamban Enerzone Corporation	**–**	–	**–**	336
AP Renewables, Inc.	**–**	–	**–**	(1,796)
Associates				
UBP	**169,626**	4,249,972	**14**	193
Visayan Electric Company, Inc.	**–**	–	**24,649**	44,123
Cebu Energy Development Corp.	**–**	–	**45,140**	13,060
Manila-Oslo Renewable Enterprise, Inc.	**–**	–	**6,776**	13,060
Other Related Parties	**–**	–	**1,874**	2,864

Compensation of Key Management Personnel

	2011	2010	2009
Short-term benefits	**₱92,607,051**	₱49,202,311	₱55,704,950
Post-employment benefits	**4,660,166**	2,616,804	5,015,833
	₱97,267,217	₱51,819,115	₱60,720,783

10. **Property and Equipment**

December 31, 2011

	Transportation Equipment	**Office Equipment, Furniture and Fixtures**	**Leasehold Improvements**	**Computer Equipment**	**Construction in Progress**	**Total**
Cost						
At January 1	**₱37,050,876**	**₱41,838,102**	**₱48,534,282**	**₱52,279,080**	**₱–**	**₱179,702,340**
Additions	**11,595,109**	**2,549,201**	**4,575,281**	**7,232,048**	**–**	**25,951,639**
Disposals	**(2,295,606)**	**(6,059)**	**–**	**(794,975)**	**–**	**(3,096,640)**
At December 31	**46,350,379**	**44,381,244**	**53,109,563**	**58,716,153**	**–**	**202,557,339**
Accumulated depreciation and amortization:						
At January 1	**20,508,786**	**23,136,092**	**21,491,231**	**25,411,261**	**–**	**90,547,370**
Additions	**7,956,695**	**7,974,632**	**5,199,695**	**13,927,565**	**–**	**35,058,587**
Disposals	**(721,258)**	**(1,857)**	**–**	**(794,931)**	**–**	**(1,518,046)**
At December 31	**27,744,223**	**31,108,867**	**26,690,926**	**38,543,895**	**–**	**124,087,911**
Net book value	**₱18,606,156**	**₱13,272,377**	**₱26,418,637**	**₱20,172,258**	**₱–**	**₱78,469,428**

December 31, 2010

	Transportation Equipment	Office Equipment, Furniture and Fixtures	Leasehold Improvements	Computer Equipment	Construction in Progress	Total
Cost						
At January 1	₱46,469,462	₱38,420,580	₱38,506,042	₱40,451,000	₱7,053,177	₱170,900,261
Additions	9,664,789	7,490,790	3,053,014	13,174,307	–	33,382,900
Disposals	(19,083,375)	(4,229,586)	(134,080)	(1,133,780)	–	(24,580,821)
Reclassifications	–	156,318	7,109,306	(212,447)	(7,053,177)	–
At December 31	37,050,876	41,838,102	48,534,282	52,279,080	–	179,702,340
Accumulated depreciation and amortization:						
At January 1	26,079,845	18,709,410	16,946,674	15,569,736	–	77,305,665
Additions	8,540,555	7,847,748	4,545,393	10,427,985	–	31,361,681
Disposals	(14,111,614)	(3,421,066)	(836)	(586,460)	–	(18,119,976)
At December 31	20,508,786	23,136,092	21,491,231	25,411,261	–	90,547,370
Net book value	₱16,542,090	₱18,702,010	₱27,043,051	₱26,867,819	₱–	₱89,154,970

11. **Long-term Debt**

	2011	2010
Financial institutions - unsecured peso denominated loans	**₱3,991,150,000**	₱4,600,000,000
Less current portion	**8,850,000**	608,850,000
	₱3,982,300,000	₱3,991,150,000

The loans availed by the Company from financial institutions include:

a. An unsecured loan obtained in 2006, amounting to ₱1.0 billion, is payable in five years with 10% of the principal due on the second year, 25% due on the third and fourth year and the remaining 40% on the fifth year, with interest rates at 2.63% in 2011 and ranging from 2.63% to 5.18% in 2010, to be repriced on a quarterly basis. The loan was fully paid in March, 2011.

b. Unsecured loan obtained in 2006, amounting to ₱500.0 million, is payable in five years with 10% of the principal due on the second year, 25% due on the third and fourth year and the remaining 40% on the fifth year, with interest rates ranging from 2.46% to 2.57% in 2011 and 2.46% to 5.21% in 2010, subject to quarterly repricing. The loan was fully paid in June, 2011.

c. Unsecured loan amounting to ₱1.0 billion availed in 2008 with bullet principal payment due at the end of five years and with interest payments due quarterly at a fixed rate of 9.19%. The loan was fully paid in November, 2010.

2010 Fixed Rate Corporate Notes

On May 19, 2010, the Company availed ₱2.5 billion from the Notes Facility Agreement it signed on May 14, 2010, with First Metro Investment Corporation as Issue Manager. The Notes Facility Agreement provided for the issuance of 6-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules. The note bears an annual interest of 8.25% and is unsecured.

Prior to the maturity date, the Company may redeem in whole the relevant outstanding notes on the 16th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount being earlier redeemed plus the Breakage Cost. Breakage Cost is calculated as the present value of the remaining principal amortizations and interest payments discounted at the sum of the comparable benchmark tenor yield plus the original spread on the loan.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, the Company shall not permit its debt to equity (DE) ratio to exceed 2:1 calculated based on its year-end audited parent company financial statements. For the purposes of determining compliance with the required ratio, the outstanding preferred shares and contingent liabilities of the Company, including but not limited to the liabilities in the form of corporate guarantees in favour of any person or entity, shall be included in the computation of debts. The Company is in compliance with the debt covenant as of December 31, 2011.

Unamortized deferred debt issuance cost amounted to ₱18.5 million as of December 31, 2011.

On November 30, 2010, the Company availed another ₱1.5 billion from the Notes Facility Agreement it signed on November 23, 2010, with Bank of Philippine Islands, BPI Asset Management and Trust Group as Investment Manager for ALFM Peso Bond, Inc. and BPI Asset Management and Trust Group as Noteholders. The Notes Facility Agreement provided for the issuance of 5-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the SRC and Rule 9.2(2)(B) of the SRC Rules. The loan bears an annual interest of 5.23% and is unsecured.

Prior to the maturity date, the Company may redeem in whole the relevant outstanding notes on the 12th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount being earlier redeemed plus the Breakage Cost. Breakage Cost is calculated as the present value of the remaining principal amortizations and interest payments discounted at the sum of the comparable benchmark tenor yield plus the original spread of the loan, provided that the prepayment shall not exceed 102% nor less than 100% of the principal amount of the Notes being earlier redeemed.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, the Company shall not permit its DE ratio to exceed 2.5:1 calculated based on its year-end audited parent company financial statements. For the purposes of determining compliance with the required ratio, the outstanding preferred shares and contingent liabilities of the Company, including but not limited to the liabilities in the form of corporate guarantees in favour of any person or entity, shall be included in the computation of debts. The Company is in compliance with the debt covenant as of December 31, 2011.

Unamortized deferred debt issuance cost amounted to ₱9.6 million in 2011.

Interest expense recognized on the long-term debt amounted to ₱288.3 million in 2011, ₱252.3 million in 2010, and ₱155.3 million in 2009.

12. **Capital Stock and Redeemable Preferred Shares**

Information on the Company's authorized capital stock follows:

	Number of Shares	
	2011	2010
Authorized capital stock:		
Common shares, ₱1 par value	**9,600,000,000**	9,600,000,000
Preferred shares, ₱1 par value	**400,000,000**	400,000,000

Outstanding capital stocks are as follows:

	Number of Shares	
	2011	2010
Common shares issued	**5,694,599,621**	5,694,599,621
Less treasury shares	**172,727,800**	172,727,800
Balance at end of year	**5,521,871,821**	5,521,871,821
Preferred shares issued:		
Balance at beginning of year	**150,000,000**	150,000,000
Redeemed	**(150,000,000)**	–
Balance at end of year	**–**	150,000,000

The redeemable preferred shares are presented in the parent company balance sheets as part of liabilities in accordance with PAS 32 as follows:

	2011	2010
Redeemable preferred shares	**₱–**	₱1,500,000,000

The preferred shares are non-voting, non-participating, non-convertible, cumulative reissuable and redeemable and may be issued from time to time by the BOD in one or more series and fixed before issuance thereof, the number of shares in each series, and all designations, relative rights, preferences and limitations of the shares in each series. Preferred shares that are redeemed by the Company may be re-issued.

The Company's outstanding preferred shares as of December 31, 2011 and 2010 consist of (1) Series "E" amounting to ₱1,000,000 with fixed dividend rate of 8.25% per annum; and (2) Series "F" amounting to ₱500,000 with fixed dividend rate of 8.5% per annum.

The Company shall redeem the preferred shares at the end of the corresponding agreed periods from Issue Dates (Final Redemption Dates) regardless of the existence of unrestricted retained earnings or other amounts legally available for the payment of dividends in such period, provided that the Issuer has, after redemption, sufficient assets in the books to cover debts and liabilities, inclusive of capital stock, and subject to the Issuer's compliance with the applicable laws, rules and regulations, including the requirements of the SEC. The final redemption dates are as follows: (1) December 2011 for series "E" (shown as current in the December 31, 2010 parent company balance sheet); and (2) December 2013 for series "F". The preferred shares shall be redeemed by payment in cash of 100% of the Issue Price plus all accrued and unpaid cash dividends on the Final Redemption Date. Preferred shares Series "E" and "F" were fully redeemed in December 2011.

Interest expense recognized on the preferred shares amounted to ₱119.1 million in 2011, ₱126.6 million in 2010 and ₱161.6 million in 2009.

On November 16, 1994, the Company listed with the Philippine Securities Exchange (PSE) its 821,486,000 common shares that were offered to the public at an issue price of ₱5.70 per share. Gross proceeds from this issuance of new shares amounted to ₱4.6 billion. Transaction costs incidental to the IPO totaling ₱528.0 million were charged against "Additional paid-in capital."

As of December 31, 2011, and 2010, the Company has 10,195, and 10,702 shareholders, respectively.

13. Retained Earnings

On March 3, 2011, the BOD approved the declaration of a regular cash dividend of ₱1.58 a share (₱8.7billion) to stockholders of record as of March 17, 2011. These dividends were paid on April 5, 2011.

On March 10, 2010, the BOD approved the declaration of a regular cash dividend of ₱0.52 a share (₱2.9 billion) to stockholders of record as of March 24, 2010. These dividends were paid on April 16, 2010.

On February 11, 2009, the BOD approved the declaration of a regular cash dividend of ₱0.27 a share (₱1.5 billion) to stockholders of record as of February 26, 2009. These dividends were paid on March 23, 2009.

14. Treasury Shares

On January 26, 2007, the Company successfully placed its entire treasury shares holdings representing 742.5 million shares at a price of ₱8.20 per share or a 5.7% discount to the share close price of ₱8.70. The treasury sale transaction represented approximately ₱5.9 billion, equivalent to US$124 million.

In 2008, the Company started to buy back its shares. As of December 31, 2011 and 2010, approximately 172.7 million AEV shares were bought into treasury with a total cost of ₱1.3 billion.

15. Cost of Services

	2011	2010	2009
Salaries and wages (see Note 17)	**₱137,384,173**	₱103,692,316	₱96,144,307
Professional fees (see Note 9)	**33,457,229**	26,699,961	21,820,208
Depreciation (see Note 10)	**28,448,465**	30,746,986	23,383,199
Communication, light and water	**8,455,851**	8,208,732	7,080,609
Rent (see Note 9)	**6,861,305**	5,369,601	4,525,268
Repairs and maintenance	**4,928,073**	6,232,562	5,285,204
Employees' benefits (see Notes 16 and 17)	**4,032,781**	8,330,389	18,816,818
Amortization of computer software	**3,789,633**	2,455,826	4,367,273
Office supplies	**1,365,462**	2,120,930	1,578,258
Outside services	–	–	1,399,395
	₱228,722,972	₱193,857,303	₱184,400,539

16. **General and Administrative Expenses**

	2011	2010	2009
Bank charges	**₱52,965,106**	₱36,853,985	₱7,225,855
Outside services	**38,881,810**	38,785,152	15,400,389
Training and development	**34,080,402**	20,861,325	19,951,765
Taxes and licenses	**33,272,862**	3,537,639	3,273,400
Transportation and travel (see Note 9)	**33,234,712**	32,205,351	23,288,400
Salaries and wages (see Note 17)	**31,921,798**	2,073,017	2,268,467
Insurance	**22,586,427**	17,999,884	15,006,675
Entertainment, amusement and recreation	**7,945,673**	6,598,474	3,374,626
Professional fees (see Note 9)	**7,773,930**	533,786	514,834
Communication, light and water	**7,022,702**	4,089,901	3,270,104
Employees' benefits (see Notes 15 and 17)	**6,697,947**	5,335,552	5,419,256
Depreciation (see Note 10)	**6,610,122**	614,695	551,712
Advertising	**2,790,062**	2,788,219	3,932,916
Rent (see Note 9)	**1,594,254**	107,349	106,771
Repairs and maintenance	**1,145,059**	124,601	124,701
Amortization of computer software	**880,537**	49,096	103,043
Donations and contributions	**515,635**	504,218	2,080,000
Office supplies	**317,271**	42,402	37,238
Others	**25,299,848**	24,307,797	8,488,709
	₱315,536,157	₱197,412,443	₱114,418,861

Other expenses include legal expenses, books and periodicals, freight and handling, and other expenses that do not have specific account classification.

17. **Personnel Expenses**

	2011	2010	2009
Salaries and wages	**₱169,305,971**	₱105,765,333	₱98,412,774
Employee benefits (see Note 18)	**10,730,728**	13,665,941	24,236,074
	₱180,036,699	₱119,431,274	₱122,648,848

18. **Pension Benefit Plan**

The Company has a funded, noncontributory, defined benefit pension plan, administered by the Fund's Trustees, covering all regular and full-time employees.

The following tables summarizes the components of net benefit expense recognized in the parent company statements of income and the funded status and amounts recognized in the parent company balance sheets for the plan.

Net benefit expense

	2011	2010	2009
Current service cost	**₱15,033,400**	₱16,404,800	₱13,341,520
Interest cost on benefit obligation	**18,334,145**	28,569,030	23,558,344
Expected return on plan assets	**(25,683,447)**	(36,565,345)	(20,514,121)
Net actuarial loss (gain) recognized during the year	**(6,526,166)**	(3,154,179)	140,745
Net benefit expense	**₱1,157,932**	₱5,254,306	₱16,526,488

Actual return of the Company's plan assets amounted to ₱43.4 million in 2011, ₱157.6 million in 2010 and ₱126.1 million in 2009.

Pension liability asset

	2011	2010
Defined benefit obligation	**₱303,577,200**	₱215,189,500
Fair value of plan assets	**(418,484,991)**	(366,906,391)
Unrecognized net actuarial losses	**96,950,896**	147,635,464
Pension asset	**₱17,956,895**	₱4,081,427

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

	2011	2010
Opening defined benefit obligation	**₱215,189,500**	₱285,690,300
Interest cost	**18,334,145**	28,569,030
Current service cost	**15,033,400**	16,404,800
Actuarial loss on obligation	**62,023,055**	57,300,570
Benefits paid	**(3,997,400)**	–
Employee transfers	**(3,005,500)**	(172,775,200)
Closing defined benefit obligation	**₱303,577,200**	₱215,189,500

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

	2011	2010
Opening fair value of assets	**₱366,906,391**	₱365,653,448
Expected return	**25,683,447**	36,565,345
Actual contributions	**15,033,400**	16,404,800
Actuarial gain	**17,864.653**	121,057,998
Benefits paid	**(3,997,400)**	–
Employee transfers	**(3,005,500)**	(172,775,200)
Closing fair value of plan assets	**₱418,484,991**	₱366,906,391

The Company expects to contribute ₱26.7 million to its defined benefit pension plan in 2012.

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

	2011	2010
Temporary investments	**95.21%**	92.30%
Accounts receivable	**4.79%**	7.70%

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

The principal assumptions on December 31, 2011 and 2010 used in determining pension liability for the Company's plan are shown below:

	2011	2010
Discount rate	**6.51%**	8.52%
Expected rate of return on assets	**7%**	7.00%
Future salary increase	**6%**	6.00%

Amounts for the current and previous periods follow:

	2011	2010	2009	2008	2007
Defined benefit obligation	**₱303,577,200**	₱215,189,500	₱285,690,300	₱222,039,059	₱219,244,928
Fair value of plan assets	**418,484,991**	366,906,391	365,653,448	186,492,012	257,802,451
Deficit (surplus)	**(114,907,791)**	(151,716,891)	(151,716,891)	35,547,047	(38,557,523)
Experience adjustments on plan liabilities	**(39,410,400)**	(73,499,700)	(73,499,700)	(29,797,829)	(14,036,444)
Experience adjustments on plan assets	**–**	–	–	(37,195,926)	(37,772,511)

19. **Income Tax**

The "Provision for income tax" account consists of:

	2011	2010	2009
Current			
Corporate income tax	**₱37,810,843**	₱28,953,869	₱72,061,587
Final tax	**40,939,604**	3,018,367	3,249,359
	78,750,447	31,972,236	75,310,946
Deferred	**5,221,841**	4,075,706	(357,434)
	₱83,972,288	₱36,047,942	₱74,953,512

The current provisions for income tax in 2011, 2010 and 2009 represent regular corporate income tax.

The deferred income tax assets (liabilities) represent the tax effects of the following:

	2011	2010
Accrued retirement	**(₱2,715,413)**	₱2,504,113
Unrealized foreign exchange loss (gain)	**(970)**	1,344
	(₱2,716,383)	₱2,505,457

In computing for deferred income tax assets and liabilities as of December 31, 2011 and 2010, the rate used was 30%, which is the rate expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled.

The reconciliation of the provision for income tax on income before income tax computed at the statutory tax rate to the provision for income tax reported in the Company statements of income follows:

	2011	2010	2009
Provision for income tax at the statutory tax rates of 30%	**₱2,666,019,903**	₱1,194,710,423	₱1,140,092,880
Add (deduct) income tax effects of the following:			
Nondeductible dividends on preferred shares	**35,733,627**	37,993,863	48,478,794
Nondeductible interest expense	**20,265,194**	1,499,693	1,638,520
Nondeductible deficiency tax assessment paid	**8,674,514**	–	–
(Forward)			
Nondeductible provision for decline in value of investments/advances	**238,819**	8,181,833	–
Nontaxable dividend income	**(2,614,415,464)**	(1,227,181,942)	(1,113,454,195)
Interest income already subjected to final tax at lower rate	**(20,470,074)**	(1,526,157)	(1,715,853)
Nontaxable reversal of provision for decline in value of investments/advances	**(12,074,231)**	–	–
Loss (gain) on sale of investment	**–**	22,370,229	(88,823)
Others	**–**	–	2,189
	₱83,972,288	₱36,047,942	₱74,953,512

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

The Company's principal financial instruments comprise cash in banks and cash equivalents, AFS investments, redeemable preferred shares, and long-term debt. The main purpose of these financial instruments is to raise finances for the Company's operations and its investments in existing subsidiaries and associates and in new projects. The Company has other financial assets and liabilities such as trade and other receivables and accounts payable and accrued expenses which arise directly from operations.

The main risks arising from the Company's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term loans and redeemable preferred shares; credit risk involving possible exposure to counter party default on its cash and AFS investments; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's credit risk on its cash in banks and short-term investments, accounts receivables and advances to subsidiaries and associates pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to short-term investments, the risk is mitigated by the short-term and/or liquid nature of its short-term investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to accounts receivables and advances to subsidiaries and associates, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has no significant concentration risk to a counterparty or group of counterparties.

As of December 31, 2011 and 2010, none of the Company's financial assets are past due nor impaired and the credit quality is considered to be of high grade as these are expected to be collectible without incurring any credit losses.

The Company trades with related parties and recognized, creditworthy third parties.

Counterparty risk
The Company's counterparty risk encompasses issuer risk on investment securities; credit risk on cash in bank, time deposits, and security deposit. The Company manages its counterparty risk by transacting with counterparties of good financial condition and selecting investment grade securities.

The Company's maximum counterparty exposure is related to its cash and cash equivalents accounts which have a balance of ₱2,740.1 million and ₱5,551.2 million as of December 31, 2011 and 2010, respectively.

Liquidity risk
Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Company maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations. The Company, in general, matches the appropriate long-term funding instruments with the general nature of its equity investments.

In managing its short-term fund requirements, the Company's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term borrowings. With regards to its long-term financing requirements, the Company's policy is that not more than 35.0% of long-term borrowings should mature in any 12-month period. Of its debt, 0.22% will mature in less than one year from December 31, 2011 (2010: 26%).

The following table summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments (amounts in thousand pesos):

December 31, 2011

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1 to 5 years	More than 5 years
Accounts payables and accrued expenses	**₱155,197**	**₱155,197**	**₱–**	**₱155,197**	**₱–**	**₱–**
Long-term debt	**3,991,150**	**5,327,677**	**–**	**292,870**	**5,034,807**	**–**
Redeemable preferred shares	**–**	**–**	**–**	**–**	**–**	**–**
Total	**₱4,146,347**	**₱5,482,874**	**₱–**	**₱448,067**	**₱5,034,807**	**₱–**

December 31, 2010

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1 to 5 years	More than 5 years
Accounts payables and accrued expenses	₱527,824	₱527,824	₱–	₱527,824	₱–	₱–
Long-term debt	4,600,000	6,226,288	–	898,611	2,649,031	2,678,646
Redeemable preferred shares	1,500,000	1,710,000	–	1,125,000	585,000	–
Total	₱6,627,824	₱8,464,112	₱–	₱2,551,435	₱3,234,031	₱2,678,646

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

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

The Company's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Company determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities.

As of December 31, 2011, 100% of the Company's long-term debts are with fixed rates ranging from 5.23% to 8.5%. As of December 31, 2010, 10.00% of the Company's long-term debts are with floating interest rates ranging from 2.46% to 5.21%, and 90.00% are with fixed rates ranging from 5.23% to 8.5%. (see Note 11).

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk (amounts in thousand pesos):

December 31, 2011

	Less than 1 year	**1-5 years**	**More than 5 years**	**Total**
Fixed rate:				
Long-term debts	**₱8,850**	**₱3,982,300**	**₱–**	**₱3,991,150**
	₱8,850	**₱3,982,300**	**₱–**	**₱3,991,150**

December 31, 2010

	Less than 1 year	1-5 years	More than 5 years	Total
Fixed rate:				
Long-term debts	₱8,850	₱1,516,650	₱2,474,500	₱4,000,000
Redeemable preferred shares	1,000,000	500,000	–	1,500,000
Floating rate:				
Long-term debts	600,000	–	–	600,000
	₱1,608,850	₱2,016,650	₱2,474,500	₱6,100,000

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above table are non-interest bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company’s profit before tax (through the impact on floating-rate borrowings) (amounts in thousand pesos).

	Increase (decrease) in basis points	Effect on income before tax
December 31, 2011	**200**	**₱–**
	(100)	–
December 31, 2010	100	(₱6,000)
	(50)	3,000

Foreign exchange risk
The foreign exchange risk of the Company is mainly with respect to its foreign currency denominated cash investments.

To mitigate the risk of incurring foreign exchange losses, foreign currency holdings are matched against the potential need for foreign currency in financing equity investments and new projects.

Capital management
Capital includes equity attributable to the equity holders of the parent company. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended December 31, 2011 and 2010.

The Company is not subject to externally imposed capital requirements.

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Company's policy is to keep the gearing ratio at 30% or below. The Company determines net debt as the sum of redeemable preferred shares and long-term debt less cash and short-term deposits and advances to subsidiaries and associates.

Gearing ratios of the Company as of December 31, 2011 and 2010 are as follows (amounts in thousand pesos):

	2011	2010
Long-term debt	**₱3,991,150**	₱4,600,000
Redeemable preferred shares	–	1,500,000
Cash and cash equivalents	**(2,740,110)**	(5,551,192)
Advances to parent and subsidiaries	**(3,694)**	(2,850)
Net debt (a)	**1,247,346**	545,958
Equity	**19,691,314**	19,614,232
Equity and net debt (b)	**₱20,938,660**	₱20,160,190
Gearing ratio (a/b)	**5.96%**	2.71%

21. **Financial Instruments**

Fair Value of Financial Instruments
Set out below is a comparison by category of carrying amounts and fair value of all of the Company's financial instruments that are carried in the financial statements as of December 31, 2011 and 2010 (amounts in thousand pesos).

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets:				
Loans and receivable				
Cash and cash equivalents	**₱2,740,110**	**₱2,740,110**	₱5,551,192	₱5,551,192
Trade and other receivables	**367,796**	**367,796**	921,893	921,893
	3,107,906	**3,107,906**	6,473,085	6,473,085
AFS investments				
Quoted shares of stock	**339,226**	**339,226**	340,347	340,347
	₱3,447,132	**₱3,447,132**	₱6,813,432	₱6,813,432

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**₱155,197**	**₱155,197**	₱527,824	₱527,824
Long-term debt:				
Floating rate	**–**	**–**	600,000	600,000
Fixed rate	**3,991,150**	**4,181,913**	4,000,000	4,187,969
Redeemable preferred shares:				
Fixed rate	**–**	**–**	1,500,000	1,573,043
	₱4,146,347	**₱4,337,110**	₱6,627,824	₱6,888,836

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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

Cash and cash equivalents, trade and other receivables, and accounts payable and accrued expenses

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

Fixed-rate borrowings and Redeemable preferred shares

The fair values of fixed rate interest bearing loans and redeemable preferred shares are based on the discounted value of future cash flows using the applicable rates for similar types of loans ranging from 5.25% to 6.22% and 4.26% to 6.41% in 2011 and 2010, respectively.

Variable-rate borrowings

Where the repricing of the variable-rate interest bearing loan is frequent (i.e., three-month repricing), the carrying value approximates the fair value. Otherwise, the fair value is determined by discounting the principal plus the known interest payment using current market rates. The carrying values of the variable-rate borrowings approximate the fair value.

AFS investments

The fair value of AFS investments are based on quoted market prices.

Fair Value Hierarchy

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

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

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

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

As of December 31, 2011 and 2010, the Company's AFS investments, which are measured using level 1 valuation technique, are the only financial instruments measured at fair value.

During the reporting period ending December 31, 2011 and 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.

22. Events After Balance Sheet Date

On March 1, 2012, the BOD of the Company approved the declaration of a cash dividend of ₱1.58 a share (₱8.7 billion) to all stockholders of record as of March 16, 2012, payable on April 3, 2012.

23. Supplementary Tax Information Under Revenue Regulations 19-2011

On December 9, 2011, the BIR issued RR No. 19-2011 prescribing the new income tax forms to be used effective calendar year 2011. In the case of corporations using BIR Form 1702, the taxpayer is now required to include as part of its notes to the audited financial statements, which will be attached to the income tax return, schedules and information on taxable income and deductions taken.

The schedule and information of taxable income and deductions taken for 2011 are as follows:

a. Schedule of Sales/Revenues/Receipts/Fees

	Regular Rate
Sale of services	₱640,287,894
	₱640,287,894

b. Cost of Services

	Regular Rate
Direct charges - salaries and wages	₱137,384,173
Direct charges - outside services	33,457,229
Direct charges - depreciation	32,238,098
Direct charges - materials, supplies and communication	9,821,313
Direct charges - rental	6,861,305
Direct charges - SSS, HDMF & PHIC contribution	3,093,171
Direct charges - contribution paid to retirement fund	939,610
Direct charges - others	4,928,073
	₱228,722,972

c. Non-operating and Taxable Other Income Not Subjected to Final Tax

	Regular Rate
Rent income	₱3,930,404
Interest income – others	3,381,096
Realized foreign exchange gain	8,211
Gain on sale of equipment	264
Miscellaneous income	233,369,222
	₱240,689,197

d. Itemized Deductions

	Regular Rate
Interest expense - banks	₱288,333,476
Salaries and wages	31,921,798
Transportation and travel	33,234,712
Insurance	22,586,427
Contribution paid to retirement fund	17,616,743
Representation and entertainment	7,945,673
Outside services	7,773,930
Depreciation and amortization	7,490,660
Other employee benefits	5,444,075
Light and water	5,057,949
Taxes and licenses	4,357,817
Advertising	2,790,061
Supplies and communication	2,282,024
Rental	1,594,253
Interest expense - others	1,415,614
Repairs and maintenance	1,145,059
Freight and handling	570,270
Charitable contribution	515,635
Fringe benefits	316,838
SSS, GSIS, Medicare, HDMF and other contributions	718,711
Non-deductible interest expense	(67,550,647)
Miscellaneous	150,656,896
	₱526,217,974

24. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes in 2011:

Value added tax (VAT)

The Company's sales are subject to output value added tax (VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2011

	Net Sales/ Receipts	Output VAT
Taxable Sales:		
Sale of goods	₱1,914,078	₱229,689
Sales of services	668,869,246	80,264,310
	670,783,324	80,493,999
Zero-rated Sales	20,525,021	–
Exempt Directors' Fees	201,179,231	–
	₱892,487,576	**₱80,493,999**

Zero-rated sales of goods and services consist of those rendered to persons or entities whose exemptions are provided under special laws or international agreements to which the Philippines is a signatory.

b. Input VAT claimed per 2011 VAT Returns

Balance at January 1	₱8,327,339
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	1,261,147
Capital goods subject to amortization	1,918,738
Capital goods not subject to amortization	356,144
Services lodged under cost of services sold and other accounts	16,605,797
	28,469,165
VAT input applied against VAT output	(23,399,247)
Balance at December 31	**₱5,069,918**

Other Taxes and Licenses for 2011

Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2011:

Included in Operating Expenses:	
License and permits fees	₱3,872,705
Documentary stamp taxes	414,774
Fringe benefits taxes	101,388
Deficiency taxes	28,915,046
Real estate taxes	20,474
Others	49,863
	₱33,374,250

Withholding Taxes

Withholding taxes on compensation and benefits	₱40,730,107
Expanded withholding taxes	13,791,798
Final withholding taxes	194,682,253
	₱249,204,158

Tax Assessments and Cases

The Company has no pending tax cases outside the administration of the BIR.

COVER SHEET

C E 0 2 5 3 6

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

(Company's Full Name)

Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City

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

Ms. Melinda Bathan	(032) 411-1800
(Contact Person)	(Company Telephone Number)

1 2 / 3 1	A A C F S	
Month *Day* (Calendar Year)	(Form Type)	*Month* *Day* (Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

CFD	Not Applicable
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

10,195	₱33.0 billion	Nil
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Aboitiz Equity Ventures, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

JON RAMON M. ABOITIZ
Chairman of the Board

ERRAMON I. ABOITIZ
President & Chief Executive Officer

STEPHEN G. PARADIES
Senior Vice President - Chief Financial Officer

Signed this 1st day of March, 2012.

Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Cebu City, Philippines 6000
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aboitiz
Equity Ventures

Republic of the Philippines)
City of Cebu) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC	Date/Place Issued
Jon Ramon M. Aboitiz	XX4393111	August 18, 2009, Manila
	00067760	January 18, 2012, Cebu City
Erramon I. Aboitiz	XX1560733	July 7, 2008, Manila
	128458	February 7, 2012, Cebu City
Stephen G. Paradies	ZZ202455	January 18, 2007, Manila
	128451	February 7, 2012, Cebu City

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this _____ day of ___ 22 2012 2012.

Doc. No. 27;
Page No. 6;
Book No. 7;
Series of 2012.

ATTY. MAILENE M. DE LA TORRE ROLL NO. 55885 NOTARY PUBLIC CEBU CITY, PHILIPPINES

MAILENE M. DE LA TORRE
Notary Public for Cebu City
Notarial Commission No. 043-11
Until December 31, 2012
Aboitiz Corporate Center
Gov. M. Cuenco Ave., Cebu City
ROLL No. 55885
PTR No. 2157309 Cebu City 01.05.12
IPB Lifetime No. 880207 Makati City 01.06.
MCLE Compliance No. III-000

SyCip Gorres Velayo & Co.
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Phone: (632) 891 0307
Fax: (632) 819 0872
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BOA/PRC Registration No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue, Cebu City

We have audited the accompanying consolidated financial statements of Aboitiz Equity Ventures, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. We did not audit the 2009 financial statements of the following subsidiaries: Aboitiz Energy Solutions, Inc., AEV Aviation, Inc., Cebu Praedia Development Corporation, Mactan Enerzone Corporation and Balamban Enerzone Corporation which statements reflect total revenues of 4.4% of the consolidated revenues in 2009. Also, we did not audit the 2009 financial statements of the following associates: Union Bank of the Philippines, City Savings Bank, Pampanga Energy Ventures, Inc., Hijos de F. Escano, Inc., East Asia Utilities Corporation and STEAG State Power, Inc., the Group's share in net earnings of which represents 27.9% of the consolidated net income for 2009. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the 2009 consolidated financial statements, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors for 2009, the consolidated financial statements present fairly, in all material respects, the financial position of Aboitiz Equity Ventures, Inc. and Subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila Jr.

Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-2 (Group A),
February 4, 2010, valid until February 3, 2013
Tax Identification No. 109-247-891
BIR Accreditation No. 08-001998-43-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174866, January 2, 2012, Makati City

March 1, 2012

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31 2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱29,543,492**	₱26,097,203
Trade and other receivables (Note 5)	**22,024,385**	15,702,445
Inventories (Note 6)	**4,932,659**	4,075,091
Derivative asset (Note 33)	–	7,670
Other current assets (Notes 7 and 8)	**2,220,068**	1,880,646
Total Current Assets	**58,720,604**	47,763,055
Noncurrent Assets		
Investments in and advances to associates (Note 10)	**48,762,926**	44,849,975
Property, plant and equipment (Notes 12 and 18)	**82,608,589**	77,444,279
Intangible asset - service concession rights (Notes 2, 3 and 13)	**4,162,768**	936,996
Investment properties (Notes 3 and 26)	**341,381**	402,486
Available-for-sale (AFS) investments (Note 3)	**74,569**	70,814
Net pension asset (Note 27)	**190,270**	179,425
Deferred income tax assets (Note 28)	**268,664**	251,090
Goodwill (Notes 9 and 11)	**1,639,518**	1,639,518
Other noncurrent assets (Notes 8 and 15)	**4,222,586**	1,429,635
Total Noncurrent Assets	**142,271,271**	127,204,218
TOTAL ASSETS	**₱200,991,875**	₱174,967,273
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 16)	**₱5,301,008**	₱5,667,340
Trade and other payables (Notes 17, 31 and 35)	**12,667,610**	10,560,377
Income tax payable	**222,895**	299,920
Current portions of:		
Long-term debts (Note 18)	**1,604,750**	1,552,022
Long-term obligation on Power Distribution System (PDS) (Notes 2 and 3)	**40,000**	40,000
Obligations under finance lease (Notes 12 and 20)	–	1,102,080
Redeemable preferred shares (Note 21)	–	1,000,000
Payable to preferred shareholder of a subsidiary	**16,902**	13,797
Derivative liabilities (Note 33)	**7,580**	323
Dividends payable	–	8,681
Total Current Liabilities	**₱19,860,745**	₱20,244,540

(Forward)

	December 31	
	2011	2010
Noncurrent Liabilities		
Noncurrent portions of:		
Obligations under finance lease (Notes 12 and 20)	**₱52,714,959**	₱47,203,036
Long-term debts (Note 18)	**26,077,970**	22,347,765
Deposit liabilities of CSB (Note 17)	**4,472,252**	3,683,745
Long-term obligations on PDS (Notes 2 and 3)	**237,046**	242,559
Payable to preferred shareholder of a subsidiary	**46,068**	62,970
Redeemable preferred shares (Note 21)	**–**	500,000
Customers' deposits (Note 19)	**2,170,028**	2,011,285
Net pension liability (Note 27)	**37,092**	32,350
Deferred income tax liabilities (Note 28)	**397,988**	321,595
Total Noncurrent Liabilities	**86,153,403**	76,405,305
Total Liabilities	**106,014,148**	96,649,845
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 21)	**5,694,600**	5,694,600
Additional paid-in capital (Note 14)	**6,110,957**	6,110,957
Net unrealized valuation gain on AFS investments	**9,638**	7,443
Cumulative translation adjustments	**(43,706)**	–
Share in cumulative translation adjustments of associates (Note 10)	**(417,661)**	44,606
Share in net unrealized valuation gains on AFS investments of an associate (Note 10)	**1,116,924**	314,840
Gain on dilution (Notes 2 and 10)	**5,376,176**	5,376,176
Acquisition of non-controlling interest (Note 14)	**(527,203)**	(527,203)
Retained earnings (Note 22)	**61,053,322**	48,586,535
Treasury stock at cost (Note 21)	**(1,295,163)**	(1,295,163)
	77,077,884	64,312,791
Non-controlling Interests	**17,899,843**	14,004,637
Total Equity	**94,977,727**	78,317,428
TOTAL LIABILITIES AND EQUITY	**₱200,991,875**	₱174,967,273

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2011	2010	2009 (As re-presented, see Note 14)
CONTINUING OPERATIONS			
REVENUES			
Sale of:			
Power and electricity (Notes 23)	**₱54,301,601**	₱59,543,462	₱23,174,265
Goods	**13,636,184**	11,817,769	10,170,083
Bank revenues (Notes 4, 5 and 9)	**1,965,953**	1,471,458	–
Fair value of swine (Note 8)	**1,116,652**	1,061,815	878,230
Service fees (Note 35)	**550,348**	435,443	450,377
Others (Note 31)	**426,635**	220,755	252,457
	71,997,373	74,550,702	34,925,412
COSTS AND EXPENSES			
Cost of generated and purchased power (Note 35)	**26,279,180**	25,883,895	13,030,852
Cost of goods sold (Notes 6 and 24)	**11,857,616**	9,944,591	9,113,512
Operating expenses (Notes 24, 31, 35 and 36)	**10,156,133**	9,153,560	5,301,343
Bank interest expense (Notes 16 and 18)	**629,497**	436,992	–
Overhead expenses (Note 24)	**150,086**	262,910	337,762
	49,072,512	45,681,948	27,783,469
OPERATING PROFIT	**22,924,861**	28,868,754	7,141,943
Share in net earnings of associates (Note 10)	**11,229,066**	6,843,156	4,264,551
Interest income (Notes 4 and 31)	**1,084,379**	287,691	503,886
Interest expense (Notes 31 and 32)	**(7,856,654)**	(7,034,751)	(3,077,994)
Dividends on redeemable preferred shares (Note 21)	**(119,112)**	(126,646)	(161,596)
Other income - net (Notes 26 and 31)	**1,051,861**	2,065,725	1,812,540
INCOME BEFORE INCOME TAX	**28,314,401**	30,903,929	10,483,330
PROVISION FOR INCOME TAX (Note 28)	**1,728,814**	1,624,634	1,038,378
NET INCOME FROM CONTINUING OPERATIONS	**26,585,587**	29,279,295	9,444,952
DISCONTINUED OPERATIONS			
Net income (loss) from discontinued operations (Note 14)	–	(1,466,348)	509,572
NET INCOME	**₱26,585,587**	₱27,812,947	₱9,954,524

(Forward)

	Years Ended December 31		
	2011	2010	2009 (As re-presented, see Note 14)
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱21,191,344**	₱21,865,302	₱8,306,868
Non-controlling interests	**5,394,243**	5,947,645	1,647,656
	₱26,585,587	₱27,812,947	₱9,954,524
EARNINGS PER SHARE (Note 29)			
Basic and diluted, for net income for the year attributable to ordinary equity holders of the parent	**₱3.838**	₱3.960	₱1.494
EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Note 29)			
Basic and diluted, for net income for the year from continuing operations attributable to ordinary equity holders of the parent	**₱3.838**	₱4.196	₱1.429

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009 (As re-presented, see Note 14)
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	**₱21,191,344**	₱21,865,302	₱8,306,868
Non-controlling interests	**5,394,243**	5,947,645	1,647,656
	26,585,587	27,812,947	9,954,524
OTHER COMPREHENSIVE INCOME			
Share in movement in unrealized valuation gains on AFS investments of an associate (see Note 10)	**800,381**	386,149	235,345
Share in movement in cumulative translation adjustments of associates	**(668,165)**	(51,895)	133,495
Movement in unrealized valuation gains (losses) on AFS investments	**16,179**	6,598	(236)
Movement in cumulative translation adjustments	**(57,598)**	(1,721)	(3,382)
Total other comprehensive income, net of tax	**90,797**	339,131	365,222
TOTAL COMPREHENSIVE INCOME	**₱26,676,384**	₱28,152,078	₱10,319,746
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱21,489,650**	₱22,209,052	₱8,653,213
Non-controlling interests	**5,186,734**	5,943,026	1,666,533
	₱26,676,384	₱28,152,078	₱10,319,746

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 and 2009

(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to equity holders of the parent													
	Capital Stock: Common (Note 21)	Additional Paid-in Capital	Net Unrealized Valuation Gain on AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates (Note 10)	Share in Net Unrealized Valuation Gains (Losses) on AFS Investments of an Associate (Note 10)	Equity Balances of Disposal Group Classified as Held for Sale (Note 14)	Gain on Dilution	Acquisition of Non-controlling Interest	Retained Earnings (Note 22)	Treasury Stock (Note 21)	Total	Non-controlling Interests	Total
Balances at December 31, 2008	₱5,694,600	₱5,791,324	₱3,496	₱1,444	(₱14,007)	(₱304,419)	₱422	₱5,023,252	(₱361,446)	₱22,790,973	(₱830,657)	₱37,794,982	₱8,860,619	₱46,655,601
Re-presentation of reserve of disposal group	–	–	–	–	529	4,342	(422)	–	(4,449)	–	–	–	–	–
Balances at January 1, 2009 as re-presented	5,694,600	5,791,324	3,496	1,444	(13,478)	(300,077)	–	5,023,252	(365,895)	22,790,973	(830,657)	37,794,982	8,860,619	46,655,601
Net income for the year	–	–	–	–	–	–	–	–	–	8,306,868	–	8,306,868	1,647,656	9,954,524
Other comprehensive income	–	–	12,151	(2,746)	101,596	235,344	–	–	–	–	–	346,345	18,877	365,222
Total comprehensive income for the year	–	–	12,151	(2,746)	101,596	235,344	–	–	–	8,306,868	–	8,653,213	1,666,533	10,319,746
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	(134,282)	–	–	(134,282)	128,522	(5,760)
Gain on dilution	–	–	–	–	–	–	–	352,924	–	–	–	352,924	–	352,924
Acquisition of treasury shares (Note 21)	–	–	–	–	–	–	–	–	–	–	(464,506)	(464,506)	–	(464,506)
Cash dividends - ₱0.27 per share (Note 22)	–	–	–	–	–	–	–	–	–	(1,505,234)	–	(1,505,234)	–	(1,505,234)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(218,642)	(218,642)
Changes in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(491,918)	(491,918)
Balances at December 31, 2009	₱5,694,600	₱5,791,324	₱15,647	(₱1,302)	₱88,118	(₱64,733)	₱–	₱5,376,176	(₱500,177)	₱29,592,607	(₱1,295,163)	₱44,697,097	₱9,945,114	₱54,642,211

See accompanying Notes to Consolidated Financial Statements.

	Attributable to equity holders of the parent												
	Capital Stock: Common (Note 21)	Additional Paid-in Capital	Net Unrealized Valuation Gain on AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates (Note 10)	Share in Net Unrealized Valuation Gain (Losses) on AFS Investments of an Associate (Note 10)	Gain on Dilution	Acquisition of Non-controlling Interest (Note 2)	Retained Earnings (Note 22)	Treasury Stock (Note 21)	Total	Non-controlling Interests	Total
Balances at January 1, 2010	₱5,694,600	₱5,791,324	₱15,647	(₱1,302)	₱88,118	(₱64,733)	₱5,376,176	(₱500,177)	₱29,592,607	(₱1,295,163)	₱44,697,097	₱9,945,114	₱54,642,211
Net income for the year	–	–	–	–	–	–	–	–	21,865,302	–	21,865,302	5,947,645	27,812,947
Other comprehensive income	–	–	6,449	1,240	(43,512)	379,573	–	–	–	–	343,750	(4,619)	339,131
Total comprehensive income for the year	–	–	6,449	1,240	(43,512)	379,573	–	–	21,865,302	–	22,209,052	5,943,026	28,152,078
Acquisition of non-controlling interests (Notes 14)	–	–	–	–	–	–	–	(31,475)	–	–	(31,475)	31,475	–
Step-acquisition of an associate to a subsidiary (Note 10)	–	–	–	–	–	–	–	–	–	–	–	8,142	8,142
Disposal of a subsidiary (Note 14)	–	319,633	(14,653)	62	–	–	–	4,449	–	–	309,491	(917,835)	(608,344)
Cash dividends - ₱0.52 per share (Note 22)	–	–	–	–	–	–	–	–	(2,871,374)	–	(2,871,374)	–	(2,871,374)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(746,036)	(746,036)
Changes in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(259,249)	(259,249)
Balances at December 31, 2010	₱5,694,600	₱6,110,957	₱7,443	₱–	₱44,606	₱314,840	₱5,376,176	(₱527,203)	₱48,586,535	(₱1,295,163)	₱64,312,791	₱14,004,637	₱78,317,428

See accompanying Notes to Consolidated Financial Statements.

	Attributable to equity holders of the parent												
	Capital Stock: Common (Note 21)	Additional Paid-in Capital	Net Unrealized Valuation Gain on AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates (Note 10)	Share in Net Unrealized Valuation Gain (Losses) on AFS Investments of an Associate (Note 10)	Gain on Dilution	Acquisition of Non-controlling Interest (Note 2)	Retained Earnings (Note 22)	Treasury Stock (Note 21)	Total	Non-controlling Interests	Total
Balances at January 1, 2011	**₱5,694,600**	**₱6,110,957**	**₱7,443**	**₱–**	**₱44,606**	**₱314,840**	**₱5,376,176**	**(₱527,203)**	**₱48,586,535**	**(₱1,295,163)**	**₱64,312,791**	**₱14,004,637**	**₱78,317,428**
Net income for the year	–	–	–	–	–	–	–	–	21,191,344	–	21,191,344	5,394,243	26,585,587
Other comprehensive income	–	–	2,195	(43,706)	(462,267)	802,084	–	–	–	–	298,306	(207,509)	90,797
Total comprehensive income for the year	–	–	2,195	(43,706)	(462,267)	802,084	–	–	21,191,344	–	21,489,650	5,186,734	26,676,384
Cash dividends - ₱1.58 per share (Note 22)	–	–	–	–	–	–	–	–	(8,724,557)	–	(8,724,557)	–	(8,724,557)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(2,374,427)	(2,374,427)
Changes in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	1,082,899	1,082,899
Balances at December 31, 2011	**₱5,694,600**	**₱6,110,957**	**₱9,638**	**(₱43,706)**	**(₱417,661)**	**₱1,116,924**	**₱5,376,176**	**(₱527,203)**	**₱61,053,322**	**(₱1,295,163)**	**₱77,077,884**	**₱17,899,843**	**₱94,977,727**

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009 (As re-presented, see Note 14)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱28,314,401**	₱30,903,929	₱10,483,330
Income (loss) before income tax from discontinued operations	**–**	(1,877,315)	676,909
Income before income tax	**28,314,401**	29,026,614	11,160,239
Adjustments for:			
Interest expense and dividends on redeemable preferred shares (Note 32)	**7,975,766**	7,390,275	3,313,691
Depreciation and amortization (Note 24)	**3,706,834**	4,653,476	2,675,239
Impairment loss on property and equipment	**–**	778,830	–
Loss (gain) on sale of: (Note 26)			
Investment in subsidiary and associate	**–**	431,580	(52,500)
Property, plant and equipment	**(20,248)**	19,710	(29,973)
AFS investments	**–**	(57,895)	(296)
Provision for (recovery of) decline in value of various assets, project costs and others	**52,638**	95,390	(14,693)
Reversal of provision for losses on project costs, investments in shares of stock and advances to investees	**(40,247)**	–	–
Increase in carrying amount of goodwill and property, plant and equipment in disposal group (Note 26)	**–**	–	(574,789)
Dividend income (Note 26)	**(1,365)**	(54)	(6,795)
Unrealized valuation losses (gains) on derivatives	**(5,990)**	(22,977)	15,630
Unrealized valuation gain on investment property - net	**–**	(66,282)	–
Interest income (Note 32)	**(1,084,379)**	(292,954)	(516,737)
Unrealized foreign exchange gains	**(2,841)**	(1,515,043)	(22,633)
Share in net earnings of associates (Note 10)	**(11,229,066)**	(6,883,363)	(4,321,679)
Operating income before working capital changes	**27,665,503**	33,557,307	11,624,704
Decrease (increase) in:			
Trade and other receivables	**(4,114,822)**	(4,743,174)	(3,382,220)
Inventories	**(853,564)**	(1,488,182)	299,034
Other current assets	**(135,491)**	(827,734)	(11,013)
Increase in:			
Trade and other payables	**2,601,104**	4,419,963	3,979,173
Customers' deposits	**159,811**	223,268	201,690
Net cash generated from operations	**25,322,541**	31,141,448	12,711,368
Service fees paid	**(40,000)**	(40,000)	(40,000)
Income and final taxes paid	**(1,713,852)**	(1,550,586)	(885,464)
Net cash flows from operating activities	**23,568,689**	29,550,862	11,785,904
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received (Note 10)	**4,641,898**	2,363,909	1,132,476
Interest received	**1,013,147**	291,171	571,133
Increase in intangible asset - service concession rights (Note 13)	**(115,794)**	(104,250)	(70,259)

(Forward)

	Years Ended December 31		
	2011	2010	2009 (As re-presented, see Note 14)
Increase in other noncurrent assets (Note 15)	**(₱1,718,083)**	(₱153,570)	(₱1,048,212)
Acquisitions of subsidiaries, net of cash acquired (Note 9)	**313,469**	(241,652)	(4,800)
Proceeds from sale of:			
Property, plant and equipment	**43,359**	369,974	421,152
Investments in subsidiary, net of cash disposed	**–**	2,770,924	57,300
AFS investments	**–**	64,905	7,524
Additions to:			
Investments in and advances to associates (Note 10)	**(1,399,445)**	(2,738,311)	(2,014,843)
Property, plant and equipment (Note 12)	**(8,570,388)**	(8,342,674)	(25,787,197)
Net cash flows used in investing activities	**(5,791,837)**	(5,719,574)	(26,735,726)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debts	**8,930,792**	5,286,067	9,714,447
Acquisition of:			
Non-controlling interests	**–**	31,475	(218,642)
Treasury shares (Note 21)	**–**	–	(464,506)
Cash dividends paid to equity holders of the parent (Note 22)	**(8,724,557)**	(2,871,373)	(1,505,234)
Interest and dividends on redeemable preferred shares paid	**(2,429,240)**	(2,307,103)	(2,017,867)
Payments of:			
Obligations under finance lease (Note 20)	**(1,102,065)**	(1,125,746)	(57,659)
Long-term debts	**(5,946,251)**	(252,417)	(542,334)
Payable to preferred shareholder of a subsidiary	**(31,070)**	(31,070)	(31,070)
Redeemable preferred shares	**(1,500,000)**	–	(626,000)
Net proceeds from (settlements of) bank loans	**(366,332)**	(1,123,536)	981,859
Cash dividends paid and others to non-controlling interest	**(3,165,264)**	(860,749)	(577,327)
Net cash flows from (used in) financing activities	**(14,333,987)**	(3,254,452)	4,655,667
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,442,865**	20,576,836	(10,294,155)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**3,424**	(61,861)	(161,090)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**26,097,203**	5,582,228	16,037,473
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱29,543,492**	₱26,097,203	₱5,582,228

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Par Value, and When Otherwise Indicated)

1. Corporate Information

Aboitiz Equity Ventures, Inc. (the Company) was incorporated and is domiciled in the Republic of the Philippines. The Company and its subsidiaries (collectively referred to as the "Group") are engaged in various business activities mainly in the Philippines, including power generation and distribution, food manufacturing, and banking and financial services (see Notes 14 and 30). The Company is the publicly-listed holding and management company of the Group. The registered office address of the Company is Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City. The parent and the ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

The consolidated financial statements of the Group as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, were authorized for issue by the Board of Directors (BOD) of the Company on March 1, 2012.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group are prepared on a historical cost basis, except for derivative financial instruments, quoted AFS investments and investment properties which are measured at fair value, and agricultural produce and certain biological assets which are measured at fair value less estimated point-of-sale costs. The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest thousand, except for earnings per share and exchange rates and as otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRS and Philippine Interpretations which were adopted as at January 1, 2011.

- PAS 24, *Related Party Transactions* (Amendment)
  PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation* (Amendment)
  The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is

applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)
  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements in the Philippines; therefore, the amendment of the interpretation has no effect on the financial position or performance of the Group.

Improvements to PFRS (issued 2010)
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value (see Note 9).

  The amendments to PFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments - Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 33.

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

Other amendments resulting from the 2010 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:
- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

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

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*

  The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- PAS 12, *Income Taxes - Recovery of Underlying Assets*

  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property,* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment,* always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

- PAS 19, *Employee Benefits* (Amendment)

  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (as revised in 2011)

  As a consequence of the new PFRS 10, *Consolidated Financial Statements,* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

  As a consequence of the new PFRS 11, *Joint Arrangements,* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

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

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

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

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-Controlled Entities Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Involvement with Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing the impact of the amendments to PAS 32.

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 as issued reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement,* 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, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the latter half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table.

		Percentage of Ownership					
		2011		2010		2009	
	Nature of Business	**Direct**	**Indirect**	Direct	Indirect	Direct	Indirect
Aboitiz Power Coporation (AP) and Subsidiaries	Power	**76.40%**	**–**	76.40%	–	76.40%	–
Aboitiz Energy Solutions, Inc. (AESI)	Power	**–**	**100.00**	–	100.00	–	100.00
Balamban Enerzone Corporation (BEZ)	Power	**–**	**100.00**	–	100.00	–	100.00
Cotabato Light & Power Co., Inc. (CLP)	Power	**–**	**99.94**	–	99.94	–	99.93
Cotabato Ice Plant, Inc.	Manufacturing	**–**	**100.00**	–	100.00	–	100.00
Davao Light & Power Co., Inc. (DLP)	Power	**–**	**99.93**	–	99.93	–	99.93
Mactan Enerzone Corporation (MEZ)	Power	**–**	**100.00**	–	100.00	–	100.00
Subic Enerzone Corporation (SEZ)	Power	**–**	**100.00**	–	100.00	–	100.00
Aboitiz Renewables Inc. (ARI) and Subsidiaries	Power	**–**	**100.00**	–	100.00	–	100.00
AP Renewables, Inc. (APRI)	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor, Inc. (HI)	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor Bokod, Inc. *	Power	**–**	**100.00**	–	–	–	–
Hedcor Benguet, Inc. (BHI)*	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor Bukidnon, Inc. *	Power	**–**	**100.00**	–	–	–	–
Hedcor Sabangan, Inc. *	Power	**–**	**100.00**	–	–	–	–
Hedcor Sibulan, Inc. (HSI)	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor Tamugan, Inc. (HTI) *	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor Tudaya, Inc. *	Power	**–**	**100.00**	–	–	–	–
Kookaburra Equity Ventures, Inc.	Holding company	**–**	**100.00**	–	–	–	–
Cleanergy, Inc. (CI)*	Power	**–**	**100.00**	–	100.00	–	100.00
Hydro Electric Development Corporation (HEDC) *	Power	**–**	**99.97**	–	99.97	–	99.97
Luzon Hydro Corporation (LHC) (see Note 9)	Power	**–**	**100.00**	–	–	–	–
Bakun Power Line Corporation *	Power	**–**	**100.00**	–	–	–	–
Cordillera Hydro Corporation (CHC)*	Power	**–**	**100.00**	–	–	–	–
Tagoloan Hydro Corporation *	Power	**–**	**100.00**	–	–	–	–
Therma Power, Inc. (TPI) andSubsidiaries	Power	**–**	**100.00**	–	100.00	–	100.00
Abovant Holdings, Inc. (AHI)	Power	**–**	**60.00**	–	60.00	–	60.00
Teraqua, Inc. (TI)	Power	**–**	**60.00**	–	60.00	–	60.00
Therma Power Visayas, Inc. (TPVI) *	Power	**–**	**100.00**	–	100.00	–	100.00
Therma Luzon, Inc. (TLI)	Power	**–**	**100.00**	–	100.00	–	100.00
Therma Marine, Inc. (Therma Marine)	Power	**–**	**100.00**	–	100.00	–	100.00
Therma Mobile, Inc. (Therma Mobile)*	Power	**–**	**100.00**	–	100.00	–	100.00
Therma South, Inc. (TSI) (formerly Therma Pagbilao, Inc.)*	Power	**–**	**100.00**	–	100.00	–	100.00
Therma Central Visayas, Inc. (TCVI) *	Power	**–**	**100.00**	–	–	–	–
Therma Southern Mindanao, Inc.(TSMI) *	Power	**–**	**100.00**	–	–	–	–
Therma Subic, Inc. (Therma Subic) *	Power	**–**	**100.00**	–	–	–	–
Vesper Industrial and Development Corporation (VIDC) *	Power	**–**	**100.00**	–	–	–	–
Adventenergy, Inc. (AI)*	Power	**–**	**100.00**	–	100.00	–	100.00
Cebu Private Power Corporation (CPPC)	Power	**–**	**60.00**	–	60.00	–	60.00
Prism Energy, Inc. (PEI) *	Power	**–**	**60.00**	–	60.00	–	60.00
Pilmico Foods Corporation (PILMICO)	Food manufacturing	**100.00**	**–**	100.00	–	100.00	–
Fil-Agri Holdings, Inc.	Holding company	**–**	**100.00**	–	100.00	–	100.00
Pilmico Animal Nutrition Corporation	Food manufacturing	**–**	**100.00**	–	100.00	–	100.00
Fil-Agri Land, Inc.	Real Estate	**–**	**100.00**	–	100.00	–	100.00
Aboitiz Transport System Corp. (ATS and Subsidiaries) (see Note 14)	Transportation	**–**	**–**	–	–	77.24	–
Supercat Fast Ferry Corporation (SFFC)	Transportation	**–**	**–**	–	–	–	100.00
WG & A Supercommerce, Inc. (WSI)	Transportation	**–**	**–**	–	–	–	100.00
Zoom In Packages, Inc. (ZIP)	Transportation	**–**	**–**	–	–	–	100.00

(Forward)

		Percentage of Ownership					
		2011		2010		2009	
	Nature of Business	**Direct**	**Indirect**	Direct	Indirect	Direct	Indirect
Aboitiz One, Inc. (AOI) and Subsidiaries	Courier, logistics and forwarding services	**–**	**–**	–	–	–	100.00
Aboitiz Jebsen Company, Inc. (ABOJEB) and Subsidiaries***	Ship management	**62.50**	**–**	62.50	–	–	62.50
Jebsen Maritime, Inc. (JMI)***	Manpower services	**62.50**	**–**	62.50	–	–	62.50
Aboitiz Jebsen Manpower Solutions, Inc. (AJMSI)***	Manpower services	**62.50**	**–**	62.50	–	–	62.50
JebsenManagement (BVI) Limited (JMBVI) and Subsidiaries**	Shipping	**–**	**–**	–	–	–	50.00
City Savings Bank (CSB) (see Note 9)	Financial Services	**59.32**	**40.00**	59.25	40.00	–	–
Archipelago Insurance Pte Ltd (AIPL)****	Insurance	**100.00**	**–**	100.00	–	–	–
AEV Aviation, Inc. (AEV Aviation)	Service	**50.75**	**49.25**	100.00	–	100.00	–
AEV Properties, Inc.*	Real estate	**100.00**	**–**	100.00	–	100.00	–
Cebu Praedia Development Corporation (CPDC)	Real estate	**100.00**	**–**	88.27	8.96	88.27	8.96

[1] HBI, TI, and PEI were incorporated in 2009. Hedcor Bokod, Inc., Hedcor Bukidnon, Inc., Hedcor Sabangan, Inc., Hedcor Tudaya, Inc., TCVI, TSMI, and Therma Subic were incorporated in 2011.
[2] On March 23, 2010, the Philippine Securities and Exchange Commission (SEC) approved the change in corporate name of Philippine Hydropower Corporation to ARI.
[3] On March 17, 2011, SEC approved the change in corporate name of Therma Pagbilao, Inc. to TSI.
**No commercial operations*
***Incorporated in the British Virgin Islands. Functional currency is United States (US) dollars.*
****Acquired direct ownership from ATS in 2010 (see Note 14)*
*****Incorporated in Singapore*

Except for JMBVI and AIPL, all the subsidiaries were incorporated in the Philippines.

Basis of consolidation from January 1, 2010
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any 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 statement of income or retained earnings, as appropriate.

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

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

Transactions with non-controlling interests
Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals to non-controlling interest is also recognized directly in equity.

Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash and cash equivalents in the consolidated balance sheet consist of cash on hand and with banks and short-term deposits with an original maturity of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

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

Determination of fair value
The fair value of investments held that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets held for trading and financial assets designated upon initial recognition as FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on a different basis; or (ii) the assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.
When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset or financial liabilities at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Subsequent changes in fair value are recognized in the consolidated statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

Financial instruments included in this classification are the Group's derivative asset and derivative liability (see Note 33).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not reclassified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate (EIR) and transaction costs. 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 balance sheet date. Otherwise, they are classified as non-current assets.

Financial assets included in this classification are the Group's cash in banks and cash equivalents, trade and other receivables and restricted cash (see Note 33).

HTM investments
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After the initial measurement, held to maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the EIR, transaction costs and all other premiums and discounts. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are impaired, as well as through the amortization process.

As of December 31, 2011 and 2010, the Group has no HTM investments.

AFS investments
AFS financial investments include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated as at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. After initial recognition, AFS financial investments are measured at fair value with unrealized gains or losses being recognized in the other comprehensive income and in equity as "Net unrealized valuation gain on AFS investments". When the investment is disposed of, the cumulative gains or loss previously recorded in equity is recognized in the consolidated statement of income. The Group uses the specific identification method in determining the cost of securities sold. Interest earned or paid on the investments is reported as interest income or expense using the EIR. Interest earned on holding AFS investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment had been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment

losses' in the statement of income. Unquoted equity securities are carried at cost, net of impairment.

The Group's AFS investments as of December 31, 2011 and 2010 include investments in quoted and unquoted shares of stock (see Note 33).

Other financial liabilities
Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

Included in other financial liabilities are the Group's debt and other borrowings (bank loans and long-term debts), obligations under finance lease, trade and other payables, customers' deposits, dividends payable, long-term obligation on PDS, payable to preferred shareholder of a subsidiary, and redeemable preferred shares (see Note 33).

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Group determines 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.

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 EIR of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. 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.

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

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

<u>Derecognition of Financial Assets and Liabilities</u>
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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial 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 consolidated statement of income.

Derivative Financial Instruments

Derivative financial instruments, including embedded derivatives, 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 FVPL, unless designated as effective hedge. Changes in fair values of derivative instruments not accounted as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract.

An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

As of December 31, 2011 and 2010, the Group has freestanding derivatives in the form of non-deliverable foreign currency forward contracts entered into to hedge its foreign currency risks (see Note 33). In 2011 and 2010, the Group did not apply hedge accounting treatment on its derivatives transactions. The Group has no bifurcated embedded derivatives as of December 31, 2011 and 2010.

Offsetting Financial Instruments

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

Classification of Financial Instruments Between Liability and Equity

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

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Redeemable Preferred Shares (RPS)
The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income. On issuance of the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on redemption.

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

Wheat grains and other raw materials	-	purchase cost on a first-in, first-out basis;
Finished goods and work in process	-	cost of direct materials, labor and a portion of manufacturing overhead based on normal operating capacity but excluding borrowing costs;
Fuel and lubricants	-	purchase cost on a first-in, first-out basis;
Materials, parts and supplies	-	purchase cost on a weighted average method

NRV of wheat grains and other raw materials, work in process and finished goods is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV of fuel and lubricants and parts and supplies is the current replacement costs.

Agricultural Activity
Agricultural produce
Agricultural produce (swine) are measured at fair value less estimated point-of-sale costs at point of harvest.

Biological assets
Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs except when, on initial recognition, market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such cases, those biological assets are measured at accumulated costs less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such biological assets becomes reliably measurable, those biological assets are measured at fair value less estimated point-of-sale costs.

Gains or losses arising on initial recognition of a biological asset (for market hogs and piglets) at fair value less estimated point-of-sale costs and from changes in their fair values less estimated point-of-sale costs are included in the consolidated statement of income for the period in which they arise.

Biological assets measured at fair value less estimated point-of-sale costs continue to be measured as such until disposed. Expenditures on biological assets subsequent to initial recognition, excluding the costs of day-to-day servicing, are capitalized.

Bearer (i.e., breeders) biological assets are stated at cost less accumulated depreciation and any impairment losses. Bearer biological assets are depreciated over three (3) years.

Investments in Associates
The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized or separately tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associates. The consolidated statement of income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

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

Business Combination and Goodwill
Common control business combination
Business combination of entities under common control is accounted for similar to pooling of interest method, which is scoped out of PFRS 3, *Business Combination*. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

Business combinations from January 1, 2010
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 noncontrolling interest in the acquiree pertaining to instruments that represent present ownership interests and entitle their holders to a

proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS. Acquisition costs incurred are expensed and included in administrative expenses.

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

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

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

Goodwill 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 Group's interest in the fair values of 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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.

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

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

Impairment of goodwill
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.
For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group'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 Group are assigned to those units or groups of units.

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.

Property, Plant and Equipment
Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. The initial cost of property, plant and equipment comprises its purchase price, including import duties, if any, and nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred and the recognition criteria are met. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred. Land is stated at cost less any accumulated impairment in value.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Ships under refurbishment included the acquisition cost of the ships, the cost of ongoing refurbishments and other direct costs. Ships under refurbishment and construction in progress are not depreciated until such time that the relevant assets are complete and available for use. Borrowing costs that are directly attributable to the refurbishment of ships and construction of property, plant and equipment are capitalized during the refurbishment and construction period.

Depreciation and amortization of the Group's property, plant and equipment and assets under finance leases is calculated on a straight-line basis over the useful lives of the assets or the terms of the co-operation period (see Note 35) or lease in case of power, plant equipment of CPPC and leasehold improvements, respectively, whichever is shorter as follows:

	Number of Years	
Category	**2011**	2010
Buildings, warehouses and improvements	**10 - 30**	10 - 30
Power plant and equipment	**9 - 40**	9 - 40

Category	Number of Years 2011	2010
Transmission, distribution and substation equipment		
Power transformers	**30**	30
Poles and wires	**30**	30
Other components	**12**	12
Electrical equipment	**15 - 20**	15 - 20
Meters and laboratory equipment	**12**	12
Steam field assets	**20 - 25**	20 - 25
Machinery and equipment	**5 - 30**	5 - 30
Transportation equipment	**5**	3 - 6
Ships in operation and improvements (excluding drydocking costs)	**-**	15 - 30
Drydocking costs	**-**	2 ½ - 7
Containers (including units acquired under finance lease arrangements)	**-**	5 - 7
Handling equipment	**-**	5 - 7
Office furniture, fixtures and equipment	**2 - 5**	2 - 5
Leasehold improvements	**3 - 10**	3 - 10
Tools and others	**2 - 10**	2 - 10

Drydocking costs were capitalized as a component of "Ships in operation." Steel components were depreciated over 7 years or the remaining life of the vessel, whichever is shorter. Other components were depreciated over 2 ½ years.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The asset's residual values, useful lives and depreciation and amortization methods are reviewed and adjusted, if appropriate, at each financial year-end.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. 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 the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

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 satisfied.

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the infrastructure at the end of the term of the arrangement, are accounted for under the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrades services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

Borrowing cost attributable to the construction of the asset if the consideration received or receivable is an intangible asset, is capitalized during the construction phase. In all other cases, borrowing costs are expensed as incurred.

Intangible Asset - Service Concession Right

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value which consists of the cost of construction services and the fair value of future fixed fee payments in exchange for the license or right. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the estimated useful economic life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life is 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. 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 are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Investment Properties

Investment properties, which pertain to land and buildings, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any 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 with a view to sale. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Noncurrent Assets Classified as Held for Sale and Discontinued Operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying mount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally 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 of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of net income after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting net income is reported separately in the consolidated statement of income.

If there are changes to a plan of sale, and the criteria for the asset or disposal group to be classified as held for sale are no longer met, the Group ceases to classify the asset or disposal group as held for sale and it shall be measured at the lower of:

- its carrying amount before the asset was classified as held for sale adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

The Group includes any required adjustment to the carrying amount of a noncurrent asset or disposal group that ceases to be classified as held for sale in the consolidated statement of income from continuing operations in the period in which the criteria for the asset or disposal group to be classified as held for sale are no longer met. The Group presents that adjustment in the same caption in the consolidated statement of income used to present a gain or loss recognized, if any.

If the Group ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

Software Development Costs

Software development costs are initially recognized at cost. Following initial recognition, the software development costs are carried at cost less accumulated amortization and any accumulated impairment in value.

The software development costs are amortized on a straight-line basis over its estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software development costs are available for use. The amortization period and the amortization method for the software development costs are reviewed at each financial year-end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the software development costs.

Impairment of Nonfinancial Assets

Property, plant and equipment, intangible assets and investments in associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is 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 assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

Treasury Shares

The Group's own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Foreign Currency Transactions

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of Luzon Hydro Corporation, a subsidiary, JMBVI and Subsidiaries, a subsidiary up to December 28, 2010, and STEAG State Power, Inc. (STEAG), Western Mindanao Power Corporation (WMPC) and Southern Philippines Power Corporation (SPPC), associates, is the United States (US) Dollar. As at the balance date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of the subsidiary and associate, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of income.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

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

Sales
Revenue from sale of power and electricity is recognized in the period in which actual capacity is generated and earned and upon distribution of power to customers. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services
Service revenues are recognized when the related services are rendered. Customer payments for which services have not yet been rendered are classified as unearned revenue under "Trade and other payables" account in the consolidated balance sheet.

Bank revenues - service fees and bank charges
Service fees, penalties and bank charges are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collectibility. Service fees earned for the provision of services over a period of time are accrued over that period. These fees include portfolio fees, credit related fees and other management fees.

Bank revenues - interest income
For all financial instruments measured at amortized cost, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or bank of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized based on the original EIR used to discount the future recoverable cash flows.

Rental income
Rental income arising from operating leases is accounted for on a straight-line basis over the related lease terms.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Interest income
Interest income is recognized as it accrues taking into account the effective yield on the asset.

<u>Expenses</u>
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Pension Benefits

The Group has defined benefit pension plans, which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 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 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 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 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.

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

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.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

<u>Taxes</u>
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income 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, associates and interests in joint ventures, 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 income tax assets are recognized for all deductible temporary differences and carryforward benefits of net operating loss carryover (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward benefits of NOLCO and excess of MCIT over RCIT can be utilized, except:

- where the deferred income 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, associates and interests in joint ventures, deferred income 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 income tax assets is reviewed at each balance sheet 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred income 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 balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Sales tax
Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax 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 sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

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

Earnings Per Common Share
Basic earnings per common share are computed by dividing net income for the year attributable to the common shareholders of the parent by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared.

Diluted earnings per share amounts are calculated by dividing the net income for the year attributable to the common shareholders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive common stock equivalents.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital.

Operating Segments
For management purposes, effective January, 2011, the Group is organized into four major operating segments (power, food manufacturing, financial services and parent company/others) according to the nature of the products and the services provided. The Group's identified operating segments are consistent with the segments reported to the BOD which is the Group's Chief Operating Decision Maker (CODM). Financial information on operating segments is presented in Note 30.

3. Summary of Significant Accounting Judgments and Estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Determining functional currency
Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of the companies in the Group has been determined to be the Philippine peso, except for certain subsidiaries and associates whose functional currency is the US dollar. The Philippine peso is the currency of the primary economic environment in which the companies in the Group operate and it is the currency that mainly influences the sale of power, goods and services and the costs of power, manufacturing and selling the goods, and the rendering of services.

Service concession arrangements - Companies in the Group as Operators
Based on management's judgment, the provisions of Philippine Interpretation IFRIC 12 apply to SEZ's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA); MEZ's Built-Operate-Transfer (BOT) agreement with Mactan Cebu International Airport Authority (MCIAA) and LHC's Power Purchase Agreement (PPA) with the National Power Corporation (NPC). The service concession agreements of subsidiaries SEZ, MEZ and LHC were accounted for under the intangible asset model. STEAG, an associate, has also determined that the provisions of Philippine Interpretation IFRIC 12 apply to its PPA with NPC. STEAG's service concession agreement was accounted for under the financial asset model. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

Finance lease - Group as the lessee
In accounting for its Independent Power Producer Administration Agreement (IPP Administration Agreement) with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group has made a judgment that the IPP Administration Agreement is an arrangement that contains a lease. The Group has made a judgment that it has substantially acquired all the risks and rewards incidental to ownership of the power plant principally by virtue of its right to control the capacity of the power plant and its right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration. Accordingly, the Group accounted for the agreement as a finance lease and recognized the power plant and finance lease obligation at the present value of the agreed monthly payments to PSALM (see Notes 20 and 32).

The power plant is depreciated over its estimated useful life as there is reasonable certainty that the Group will obtain ownership by the end of the lease term. As of December 31, 2011 and 2010, the carrying value of the power plant amounted to ₱42.3 billion and ₱43.4 billion, respectively. The carrying value of the finance lease obligation amounted to ₱52.7 billion and ₱48.3 billion as of December 31, 2011 and 2010, respectively (see Notes 12 and 20).

Operating lease commitments - Group as the lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group 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 and accounts for the contracts as operating leases.

Biological assets
In applying PAS 41, *Agriculture*, the Group has made a judgment that market-determined prices or values of bearers and growing stocks are not available and for which alternative estimates of their fair values are clearly unreliable and, accordingly, measured such biological assets at accumulated cost less accumulated depreciation and any accumulated impairment losses. These biological assets amounted to ₱389,380 as of December 31, 2011 and ₱383,864 as of December 31, 2010 (see Note 8).

Determining fair value of customers' deposits
In applying PAS 39, *Financial Instruments: Recognition and Measurement,* on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot be reasonably and reliably estimated for purposes of an alternative valuation technique in establishing their fair values, since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits amounted to ₱2,170,028 and ₱2,011,285 as of December 31, 2011 and 2010, respectively (see Notes 19 and 33).

Determining whether the Power Purchase Agreement (PPA) Contains a Lease
The PPA with Visayan Electric Co. (VECO) qualifies as a lease on the basis that CPPC sells substantially all its output to VECO. The agreement requires that CPPC guarantee the availability of the power plant. This arrangement is determined to be an operating lease where a significant portion of the risks and rewards of ownership of the asset are retained by CPPC. Accordingly, the power plant assets are recorded as part of the cost of property, plant and equipment and the fixed capacity fees and fixed operating and maintenance fees billed to VECO are recorded as operating revenues based on a straight-line basis over the term of the PPA.

Accounting for acquisitions of Power Barges (PB)
In 2011 and 2010, the Group took ownership of Barge 1, Barge 2, Barge 3 and Barge 4, and PB 118 and PB 117, respectively. The Group has made a judgment that the transactions represent acquisitions of assets, and accordingly, accounted for the acquisitions in accordance with PAS 16, *Property, Plant and Equipment* (see Note 12).

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

Acquisition accounting
The Group accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and the liabilities assumed be recorded at the date of acquisition at their respective fair values.

The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined.

The judgments made in the context of the purchase price allocation can materially impact the Group's future results of operations. Accordingly, for significant acquisitions, the Group obtains assistance from third party valuation specialists. The valuations are based on information available at the acquisition date (see Note 9).

Estimating allowance for impairment losses on trade receivables and others
The Group maintains allowance for impairment on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the Group's allowance for impairment losses would increase the Group's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, non-moving account receivables, accounts of defaulted agents and accounts from closed stations.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence yet of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility.

Allowance for impairment losses as of December 31, 2011 and 2010 amounted to ₱493,128 and ₱508,621, respectively. Trade and other receivables, net of valuation allowance, amounted to ₱22,024,385 and ₱15,702,445 as of December 31, 2011 and 2010, respectively (see Note 5).

Estimating allowance for inventory obsolescence
The Group estimates the allowance for inventory obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for inventory obsolescence would increase recorded expenses and decrease current assets. As of December 31, 2011 and 2010, allowance for inventory obsolescence amounted to ₱16,640 and ₱48,174, respectively. The carrying amount of the inventories, net of valuation allowance, amounted to ₱4,932,659 and ₱4,075,091 as of December 31, 2011 and 2010, respectively (see Note 6).

Estimating allowance for impairment losses on investments in and advances to associates
Investments in and advances to associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There are no impairment indicators in 2011, 2010 and 2009 based on management's assessment. The cash flows are derived from the projection for the next five years as well as the terminal value at the end of five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected cash inflows and the growth rates. The carrying amounts of the investments in and advances to associates amounted to ₱48,762,926 and ₱44,849,975 as of December 31, 2011 and 2010, respectively. The allowance for impairment losses amounted to ₱28,995 as of December 31, 2011 and 2010 (see Note 10).

Deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has net deferred income tax assets amounting to ₱268,664 and ₱251,090 as of December 31, 2011 and 2010, respectively (see Note 28).

AP parent company did not recognize its deferred income tax assets from minimum corporate income tax (MCIT) amounting to ₱30.9 million and ₱23.8 million as of December 31, 2011 and 2010, respectively, and NOLCO amounting to ₱220.5 million and ₱114.8 million as of December 31, 2011 and 2010, respectively.

Pension benefits
The determination of the Group's obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 27 - Pension Benefit Plans and include, among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Group's pension and other post-employment obligations. Pension expense amounted to ₱50,506, ₱163,444 and ₱63,964 in 2011, 2010 and 2009, respectively. The Group's pension liability amounted to ₱37,092 and ₱32,350 as of December 31, 2011 and 2010, respectively. Pension asset amounted to ₱190,270 and ₱179,425 as of December 31, 2011 and 2010, respectively (see Note 27).

Estimating useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2011 and 2010, the net book values of property, plant and equipment amounted to ₱82,608,589 and ₱77,444,279, respectively (see Note 12).

Estimating useful lives of intangible asset - service concession rights
The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is twenty-five (25) years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contract at the end of the original contract term. As of December 31, 2011 and 2010, the net book values of intangible asset - service concession rights amounted to ₱4,162,768 and ₱936,996, respectively.

Estimating residual value of property, plant and equipment
The residual value of the Group's property, plant and equipment is estimated based on the amount that the entity would obtain from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates. As of December 31, 2011 and 2010, the net book values of property, plant and equipment amounted to ₱82,608,589 and ₱77,444,279, respectively (see Note 12).

Assessing impairment of AFS investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Fair value of AFS investments amounted to ₱74,569 and ₱70,814 as of December 31, 2011 and 2010, respectively. No impairment loss was recognized in 2011, 2010 and 2009.

Assessing impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group 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. The carrying amount of goodwill as of December 31, 2011 and 2010 amounted to ₱1,639,518 (see Note 11).

Fair value of consumable biological assets
The Group determines the most reliable estimate of fair value of its consumable biological assets. Fair value reflects the most recent market transaction price provided that there has been no significant change in economic circumstances between the date of transaction and balance sheet date. Point-of-sale cost is estimated based on recent transactions and is deducted from the fair value in order to measure the biological assets at balance sheet date. Fair value of consumable biological assets amounted to ₱323,187 and ₱330,492 as of December 31, 2011 and 2010, respectively (see Note 8).

Impairment of nonfinancial assets
The Group assesses whether there are any indicators of impairment for non-financial assets at each reporting date. These nonfinancial assets (other current assets, property, plant and equipment, intangible asset - service concession rights and other noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of property, plant and equipment and intangible asset - service concession rights, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the other current assets, property, plant and equipment, intangible asset - service concession rights and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheet and consolidated statement of income. As of December 31, 2011 and 2010, the aggregate net book values of these assets amounted to ₱92,824,578 and ₱81,307,692, respectively (see Notes 7, 8, 12, 13 and 15). The Group recognized an impairment loss of ₱778,830 in 2010 which pertains to the property, plant and equipment of discontinued operations principally on the basis of

estimated fair value less cost to sell. No impairment loss was recognized in 2011 and 2010 (see Note 12).

Fair value of financial instruments
PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect net income or loss and equity. The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in more detail in Note 33.

Fair value of investment properties
The fair value of investment properties is determined based on valuations performed by experienced and competent appraisers as of the consolidated balance sheet date. Any gain or loss from a change in the fair value of each investment property is included in the consolidated statement of income in the year in which the change arises. As of December 31, 2011 and 2010, the carrying value of investment properties amounted to ₱341,381 and ₱402,486, respectively.

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements as of December 31, 2011 and 2010.

4. **Cash and Cash Equivalents**

	2011	2010
Cash on hand and in banks	**₱4,293,825**	₱9,150,763
Short-term deposits	**25,249,667**	16,946,440
	₱29,543,492	₱26,097,203

Cash in banks earn interest at prevailing bank deposit rates. Short-term deposits are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.
Interest income earned from cash and cash equivalents amounted to ₱1,072,941 in 2011, ₱176,629 in 2010, and ₱403,641 in 2009.

Short-term deposits as of December 31, 2011 and 2010 include CSB's deposit with banks and others amounting to ₱2,137,907 and ₱1,678,256, respectively, that earned interest of ₱73,164 and ₱30,639 in 2011 and 2010, respectively. This is presented as part of "Bank revenues" in the 2011 and 2010 consolidated statements of income.

5. Trade and Other Receivables

	2011	2010
Trade receivables		
Banking	**₱10,383,160**	₱7,071,224
Power	**6,580,977**	6,274,900
Food manufacturing	**1,196,062**	940,489
Holding and others	**568,709**	490,681
Transport services	**88,640**	426,067
	18,817,548	15,203,361
Dividends receivable (Note	**2,500,000**	–
Accrued revenues	**262,048**	192,194
Insurance and other claims	–	7,484
Others	**937,917**	808,027
	22,517,513	16,211,066
Less allowance for impairment losses	**493,128**	508,621
	₱22,024,385	₱15,702,445

Trade receivables, except banking receivables, are non-interest bearing and are generally on 10 - 30 days' terms.

Banking receivables earn interest at prevailing rates and are on varying terms. Interest income on banking receivables, included under "Bank revenues" in the consolidated statements of income, amounted to ₱999,459 and ₱880,864 in 2011 and 2010, respectively. Certain receivables with outstanding balances of ₱2.49 billion and ₱2.38 billion as of December 31, 2011 and 2010, respectively, are pledged as collateral to secure CSB's long-term debts (see Note 18).

For terms and conditions relating to related party receivables, refer to Note 31.

Other receivables substantially comprise accrued interest income and ABOJEB's and JMI's advances from shipping principals and agents.

The rollforward analysis of allowance for impairment losses is presented below:

December 31, 2011

	Trade Receivables					
	Power	Food Manufacturing	Banking	Insurance and Other Claims	Others	**Total**
At beginning of year	₱376,912	₱31,132	₱100,577	₱–	₱–	₱508,621
Provisions	–	5,041	51,671	–	–	56,712
Write-off	(29,934)	–		–	–	(29,934)
Reversals	(32,349)	–	(9,922)	–	–	(42,271)
Changes through the consolidated statement of income	(62,283)	5,041	41,749	–	–	(15,493)
At end of year	**₱314,629**	**₱36,173**	**₱142,326**	**₱–**	**₱–**	**₱493,128**

December 31, 2010

	Trade Receivables				Insurance and		
	Transport Services	Power	Food Manufacturing	Banking	Other Claims	Others	Total
At beginning of year	₱233,496	₱106,170	₱31,586	₱–	₱7,519	₱18,344	₱397,115
Provisions	20,850	292,065	2,600	25,900	–	–	341,415
Reversals	(12,527)	(21,323)	(3,054)	(8,898)	–	–	(45,802)
Changes through the consolidated statement of income	8,323	270,742	(454)	17,002	–	–	295,613
Acquired subsidiary	–	–	–	83,575	–	–	83,575
Discontinued operations	(241,819)	–	–	–	(7,519)	(18,344)	(267,682)
At end of year	₱–	₱376,912	₱31,132	₱100,577	₱–	₱–	₱508,621

Allowance for impairment losses as of December 31, 2011 and 2010 pertains to receivables that are individually determined to be impaired at balance sheet date. These relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings. These receivables are not secured by any collateral or credit enhancements except for banking receivables. The collateral for banking receivables consists of cash, securities, letters of guarantee and real and personal properties. Fair value of these collaterals amounted to ₱32.25 million and ₱39.01 million as of December 31, 2011 and 2010, respectively.

Reversals of allowance for impairment losses are presented as part of "Others - net" under "Other income - net" account in the consolidated statements of income.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence yet of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

6. Inventories

	2011	2010
At cost:		
Fuel and lubricants	**₱1,606,367**	₱1,400,525
Wheat grains and other raw materials	**1,750,619**	1,388,723
Materials, parts and supplies	**467,688**	4,252
Finished goods	**116,610**	188,309
Purchases in transit	–	39,668
At NRV:		
Materials, parts and supplies	**905,648**	1,043,571
Raw materials	**85,727**	10,043
	₱4,932,659	₱4,075,091

The cost of inventories charged to operations in the consolidated statements of income amounted to ₱21.2 billion, ₱20.9 billion and ₱11.7 billion in 2011, 2010 and 2009, respectively.

Allowance for inventory obsolescence amounted to ₱16.6 million and ₱48.2 million as of December 31, 2011 and 2010, respectively.

7. **Other Current Assets**

	2011	2010
Input value added taxes (VAT)	**₱797,272**	₱737,045
Prepaid expenses	**627,776**	472,517
Unearned premium reserve	**332,158**	89,420
Biological assets (see Note 8)	**323,187**	330,492
Others	**139,675**	251,172
	₱2,220,068	₱1,880,646

8. **Biological Assets**

	2011	2010
Consumables:		
Market hogs at fair value less estimated point of sale costs	**₱220,639**	₱224,112
Piglets at fair value less estimated point of sale costs	**71,436**	75,205
Growing stocks at cost	**31,112**	31,175
	323,187	330,492
Bearers - net of accumulated depreciation of ₱53.0 million in 2011 and ₱40.1 million in 2010 (see Note 15)	**66,193**	53,372
	₱389,380	₱383,864

Bearers are measured at accumulated cost, less accumulated depreciation and any accumulated impairment losses. The Group uses this method of measurement because market-determined prices and values are not available and alternative estimates of fair values are determined to be unreliable.

Fair values of consumable biological assets measured at fair value less estimated point-of-sale costs are determined based on average market selling prices at year-end.

The reconciliation of changes in the carrying amount follows:

	2011	2010
At beginning of year	**₱330,492**	₱275,522
Additions	**1,060,433**	900,432
Sales at fair value	**(1,116,652)**	(1,061,815)
Transferred to breeding herd	**(48,077)**	(36,424)
Increase in fair value (see Note 26)	**96,991**	252,777
At end of year	**₱323,187**	₱330,492

Consumable biological assets are included under “Other current assets” account while bearers are included under “Other noncurrent assets” account in the consolidated balance sheets (see Notes 7 and 15).

9. **Business Acquisitions**

a. Step-acquisition of LHC

LHC, a company primarily engaged in power generation, manages and operates the 70-megawatt hydroelectric power generating facility in Bakun River in Benguet and Ilocos Sur Provinces on a build-operate-transfer scheme. Under the Power Purchase Agreement (PPA) it entered into with the National Power Corporation (NPC), LHC shall deliver to NPC all electricity generated over a cooperation period of 25 years until February 5, 2026.

LHC was 50% owned by ARI, a wholly-owned subsidiary of AP, and 50% owned by Pacific Hydro Bakun, Inc., a wholly owned subsidiary of Pacific Hydro Pty. Ltd., a company incorporated in Australia.

On May 9, 2011, LHC redeemed all its issued and outstanding Series “B” Redeemable Preferred Shares and Series “C” Redeemable Preferred Shares held by PHBI. Immediately thereafter, the redeemed shares were permanently retired. As a result of the said redemption, LHC became a wholly-owned subsidiary of ARI beginning May 9, 2011.

The accounting for this business combination was determined provisionally as ARI is still finalizing the fair valuation of the intangible asset acquired. This will be finalized in 2012 as allowed by PFRS.

The provisional fair values of the identifiable assets of LHC as at the date of acquisition follow:

	Fair value recognized on acquisition
Assets:	
Cash and cash equivalents	₱314,852
Receivables	29,501
Prepayments and other current assets	7,458
Property, plant and equipment	2,238
Intangible asset – service concession right	3,376,973
Deferred tax assets	72,699
Other assets	37,574
	3,841,295
Liabilities:	
Payables	178,434
Derivative liability	16,205
Advances from shareholders	1,794,859
Long-term debt (net of deferred financing cost)	716,971
	2,706,469
Total identifiable net assets at fair value	1,134,826
Fair value of previously-held interest in LHC	(942,977)
Excess of fair value of identifiable net assets over the fair value of previously-held interest	₱191,849

	Fair value recognized on acquisition
Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱314,852

Remeasurement of the previously-held interest in LHC as at the date of acquisition follows:

Carrying value of the previously held interest in LHC	₱1,134,826
Fair value of previously-held interest in LHC	(942,977)
Loss on the remeasurement of previously held interest	₱191,849

The excess of the fair value of identifiable net assets over the fair value of previously-held interest is included in other income in the consolidated statement of income, net of the loss on the remeasurement of previously-held interest.

From the date of acquisition, the additional interest in LHC has contributed ₱68,168 to the net income of the Group. This newly-qualified subsidiary has likewise contributed ₱633,028 in revenue to the Group.

b. Step-acquisition of CSB

The Bangko Sentral ng Pilipinas (BSP) approved on November 17, 2010 the proposed acquisition by the Company and its wholly-owned subsidiary, Pilmico Foods Corporation, of up to 60% and 40%, respectively, of the outstanding shares of stock of CSB. With this BSP approval, the Group completed its acquisition of additional 64.86% of CSB on November 27, 2010, increasing its ownership to 99.25% and gaining control of the financial and operating policies of the bank. CSB was an associate prior to this additional acquisition.

CSB is a non-listed Cebu-based thrift bank which was primarily engaged in offering loans to school teachers under the Department of Education's Automatic Payroll Deduction System.

The accounting for this business combination that was effected in 2010 was determined provisionally as the Company had incomplete information as of report date of the 2010 consolidated financial statements with respect to possible recognition of intangible assets and any contingent liabilities arising from the acquisition. In 2011, the accounting for the business combination was finalized and no changes were made on the purchase price allocation that was provisionally computed.

The provisional fair values of the identifiable assets of CSB as at the date of acquisition follow:

	Fair value recognized on acquisition
Assets:	
Cash and cash equivalents	₱1,102,907
Held to maturity investments	476,991
Loans and receivables	6,279,069
Investment in associates	889
Bank premises, furniture, fixtures and equipment	103,895

	Fair value recognized on acquisition
Investment properties	₱19,680
Deferred tax assets	35,534
Other resources	25,268
	8,044,233
Liabilities:	
Deposit liabilities	4,714,131
Bills payable	1,935,052
Income tax payable	49,926
Accrued expenses and other liabilities	264,225
	6,963,334
Total identifiable net assets at fair value	1,080,899
Total consideration satisfied by cash	1,344,559
Fair value of previously-held interest in CSB	371,711
Non-controlling interest (proportionate share of the acquiree's net identifiable assets)	8,142
	1,724,412
Goodwill arising from acquisition	₱643,513
Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱1,102,907
Cash paid	(1,344,559)
Net cash outflow on acquisition	(₱241,652)

Remeasurement of the previously-held interest in CSB as at the date of acquisition follows:

Carrying value of the previously held interest in CSB	₱372,702
Fair value of previously-held interest in CSB	(371,711)
Loss on the remeasurement of previously held interest (included in "other income - net" in the consolidated statement of income (see Note 26)	₱991

The fair value of the loans and receivables amounted to ₱6,279,069. The gross amount of loans and receivables amounted to ₱6,354,210 and the allowance for impairment losses amounted to ₱99,300.

The goodwill of ₱643,513 comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to CSB. None of the goodwill recognized is expected to be deductible for income tax purposes.

The additional interest in CSB has contributed ₱143,623 to the net income of the Group in 2010.

c. Acquisition of the 747 Megawatt (MW) Tiwi-MakBan Geothermal Power Plant (“Tiwi-MakBan Power Plant” or “Plant”)

In August 2008, APRI, an AP subsidiary, was officially declared as the winning bidder for the 289 MW Tiwi Geothermal Power Plant located in Tiwi, Albay and the 458 MW Makiling-Banahaw (MakBan) Geothermal Plant located in Laguna and Batangas Provinces. APRI took over the control and possession of the Plant on May 25, 2009, and started its commercial operation the following day.

APRI accounted for the purchase of the Plant under the purchase method.

The total cost of the business combination was ₱20,198,774, consisting of the purchase price of ₱19,900,270 and costs directly attributable to the acquisition of ₱298,504.

The Tiwi-MakBan Power Plant has contributed ₱2,072,730 to the net income of the Group in 2009.

The accounting for the business combination that was effected in 2009 was determined provisionally as the Company has incomplete information as of report date with respect to possible recognition of intangible assets and deferred income tax assets arising from the acquisition. In 2010, the accounting for the business combination was finalized and no changes were made on the purchase price allocation that was provisionally computed.

10. **Investments in and Advances to Associates**

	2011	2010
Acquisition cost:		
Balance at beginning of year	**₱25,274,768**	₱24,488,191
Additions during the year	**1,766,608**	1,680,915
Step-acquisition to subsidiary (see Note 9)	**(1,048,250)**	(79,001)
Disposals during the year (see Note 14)	–	(815,337)
Balance at end of year	**25,993,126**	25,274,768
Accumulated share in net earnings:		
Balance at beginning of year	**16,339,565**	12,238,894
Share in net earnings for the year	**11,229,066**	6,883,363
Disposals during the year (see Note 14)	–	(444,275)
Step-acquisition to subsidiary (see Note 9)	**(196,403)**	(199,564)
Cash dividends received and receivable	**(7,140,532)**	(2,138,853)
Balance at end of year	**20,231,696**	16,339,565
Share in cumulative translation adjustments of associates	**(546,752)**	57,922
Share in unrealized valuation gains on AFS investments of an associate	**1,122,665**	322,284
Gain on dilution	**1,014,137**	1,014,137
	47,814,872	43,008,676
Advances to associates	**977,049**	1,870,294
	48,791,921	44,878,970
Less allowance for impairment losses	**(28,995)**	(28,995)
	₱48,762,926	₱44,849,975

Share in net earnings amounts in 2010 includes that of discontinued operations amounting to ₱40,207.

The rollforward of the share in unrealized valuation gains on AFS investments of an associate follows:

	2011	2010
At January 1	**₱322,284**	(₱64,734)
Unrealized valuation gains	**800,381**	386,149
Realized valuation gains	–	869
At December 31	**₱1,122,665**	₱322,284

The Group's associates and the corresponding equity ownership are as follows:

		Percentage of Ownership		
	Nature of Business	**2011**	2010	2009
Manila-Oslo Renewable Enterprise, Inc. (MORE)	Holding company	**83.33**	83.33	83.33
VECO	Power	**55.21**	55.19	55.18
SNAP-Magat	Power	**50.00**	50.00	50.00
SNAP-Benguet	Power	**50.00**	50.00	50.00
LHC (see Note 9)	Power	–	50.00	50.00
East Asia Utilities Corporation (EAUC)	Power	**50.00**	50.00	50.00
Redondo Peninsula Energy, Inc. (RP Energy)*	Power	**25.00**	50.00	50.00
San Fernando Electric Light and Power Co., Inc. (SFELAPCO)	Power	**43.78**	43.78	43.78
Bakun Power Line Corporation*(see Note 9)	Power	–	50.00	50.00
Cordillera Hydro Corporation*(see Note 9)	Power	–	35.00	35.00
STEAG	Power	**34.00**	34.00	34.00
Cebu Energy Development Corporation (CEDC)**	Power	**26.40**	26.40	26.40
SPPC	Power	**20.00**	20.00	20.00
WMPC	Power	**20.00**	20.00	20.00
Cebu International Container Terminal, Inc. (CICTI)*	Transportation	**20.00**	20.00	20.00
Aboitiz Project TS Corporation (APTSC)	Transportation	–	–	50.00
MCC Philippines	Transportation	–	–	33.00
Hapag-Lloyd Philippines, Inc.	Transportation	**15.00**	15.00	–
Jebsen People Solutions AS (JPS)	Manpower services	**50.00**	50.00	50.00
Accuria, Inc.	Holding company	**49.54**	49.54	49.54
Hijos de F. Escaño, Inc. (HIJOS)	Holding company	**46.73**	46.73	46.73
Pampanga Energy Ventures Inc. (PEVI)	Holding company	**42.84**	42.84	42.84
Union Bank of the Philippines (UBP)	Banking	**43.27**	40.91	38.66
CSB (see Note 9)	Banking	–	–	34.39
South Western Cement Corporation	Cement	**20.00**	20.00	20.00
CSB Land, Inc.	Real Estate	**40.00**	40.00	–
CSB Holdings, Inc.	Real Estate	**40.00**	40.00	–

**No commercial operations.*
*** Declared pre-commercial operations on January 26, 2011 and started commercial operation on February 26, 2011.*

The Group does not consolidate MORE because of absence of control resulting from the shareholders agreement which, among others, stipulate the management and operation of MORE. The management of MORE is vested in its BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which include significant financial and operating undertakings. The Group also does not consolidate VECO as the other shareholders' group has the control over the financial and operating policies of VECO.

The unrealized gain on dilution primarily pertains to the Group's waiver of its pre-emptive right to subscribe to the additional stock offering of UBP in 2007.

On various dates in 2011, the Company purchased additional 15.2 million shares in UBP for a total consideration of ₱909.7 million, increasing its share in UBP from 40.91% to 43.27%. In 2010, it also increased its stake from 38.66% to 40.91% by acquiring 14.4 million UBP shares worth ₱647.0 million.

In 2011 and 2010, MORE invested additional ₱856.2 million and ₱1,030.8 million, respectively, to support SNAP-Benguet's plant rehabilitation and refurbishment.

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

	2011	2010
UBP	**₱19,674,497**	₱15,820,478
MORE	**15,409,338**	13,336,441
STEAG	**5,943,448**	6,445,009
CEDC	**2,913,576**	2,396,218
VECO/HIJOS	**2,184,884**	2,080,789
SFELAPCO/PEVI	**528,286**	513,918
WMPC	**493,857**	465,002
SPPC	**246,396**	230,452
CICTI	**240,125**	240,125
EAUC	**229,486**	335,563
LHC (see Note 9)	**–**	1,181,164
RP Energy	**(8,959)**	(3,252)
Others	**(40,062)**	(33,231)
	₱47,814,872	₱43,008,676

The fair value of the investment in UBP for which there is a published price quotation amounted to ₱18.3 billion and ₱15.7 billion as of December 31, 2011 and 2010, respectively.

Following is the summarized financial information of significant associates:

	2011	2010	2009
UBP			
Total current assets	**₱48,932,566**	₱61,929,911	₱58,908,760
Total noncurrent assets	**221,253,308**	191,069,906	185,452,558
Total current liabilities	**223,596,835**	211,977,367	208,043,868
Total noncurrent liabilities	**3,750,000**	5,037,100	5,037,100
Gross revenue	**11,750,432**	11,813,054	11,891,519
Operating profit	**6,809,907**	6,186,456	4,420,466
Net income	**6,595,398**	5,353,251	4,325,003
MORE			
Total current assets	**3,233,366**	234,714	278,313
Total noncurrent assets	**18,515,998**	16,013,675	12,037,113
Total current liabilities	**3,252,121**	241,362	276,057
Total noncurrent liabilities	**6,594**	3,298	490,400
Gross revenue	**201,600**	4,084,202	1,270,474
Operating profit	**7,027,058**	3,836,899	1,096,944
Net income	**7,024,077**	3,911,204	1,102,475

	2011	2010	2009
STEAG			
Total current assets	**₱5,097,440**	₱5,624,376	₱8,029,261
Total noncurrent assets	**15,554,340**	11,129,719	10,924,231
Total current liabilities	**1,821,445**	1,659,345	2,307,605
Total noncurrent liabilities	**2,891,763**	3,348,866	6,880,704
Gross revenue	**7,548,941**	6,507,354	6,205,924
Operating profit	**4,089,380**	3,131,010	3,118,338
Net income	**3,662,955**	1,754,369	2,602,400
CEDC			
Total current assets	**5,476,678**	4,380,848	5,116,664
Total noncurrent assets	**18,707,517**	17,424,792	12,455,401
Total current liabilities	**1,068,297**	1,488,622	1,731,783
Total noncurrent liabilities	**16,504,126**	14,895,479	10,345,410
Gross revenue	**7,511,443**	–	–
Operating profit	**2,565,171**	(76,969)	(41,307)
Net income	**1,200,223**	(73,282)	(48,915)
VECO*			
Total current assets	**2,680,499**	3,251,474	1,424,236
Total noncurrent assets	**8,196,538**	7,878,006	7,532,706
Total current liabilities	**2,310,321**	2,513,044	1,902,036
Total noncurrent liabilities	**3,824,244**	3,939,339	2,546,256
Gross revenue	**16,296,842**	13,405,730	10,830,878
Operating profit	**740,532**	609,522	140,657
Net income	**820,535**	609,526	315,082
SFELAPCO			
Total current assets	**799,680**	669,949	454,647
Total noncurrent assets	**2,055,184**	1,103,853	1,064,917
Total current liabilities	**614,313**	466,986	406,246
Total noncurrent liabilities	**593,237**	334,181	349,027
Gross revenue	**3,276,602**	3,048,028	2,564,866
Operating profit	**133,393**	121,876	43,169
Net income	**774,679**	267,483	72,024
WMPC			
Total current assets	**1,368,406**	1,031,813	718,455
Total noncurrent assets	**1,353,884**	1,584,896	1,792,574
Total current liabilities	**125,891**	148,542	192,535
Total noncurrent liabilities	**127,113**	143,422	181,783
Gross revenue	**1,377,380**	1,324,460	1,206,970
Operating profit	**988,204**	769,956	558,505
Net income	**819,405**	851,962	548,359
EAUC			
Total current assets	**615,356**	552,025	697,187
Total noncurrent assets	**234,515**	1,002,340	3,122,061
Total current liabilities	**129,358**	166,788	255,217
Total noncurrent liabilities	**15,020**	10,861	9,565
Gross revenue	**992,763**	1,741,244	1,381,633

	2011	2010	2009
Operating profit	**₱338,475**	₱283,349	₱186,597
Net income	**325,998**	252,754	286,577
LHC (see Note 9)			
Total current assets	**N/A**	382,808	332,448
Total noncurrent assets	**N/A**	3,965,135	4,496,366
Total current liabilities	**N/A**	1,468,097	1,593,142
Total noncurrent liabilities	**N/A**	517,517	771,228
Gross revenue	**N/A**	934,710	1,223,189
Operating profit	**N/A**	492,193	749,635
Net income	**N/A**	339,521	467,264

**Amounts are based on appraised values of property, plant and equipment and on historical costs of investment properties which are adjusted to historical amounts and to fair values, respectively, upon equity take-up of the Group. Using cost method in accounting for property, plant and equipment and fair value method in accounting for investment properties, net income amounted to ₱941,319, ₱734,898 and ₱467,792 in 2011, 2010 and 2009, respectively, for VECO.*

11. Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to each business considered as cash-generating unit.

The recoverable amount of the investments has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections are from 9.39% to 15.01% in 2011 and from 8.22% to 15.70% in 2010, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

Key assumptions used in value in use calculation for December 31, 2011 and 2010
The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Foreign exchange rates
The assumption used to determine foreign exchange rate is a weakening Philippine peso which starts at a rate of ₱42.50 to a dollar in 2012, depreciates to ₱43.40 in 2013 and remains steady until 2016.

Materials price inflation
The assumption used to determine the value assigned to the materials price inflation is 4.75% in 2012. It then decreases to 4.50% in 2013 and remains steady until the fifth year. The starting point of 2012 is consistent with external information sources.

Based on the impairment testing, no impairment of goodwill was recognized in 2011 and 2010.

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

The carrying amount of goodwill follows:

	2011	2010
CSB	**₱643,513**	₱643,513
MEZ	**538,373**	538,373
BEZ	**237,404**	237,404
HI	**220,228**	220,228
	₱1,639,518	₱1,639,518

The reconciliation of the carrying amount of goodwill at the beginning and end of the year are as follows:

	2011	2010
Beginning balance	**₱1,639,518**	₱1,812,783
Acquisition of a subsidiary (see Note 9)	**–**	643,513
Discontinued operations (see Note 14)	**–**	(816,778)
	₱1,639,518	₱1,639,518

12. Property, Plant and Equipment

December 31, 2011

	Building, Warehouses and Improvements	Power Plant and Equipment	Transmission and Distribution Equipment	Machinery and Equipment	Flight Equipment	Transportation Equipment	Handling Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Land	Ships under Refurbish-ments and Construction in Progress	Others	**2011**
COST													
At January 1	₱2,433,942	₱73,370,137	₱4,998,903	₱3,857,808	₱301,364	₱643,719	₱111,525	₱625,181	₱397,616	₱347,260	₱1,722,190	₱424,212	**₱89,233,857**
Acquisition of a subsidiary (Note 9)	–	–	–	–	–	6,426	–	15,162	–	–	–	–	**21,588**
Additions	20,196	2,802,729	428,639	29,556	259,854	141,946	–	358,769	32,546	494,831	3,548,206	453,116	**8,570,388**
Disposals	(5,823)	(18,125)	–	(1,644)	–	(29,218)	–	(16,233)	(101,281)	–	–	(76)	**(172,400)**
Reclassifications	1,774,247	(1,904,105)	32,818	84,205	–	–	603	308,953	85	29,945	(72,764)	52,466	**306,453**
At December 31	4,222,562	74,250,636	5,460,360	3,969,925	561,218	762,873	112,128	1,291,832	328,966	872,036	5,197,632	929,718	**97,959,886**
ACCUMULATED DEPRECIATION AND AMORTIZATION													
At January 1	530,891	5,791,481	2,478,835	1,415,280	51,231	376,166	86,574	484,331	237,204	–	–	337,585	**11,789,578**
Acquisition of a subsidiary (Note 9)	–	–	–	–	–	3,801	–	14,508	–	–	–	–	**18,309**
Additions	151,144	2,717,163	214,796	111,643	25,270	93,926	4,310	257,598	29,177	5,434	–	82,238	**3,692,699**
Disposals	(970)	(12,487)	–	(1,629)	–	(21,303)	–	(13,560)	(99,264)	–	–	(76)	**(149,289)**
Reclassifications	824,580	(859,730)	(431)	–	–	–	–	23,322	–	–	–	12,259	**–**
At December 31	1,505,645	7,636,427	2,693,200	1,525,294	76,501	452,590	90,884	766,199	167,117	5,434	–	432,006	**15,351,297**
Net Book Value	**₱2,716,917**	**₱66,616,209**	**₱2,767,160**	**₱2,444,631**	**₱484,717**	**₱310,283**	**₱21,244**	**₱525,633**	**₱161,849**	**₱866,602**	**₱5,197,632**	**₱497,712**	**₱82,608,589**

December 31, 2010

	Building, Warehouses and Improvements	Power Plant and Equipment	Transmission and Distribution Equipment	Machinery and Equipment	Flight Equipment	Transportation Equipment	Ships in Operation and Improvements	Containers	Handling Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improve-ments	Land	Ships under Refurbish-ments and Construction in Progress	Others	2010
COST															
At January 1	₱2,914,865	₱66,628,765	₱4,553,427	₱3,664,635	₱351,988	₱795,628	₱5,879,220	₱1,473,737	₱1,288,727	₱1,004,250	₱570,596	₱369,100	₱4,827,987	₱366,426	₱94,689,351
Acquisition of a subsidiary (Note 9)	63,355	–	–	–	–	–	–	–	–	91,998	33,425	5,659	–	–	194,437
Additions	74,972	1,498,217	296,882	20,925	150	169,405	3,300,429	35,670	97,450	194,625	36,094	41	2,690,775	94,432	8,510,067
Disposals	(9,833)	(37,280)	(99)	(74)	(1,561)	(102,279)	(482,614)	(57,077)	(279)	(39,266)	(1,387)	(19,500)	(134)	(30,534)	(781,917)
Reclassifications	79,908	5,280,435	148,693	172,322	13,598	(18,627)	(62,032)	112,443	(135)	(7,904)	95,359	(8,040)	(5,793,565)	(3,557)	8,898
Discontinued operations (Note 14)	(689,325)	–	–	–	(62,811)	(200,408)	(8,635,003)	(1,564,773)	(1,274,238)	(618,522)	(336,471)	–	(2,873)	(2,555)	(13,386,979)
At December 31	2,433,942	73,370,137	4,998,903	3,857,808	301,364	643,719	–	–	111,525	625,181	397,616	347,260	1,722,190	424,212	89,233,857
ACCUMULATED DEPRECIATION AND AMORTIZATION															
At January 1	678,887	3,289,900	2,282,549	1,322,638	82,819	446,250	2,220,913	1,331,613	1,159,794	758,986	333,007	–	–	217,003	14,124,359
Acquisition of a subsidiary (Note 9)	25,004	–	–	–	–	–	–	–	–	73,258	8,110	–	–	–	106,372
Additions	118,075	2,480,574	194,431	92,712	19,702	104,693	1,043,602	21,316	49,985	165,865	68,396	–	–	156,203	4,515,554
Disposals	(6,293)	(36,068)	(789)	(70)	(1,553)	(79,643)	(354,192)	(32,040)	(197)	(33,793)	(1)	–	–	(25,611)	(570,250)
Reclassifications	(31,358)	57,075	2,644	–	12,527	39,778	(169,329)	74,556	14,967	45,150	48,974	–	–	(2,957)	92,027
Impairment	–	–	–	–	–	–	778,830	–	–	–	–	–	–	–	778,830
Discontinued operations (Note 14)	(253,424)	–	–	–	(62,264)	(134,912)	(3,519,824)	(1,395,445)	(1,137,975)	(525,135)	(221,282)	–	–	(7,053)	(7,257,314)
At December 31	530,891	5,791,481	2,478,835	1,415,280	51,231	376,166	–	–	86,574	484,331	237,204	–	–	337,585	11,789,578
Net Book Value	₱1,903,051	₱67,578,656	₱2,520,068	₱2,442,528	₱250,133	₱267,553	₱–	₱–	₱24,951	₱140,850	₱160,412	₱347,260	₱1,722,190	₱86,627	₱77,444,279

Specific borrowing costs capitalized as part of construction in progress amounted to nil and ₱151.9 million in 2011 and 2010, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 8.26%, which is the EIR of the related specific borrowing.

Property, plant and equipment with carrying amounts of ₱5.7 billion and ₱7.1 billion as of December 31, 2011 and 2010, respectively, are used to secure the Group's long-term debts (see Note 18).

Acquisition of Barges 1 - 4
On May 27, 2011, the Group acquired Barge 1, Barge 2, Barge 3 and Barge 4 with a total of 242 megawatt power generating capacity, from Duracom Mobile Power Corporation and East Asia Diesel Power Corporation. The power barges are currently undergoing rehabilitation.

Acquisition of PB 118 and PB 117
On July 31, 2009, Therma Marine and Therma Mobile, subsidiaries, won the negotiated bid for the barge-mounted diesel-powered generation plants, the 100 MW PB 118 and 100 MW PB 117, with bid prices of US$14 million (₱651,234) and $16 million (₱739,467), respectively. PB 118 is moored in Barangay San Roque, Maco, Compostela Valley in Mindanao. PB 117 is moored in Barangay Sta. Ana, Nasipit, Agusan Del Norte.

On February 5, 2010 and February 26, 2010, Therma Marine fully paid PSALM the total bid prices of PB118 and PB117, respectively. Within the same month, Therma Mobile transferred all of its rights and obligations as buyer of PB 117 to Therma Marine, officially making the latter the buyer of PB 117.

The control and possession of PB 118 and PB 117 were successfully turned-over and transferred to Therma Marine on February 6, 2010 and March 1, 2010, respectively. Therma Marine then started the commercial operations of the power barges on same dates.

The Group accounted for these acquisitions as purchases of assets in accordance with PAS 16 (see Note 3).

Fully depreciated power generation property, plant and equipment with gross carrying amount of ₱169.6 million and ₱147.6 million as of December 31, 2011 and 2010 are still in use.

13. **Intangible Asset - Service Concession Rights**

	2011	2010
Cost:		
At January 1	**₱1,149,439**	₱1,045,054
Step acquisition of LHC (see Note 9)	**3,376,973**	–
Additions from internal development	**64,860**	104,385
Effect of translation	**89,417**	–
	4,680,689	1,149,439

(Forward)

	2011	2010
Accumulated amortization:		
At January 1	**₱212,443**	₱162,746
Step acquisition of LHC (see Note 9)	**252,111**	–
Amortization	**53,367**	49,697
	517,921	212,443
	₱4,162,768	₱936,996

The amortization of intangible asset is included in "Depreciation and amortization" under the Operating Expenses in the consolidated statement of income.

Service concession arrangements entered into by the Group are as follows:

- On November 24, 1996, LHC entered into a PPA with NPC, its sole customer, for the construction and operation of a 70-megawatt hydroelectric power generating facility (the Power Station) in Bakun River in Benguet and Ilocos Sur Provinces on a build-operate-transfer scheme. Under the PPA, LHC shall deliver to NPC all electricity generated over a cooperation period of 25 years until February 5, 2026.

  On the Transfer Date, as defined in the PPA, LHC shall transfer to NPC, free from any lien or encumbrance, all its rights, title and interest in and to the Power Station and all such data as operating manuals, operation summaries/transfer notes, design drawings and other information as may reasonably be required by NPC to enable it to operate the Power Station.

  Since NPC controls the ownership of any significant residual interest of the Power Station at the end of the PPA, the PPA is accounted for under the intangible asset model as LHC has the right to charge users for the public service under the service concession arrangement.

  The Power Station is treated as intangible assets and is amortized over a period of 25 years, which is the service concession period. The intangible asset was used as collateral to secure LHC's long-term debt (see Note 18).

- On May 15, 2003, the SBMA, AEV and DLP entered into a DMSA to privatize SBMA PDS on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures, and machineries in the SBFZ. The DMSA shall be effective for a 25-year period commencing on the turnover date.

  Under the terms of the DMSA, SEZ was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA.

  For and in consideration of the services and expenditures of SEZ, it shall be paid by the SBMA the service fees equivalent to all the earnings of the Project, provided, however, that SEZ shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period, regardless of the earnings of the Project.

Since SBMA controls ownership of the equipment at the end of the agreement, the PDS are treated as intangible assets and are amortized over a period of 25 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

Management believes that, based on the assessment performed, the intangible asset - service concession rights are not impaired.

Specific borrowing costs amounting to nil and ₱19.1 million that were directly attributable to the rehabilitation of the PDS were capitalized in 2011 and 2010, respectively.

- The transmission and distribution equipment of MEZ are located within MEPZ II. Since MCIAA controls ownership of the equipment at the end of the agreement, the equipment are treated as intangible assets and are amortized over a period of 21 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

14. **Discontinued Operations**

Sale of ATS in 2010

On December 1, 2010, the BOD of the Company approved the sale of its entire holdings in ATS to Negros Navigation Co., Inc. (NENACO). The sale was finalized on December 28, 2010 for ₱1.88 per share for total proceeds of ₱3.5 billion. Loss on sale of ATS amounted to ₱456.3 million and this is presented as part of discontinued operations in the 2010 consolidated statement of income.

Cash flow on sale of ATS:	
Cash received	₱3,535,107
Cash of discontinued operations	(764,183)
Net cash inflow on sale	₱2,770,924

As part of the condition for the sale of ATS to NENACO, on the same date, the Company acquired ATS's 62.5% ownership in Aboitiz Jebsen Company, Inc. (ABOJEB), Jebsen Maritime, Inc. (JMI) and Aboitiz Jebsen Manpower Solutions, Inc. (AJMSI) for ₱355.9 million, and ACO acquired ATS's 50% ownership in Jebsen Management BVI Limited (JMBVI) for ₱44.0 million. The carrying amounts of the assets and liabilities of ABOJEB, JMI and AJMSI in the consolidated balance sheet of ATS as of the sale date therefore continue to be the carrying amounts in the consolidated balance sheet of the Group. The gain on sale of JMBVI by ATS to ACO amounting to ₱24.7 million was reflected in the 2010 consolidated statement of income as part of discontinued operations.

The results of operation of ATS Group, excluding ABOJEB, JMI and AJMSI, which are presented in the 2010 and 2009 consolidated statements of income as discontinued operations, are presented below:

	2010	2009
Revenue	₱12,985,115	₱11,304,542
Cost and expenses	(13,567,667)	(10,919,711)
Interest income	5,263	12,851

(Forward)

	2010	2009
Share in net earnings of associates	₱40,207	₱57,128
Interest expense	(228,879)	(74,101)
Other income (charges) - net	(655,036)	296,200
Income (loss) before income tax from discontinued operations	(1,420,997)	676,909
Provision for (benefit from) income tax		
Current	51,230	67,764
Deferred	(462,197)	99,573
	(410,967)	167,337
Net income (loss) from discontinued operations before loss on sale	(1,010,030)	509,572
Loss on sale of discontinued operations	(456,318)	–
Net income (loss) from discontinued operations	(₱1,466,348)	₱509,572
Attributable to:		
Equity holders of the parent	(₱1,303,326)	₱356,730
Non-controlling interests	(163,022)	152,842
	(₱1,466,348)	₱509,572
Earnings (loss) per share:		
Basic and diluted earnings (loss) from discounted operations	(₱0.236)	₱0.064

The net cash flows by ATS Group, excluding ABOJEB, JMI and AJMAN, are as follows:

	2010	2009
The net cash flows by ATS Group are as follows:		
Operating	₱738,981	₱969,980
Investing	(3,570,759)	(1,468,834)
Financing	2,479,865	579,916
Net cash inflow (outflow)	(₱351,913)	₱81,062

Up until December 31, 2010, the ATS Group is presented as a separate “Transport Services” segment in the operating segment information (see Note 30).

15. **Other Noncurrent Assets**

	2011	2010
Advances to contractor	**₱2,353,605**	₱–
VAT tax credit receivable	**922,959**	430,470
Prepaid rent and other deposits	**454,043**	559,183
Software and project costs	**182,647**	66,674
Bearer biological assets - net (see Note 8)	**66,193**	53,372
Branch license	**3,500**	500
Others	**239,639**	319,436
	₱4,222,586	₱1,429,635

Advances to contractor pertain to payments covering the purchase price of two units of steam turbine generators of Therma South, Inc.

Rollforward of software and project costs follow:

	2011		2010	
	Project development costs	**Software and licenses**	Project development costs	Software and licenses
Balance at beginning of year	**₱41,394**	**₱25,280**	₱–	₱5693
Additions	**86,599**	**53,358**	75,154	23,558
Amortization	**–**	**(9,463)**	–	(3,971)
Transfers (see Note 11)	**–**	**–**	(33,040)	–
Write-off	**(2,394)**	**(12,127)**	(720)	–
Balance at end of year	**₱125,599**	**₱57,048**	₱41,394	₱25,580

16. **Bank Loans**

	2011	2010
Peso loans	**₱5,084,000**	₱5,459,100
US dollar loans	**217,008**	208,240
	₱5,301,008	₱5,667,340

The peso loans are unsecured short-term notes payable obtained from local banks with interest rates ranging from 4% to 4.75% in 2011 and 2.24% to 4.25% in 2010. These loans mature on various dates in 2012.

US dollar loans include unsecured short-term notes payable obtained by ABOJEB and JMI from foreign and local banks and have outstanding balance amounting to US$4.8 million and US$2.5 million as of December 31, 2011 and 2010, respectively. These loans bear interest of 4.0% to 4.13% in 2011 and 4.0% to 4.75% in 2010. These loans mature on various dates in 2012 and 2011.

The peso and US dollar short-term loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties.

Total interest expense on bank loans recognized in 2011, 2010 and 2009 amounted to ₱122,152 ₱418,466 and ₱321,855, respectively (see Note 32).

17. **Trade and Other Payables**

	2011	2010
Trade payables (see Note 35)	**₱4,294,482**	₱3,365,628
Deposit liabilities of CSB	**3,517,163**	1,679,941
Accrued expenses	**2,256,461**	1,555,355
VAT Output	**1,613,475**	1,662,908
Nontrade payables and others	**470,401**	475,368
Unearned revenue	**299,056**	42,423
Amounts due to contractors and other parties	**180,113**	1,648,755
Due to related parties (see Note 31)	**36,459**	129,999
	₱12,667,610	₱10,560,377

Trade payables are non-interest bearing and are usually on 30-90 days' terms. Nontrade and other payables include withholding taxes and accrued expenses.

Deposit liabilities of CSB with varying terms of maturity, bear annual fixed interest rates ranging from 0.50% to 7.00% and from 0.50% to 8.50% in 2011 and 2010, respectively.

	2011	2010
Current portion of deposit liabilities	**₱3,517,163**	₱1,679,941
Noncurrent portion of deposit liabilities	**4,472,252**	3,683,745
	₱7,989,415	₱5,363,686

Interest expense on deposit liabilities in 2011 and 2010 follows:

	2011	2010
Time	**₱372,104**	₱255,928
Savings	**16,170**	20,474
Demand	**810**	723
	₱389,084	₱277,125

Under existing BSP regulations, non-FCDU deposit liabilities of CSB are subject to liquidity reserves equivalent to 2.00% and statutory reserves equivalent to 4.00%. CSB is in compliance with such regulation as of December 31, 2011 and 2010.

Accrued expenses include interest on borrowings, fuel and lube costs, taxes and licenses, freight expense, materials and supplies, and energy fees that are due within 12 months. These represent ₱1,973,564 and ₱1,340,167 of the total accrued expenses as of December 31, 2011 and 2010, respectively.

18. Long-term Debts

	2011		2010	
	Interest Rate	**Amount**	Interest Rate	Amount
Company:				
Financial institutions - unsecured peso denominated loans	**5.23% - 8.25%**	**₱3,991,150**	2.46% - 8.25%	₱4,600,000
Subsidiaries:				
AP				
Financial and non-financial institutions - unsecured	**6.17% - 9.33%**	**13,543,200**	8.00% - 9.33%	11,878,800
HSI				
Financial institutions - secured	**8.52%**	**3,306,947**	8.52%	3,570,000
CSB				
Financial institution - secured	**5.87% - 10.10%**	**2,242,944**	5.23% - 10.10%	1,445,483
Non-financial institution	**4.75% - 8.50%**	**697,067**	4.00% - 8.50%	695,752
CPPC				
Financial institutions - unsecured	**3.06% to 6.40%**	**426,667**	6.68% - 6.71%	640,000
HI				
Financial institution - secured	**8.36%**	**484,500**	8.36%	549,100
LHC				
Financial institutions - secured	**2.44% - 2.50%**	**521,257**	–	–
PILMICO				
Financial institutions - secured	**4.96% - 7.10%**	**1,373,333**	5.48% - 7.75%	310,000

(Forward)

	2011		2010	
	Interest Rate	**Amount**		**Interest Rate**
PANC				
Financial institution - secured	**6.47%**	**₱600,000**	7.22%	₱162,500
SEZ				
Financial institution - secured	**3.68%**	**565,000**	8.26% - 10.02%	119,091
BEZ				
Financial institution - unsecured	**7.50%**	**70,000**	7.50%	70,000
Total		**27,822,065**		24,040,726
Less deferred financing costs		**139,345**		140,939
		27,682,720		23,899,787
Less current portion		**1,604,750**		1,552,022
		₱26,077,970		₱22,347,765

The Company

The loans availed by the Company from financial institutions include:

a. An unsecured loan obtained in 2006, amounting to ₱1.0 billion, is payable in five years with 10% of the principal due on the second year, 25% due on the third and fourth year and the remaining 40% on the fifth year, with interest rates at 2.63% in 2011 and ranging from 2.63% to 5.18% in 2010, to be repriced on a quarterly basis. The loan was fully paid in March 2011.

b. Unsecured loan obtained in 2006, amounting to ₱500.0 million, is payable in five years with 10% of the principal due on the second year, 25% due on the third and fourth year and the remaining 40% on the fifth year, with interest rates ranging from 2.46% to 2.57% in 2011 and 2.46% to 5.21% in 2010, subject to quarterly repricing. The loan was fully paid in June 2011.

c. An unsecured loan amounting to ₱1.0 billion availed in 2008 with bullet principal payment due at the end of five years and interest payments due quarterly at a fixed rate of 9.19%. The loan was fully paid on November 28, 2010.

2010 Fixed Rate Corporate Notes

On May 19, 2010, the Company availed of a total of ₱2.5 billion from the Notes Facility Agreement it signed on May 14, 2010, with First Metro Investment Corporation as Issue Manager. The Notes Facility Agreement provided for the issuance of 6-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules. The notes are unsecured and bear an annual interest of 8.25%.

Prior to the maturity date, the Company may redeem in whole the relevant outstanding notes on the 16th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount being earlier redeemed plus the Breakage Cost. Breakage Cost is calculated as the present value of the remaining principal amortizations and interest payments discounted at the sum of the comparable benchmark tenor yield plus the original spread on the loan.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, the Company shall not permit its debt to equity (DE) ratio to exceed 2:1 calculated based on its year-end audited parent company financial statements. For the purposes of determining compliance with the required ratio, the outstanding preferred shares and contingent liabilities of the Company, including but not limited to the liabilities in the form of corporate guarantees in favour of any person or entity, shall be included in the computation of debts. The Company is in compliance with the debt covenant as of December 31, 2011 and 2010.

Unamortized deferred financing cost amounted to ₱18.5 million and P23.2 million as of December 31, 2011 and 2010, respectively.

On November 30, 2010, the Company availed another ₱1.5 billion from the Notes Facility Agreement it signed on November 23, 2010, with Bank of Philippine Islands, BPI Asset Management and Trust Group as Investment Manager for ALFM Peso Bond, Inc. and BPI Asset Management and Trust Group as Noteholders. The Notes Facility Agreement provided for the issuance of 5-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the SRC and Rule 9.2(2)(B) of the SRC Rules. The notes are unsecured and bear an annual interest of 5.23%.

Prior to the maturity date, the Company may redeem in whole the relevant outstanding notes on the 12th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount being earlier redeemed plus the Breakage Cost. Breakage Cost is calculated as the present value of the remaining principal amortizations and interest payments discounted at the sum of the comparable benchmark tenor yield plus the original spread of the loan, provided that the prepayment shall not exceed 102% nor less than 100% of the principal amount of the Notes being earlier redeemed.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, the Company shall not permit its debt-to-equity (DE) ratio to exceed 2.5:1 calculated based on its year-end audited parent company financial statements. For purposes of determining compliance with the required ratio, the outstanding preferred shares and contingent liabilities of the Company, including but not limited to the liabilities in the form of corporate guarantees in favour of any person or entity, shall be included in the computation of debts. The Company is in compliance with the debt covenant as of December 31, 2011 and 2010. Unamortized deferred financing cost amounted to ₱9.6 million and P11.5 million as of December 31, 2011 and 2010, respectively.

<u>AP</u>

2011 Fixed Rate Corporate Notes

On April 14, 2011, AP availed a total of ₱5.0 billion from the Notes Facility Agreement it signed on April 12, 2011, with First Metro Investment Corporation as Issue Manager. The Notes Facility Agreement provided for the issuance of 5-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the SRC and Rule 9.2(2) (B) of the SRC Rules. The notes are unsecured and bear an annual interest of 7.81%

Prior to the maturity date, AP may redeem in whole the relevant outstanding notes on the 12th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount, the principal amount and a prepayment penalty of 2.0% on the outstanding principal amount. Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the Notes Facility Agreement, AP shall not permit its DE ratio to exceed 2.5:1 calculated based on AP's year-end audited parent company financial statements. AP is in compliance with the debt covenant as of December 31, 2011.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱36.3 million as of December 31, 2011.

Retail Bonds
On April 30, 2009, AP registered and issued bonds worth ₱3.0 billion. As provided for in the Underwriting Agreement, the three-year and five-year bonds bear interest at 8.00% and 8.70% per annum, respectively.

The bonds have been rated PRS AAA by the Philippine Rating Services Corporation. The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the bonds are outstanding.

Prior to the maturity date, AP may redeem in whole the relevant outstanding notes on the 12th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount, the principal amount and a prepayment penalty of 2.00% on the outstanding principal amount.

Unless previously redeemed, the principal amount of the bonds shall be payable on a lump sum basis on the respective maturity date at its face value.

Under the bond trust agreement, AP shall not permit its Debt-to-Equity (DE) ratio to exceed 2:1 calculated based on the AP's year-end audited parent company financial statements. AP is in compliance with the debt covenant as of December 31, 2011 and 2010.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱15.9 million and ₱24.4 million as of December 31, 2011 and 2010, respectively.

2009 Fixed Rate Corporate Notes
On September 28, 2009, AP availed a total of ₱5.0 billion from the Notes Facility Agreement it signed on September 18, 2009, with First Metro Investment Corporation as Issue Manager. The Notes Facility Agreement provided for the issuance of 5-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the SRC and Rule 9.2(2)(B) of the SRC Rules. The notes are unsecured and bear an annual interest of 8.23%.

Prior to the maturity date, AP may redeem in whole the relevant outstanding notes on the 12th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount, the principal amount and a prepayment penalty of 2.00% on the outstanding principal amount.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, AP shall not permit its DE ratio to exceed 2:1 calculated based on its year-end audited parent company financial statements. AP is in compliance with the debt covenant as of December 31, 2011 and 2010.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱29.9 million and ₱39.2 million as of December 31, 2011 and 2010, respectively.

2008 Fixed Rate Corporate Notes
On December 18, 2008, AP availed a total of ₱3.9 billion from the Notes Facility Agreement it signed on December 15, 2008, with BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation, and ING Bank N.V., Manila Branch as Joint Lead Managers. The Notes Facility Agreement provided for the issuance of 5-year and 7-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the SRC and Rule 9.2(2)(B) of the SRC Rules. The 5-year and 7-year corporate notes bear an interest of 8.78% and 9.33%, respectively.

Prior to the maturity date, AP may redeem in whole the relevant outstanding notes on the 12th interest payment date for the 5-year note and on the 16th interest payment date for the 7-year note. The amount payable in respect of such early redemption shall be the accrued interest on the outstanding principal amount, the outstanding principal amount and a prepayment penalty of 2.00% of the outstanding principal amount.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, AP shall not permit its DE ratio to exceed 2:1 calculated based on its year-end parent company audited financial statements. AP is in compliance with the debt covenant as of December 31, 2011 and 2010.

In December 2011, the ₱3.33 billion 5-year corporate notes were redeemed, incurring ₱66.6 million in prepayment penalty charges.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱4.5 million and ₱32.6 million as of December 31, 2011 and 2010, respectively.

CPPC
On January 27, 2010, CPPC issued ₱800 million three-year notes to SB Capital Investment Corporation (₱400 million) and BDO Capital & Investment Corporation (₱400 million). The notes bear an interest rate computed based on the PDST-F rate for three months plus a 2.25% spread. The notes are to be paid in 15 principal payments amounting to ₱53.3 million each quarter starting on May 2, 2010.

In accordance with the Notes Facility Agreement, CPPC's DE ratio shall not exceed 3:1, provided that upon redemption of redeemable preferred shares, DE ratio shall not exceed 5:1. CPPC is in compliance with the debt covenant as of December 31, 2011 and 2010.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱1.6 million and ₱3.6 million as of December 31, 2011 and 2010, respectively.

HI
HI availed from Banco de Oro a five-year loan of which ₱450 million is payable at ₱1 million per year starting 2006 with the remaining balance to be fully paid on January 31, 2010, and ₱200 million is subject to a balloon payment on October 20, 2010. It bears interest of two and one-fourth percent over the applicable three-month rate of treasury securities as displayed on Money Market Association of the Philippines (MART)1 page of Bloomberg on the rate setting day plus gross receipts tax. Interest is adjusted and payable quarterly.

On February 28, 2009, HI and Banco de Oro amended the terms of the loan. Maturity dates were changed from January 31, 2010 to February 28, 2016 and from October 20, 2010 to February 28, 2016 for the ₱450 million and ₱200 million, respectively. The amended terms also changed interest rates from floating to fixed at 8.36%.

The loan is secured by a chattel mortgage over the machineries and improvements of the Benguet and Davao hydropower plants of HI and a suretyship of ARI.

Loan covenant includes, among others, maintenance of a debt service cover ratio of at least 1:1 and DE ratio of 75:25, and restrictions such as not to declare or pay dividends to its stockholders if debt service cover ratio is less than 1:2 nor shall it redeem or repurchase or retire or otherwise acquire for value any of its capital stock. HI is in compliance with the debt covenants as of December 31, 2011 and 2010.

HSI
On May 21, 2008, HSI and ARI entered into an agreement with local banks for a loan facility in the aggregate principal amount of up to ₱3.6 billion. The loan is secured by real estate and chattel mortgages.

70% of the principal amount of the loan is payable at semi-annual installments within 12 years, with the 30% payable one-time on the final principal amortization date.

HSI may prepay the loan at par without premium or penalty beginning on the fourth year from the initial advance.

Interest on the loan for the first five years is fixed at 8.52%. For the remaining seven-year period, interest rate will be fixed at the prevailing seven-year PDST-F interest rate for the day immediately preceding the Fixed Interest Setting Date plus 1.125%.

HSI is required to maintain Debt Service Coverage Ratio (DSCR) of at least 1.1x, at all times, until fulfillment payment of the obligations, and a DSCR of at least 1.2x for the release of funds from the Project Accounts. HSI is in compliance with the loan covenants as of December 31, 2011 and 2010.

Unamortized deferred financing cost reduced the carrying amount of the loan by ₱20.7 million and ₱23.7 million as of December 31, 2011 and 2010, respectively.

LHC
The debt represents the balance of the refinanced US dollar loan availed on November 21, 2006. The refinancing was accounted for as a simple extension of the old debt. Remaining principal payments are as follows: $4.51 million in 2012, $4.10 million in 2013 and $3.28 million in 2014.

The loan bears an interest computed at base rate (sum of LIBOR for the interest period) plus margin, adjusted and payable semi-annually. It is collateralized by certain assets of LHC.

The loan covenant includes a provision allowing payments of dividends or return of any capital only under certain circumstances. It also requires the maintenance of debt-equity ratio of 70:30 and debt service cover ratio of 1.41x. LHC is in compliance with the debt covenants as of December 31, 2011 and 2010.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱3.8 million as of December 31, 2011.

BEZ
On June 28, 2010, BEZ availed of a ₱70.0 million ten-year loan from the Metropolitan Bank and Trust Company (MBTC). The loan is payable quarterly starting September 28, 2012.

Interest on the loan for the first five years is fixed at 7.50%. For the remaining five-year period, interest rate will be fixed at the prevailing five-year PDST- F interest rate for the day immediately preceding the fixed interest setting date, plus 1%.

Loan covenant includes, among others, restrictions such as not to declare or pay dividends to its stockholders if there are payments to the bank that are in arrears, permit any indebtedness to be secured in violation of the executed deed of negative pledge nor shall it redeem or repurchase or retire or otherwise acquire for value any of its capital stock. BEZ is in compliance with the loan covenant as of December 31, 2011 and 2010.

SEZ

On July 7, 2011, SEZ issued ₱565.0 million worth of fixed rate notes outstanding anytime to Metropolitan Bank and Trust Company (MBTC). The Note is priced at 100% of its face value, divided equally into ten equal notes of ₱56.5 million each maturing every year from issue date. Interest rate is based on Benchmark Rate plus a spread of 0.4% per annum. If said is lower than 3.50%, then the latter shall be used.

The loan covenant requires, among others, the maintenance of DE ratio of not more than 3:1. As of December 31, 2011, SEZ is in compliance with the debt covenant.

On September 24, 2008, SEZ availed from Development Bank of the Phils. (DBP) a ₱131.0 million loan payable over twelve years (inclusive of a 1-year grace period on principal repayment) in 22 equal semi-annual installments. For the first 7 years, interest is fixed at 8.26%. For the succeeding 5 years, interest will be fixed based on the applicable 5-year PDST-R1 on the first day of the eighth year, plus 1%. The loan is covered by surety of the stockholders and assignment of rights and benefits of SEZ related to revenue receivable and new equipment and assets to be purchased and used in the SBMA PDS.

The loan covenant provides, among others, for the maintenance of a minimum current ratio and a maximum debt-to-equity ratio of 3.5:1. SEZ is in compliance with the debt covenant as of December 31, 2010 and 2011.

On March 24, 2011, this DBP loan was fully prepaid at ₱125.2 million which comprises remaining principal, interest and pretermination fee.

CSB

Long-term debt of CSB in 2011 and 2010 consists of the following:

	2011	2010
Banco de Oro Unibank, Inc. (BDO) and its related arties	**₱1,200,000**	₱–
First Metro Investment Corporation (FMIC) and its related parties	**400,000**	400,000
Security Bank Corporation (SBC)	**300,000**	300,000
China Banking Corporation (CBC)	**300,000**	300,000
Development Bank of the Philippines (DBP)	**40,092**	428,421
Non-financial Institutions	**699,919**	712,814
	2,940,011	2,141,235
Deferred financing cost	**(14,658)**	(17,061)
	₱2,925,353	₱2,124,174

The loans with BDO and its related parties pertain to ₱1.20 billion 7-year fixed rate Note Facility and Security Agreement issued by CSB on May 12, 2011 with a fixed interest rate of 7.27%. The notes are secured by the assignment of CSB borrowers' promissory notes, and are payable at ₱0.5 million per year, with the balance to be fully paid in 2018.

Loans with DBP are subject to annual interest rates ranging from 5.33% to 5.87% in 2011 and 2010, respectively. These loans are collateralized by the assignment of CSB borrowers' promissory notes, and are payable monthly within two years.

The loans with FMIC and its related parties, CBC and SBC pertain to a ₱1.0 billion 5-year fixed rate corporate notes issuance by CSB in 2009. The notes are subject to annual interest rates ranging from 9.60% to 10.10%, and are secured by the assignment of CSB borrowers' promissory notes. Amortized deferred financing costs of these loans amounted to ₱11.8 million and ₱3.0 million in 2011 and 2010, respectively.

Loans with the various non-financial institutions are subject to annual interest rates ranging from 3.00% to 8.50% in 2011 and 4.25% to 8.50% in 2010. These will mature on various dates in 2013 to 2015.

PILMICO

The loans availed by PILMICO include:

				Principal	
Creditor	Interest Rate	Payment Schedule	Collateral	**2011**	2010
Bank of the Philippine Islands (BPI) & BPI AMTG	4.9658% semi-annual interest	Payable on maturity date April 7, 2013	None	**₱215,000**	₱–
BDO Unibank–TIG, BPI AMTG & RBC	6.3458% semi-annual interest	Payable on maturity date April 7, 2015	None	**215,000**	–
RCBC, BPI & BPI AMTG	5.7538% semi-annual interest	Payable on maturity date April 7, 2014	None	**215,000**	–
BPI AMTG, RCBC & Chinabank Savings Bank Trust as Trustee	6.4721% semi-annual interest	Payable on maturity date April 7, 2016	None	**215,000**	–
Robinsons Bank Corporation (RBC) & The Insular Life Assurance Co., Ltd.	7.1046% semi-annual interest	Principal repayment of ₱2.15 million both on April 7, 2016 and 2017 and ₱210.7 million on maturity date April 7, 2018	None	**215,000**	–
RCBC	6.7884% semi-annual interest	Principal repayment of ₱1.2 million on April 7, 2016 and ₱1.2 million on maturity date April 7, 2017	None	**120,000**	–
RBC	6.7884% semi-annual interest	Principal repayment of ₱0.95 million on April 7, 2016 and ₱94.0 million on maturity date April 7, 2017	None	**95,000**	–

(Forward)

Creditor	Interest Rate	Payment Schedule	Collateral	Principal **2011**	2010
Security Bank Corporation (SBC)	5 - year PDS Treasury Reference Rate AM (PDST R1) plus spread of 0.75%	12 equal quarterly payments of ₱41.7 million starting July 2009	Secured by Mortgage Trust Indenture (MTI)	**₱83,333**	₱250,000
Metropolitan Bank and Trust Company (MBTC)	1.5% over the prevailing Development Bank of the Philippines (DBP) passed-on rate	20 equal quarterly payments of ₱4.4 million starting January 2008	Secured by MTI	–	35,200
MBTC	1.5% over the prevailing MART 1 rate	20 equal quarterly payments of ₱2.0 million starting January 2008	Secured by MTI	–	16,000
MBTC	1.5% over the prevailing DBP passed-on rate	20 equal quarterly payments of ₱1.1 million starting January 2008	Secured by MTI	–	8,800
				1,373,333	310,000
Less deferred financing cost				**8,069**	–
				1,365,264	
Less current portion				**83,333**	196,667
				₱1,281,931	₱113,333

The loan agreement with SBC requires PILMICO to maintain and preserve the collateral values, as well as seek prior approval for any merger, consolidation, change in ownership, suspension of business operations, disposal of assets, and maintenance of financial ratios and others.
The MTIs with MBTC require PILMICO, among others, to seek prior approval for any merger, consolidation, change in ownership, suspension of business operations, disposal of assets, and maintenance of financial ratios. They also prohibit PILMICO to purchase, redeem, retire or otherwise acquire for value any of its capital stock now or hereafter outstanding (other than as a result of the conversion of any share of capital stock into any other class of capital stock), return any capital to the stockholders (other than distributions payable in shares of its capital stock), declare or pay dividends to its stockholders if payment of any sum due to MBTC is in arrears, and declare or pay management bonus or profit sharing over and above existing employee benefits.

2011 Fixed Rate Corporate Notes
On April 7, 2011, PILMICO availed of a total of ₱1.29 billion from the Notes Facility Agreement it signed on April 5, 2011 with Australia and New Zealand Banking Group Limited as Issue Manager, Security Bank Corporation – Trust Division as Notes Facility Agent and with the Initial Note Holders. The Notes Facility Agreement provided for the issuance of various maturity dates corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the SRC and Rule 9.2(2) of the SRC Rules.

Prior to the maturity date, PILMICO may redeem in whole the relevant outstanding notes on the 6th interest payment date. The amount payable in respect to such early redemption shall be the accrued interest on the principal amount being earlier redeemed plus the Breakage Cost. Breakage cost is calculated as the present value of the remaining principal amortizations and interest payments discounted at the sum of the comparable benchmark tenor yield plus the original spread on the loan.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity dates at its face value.

Under the notes facility agreement, PILMICO shall not permit its debt to equity (DE) ratio to exceed 3:1 calculated based on its year-end audited financial statements.

Unamortized transaction cost amounted to ₱8.1 million as of December 31, 2011.

As of December 31, 2011 and 2010, PILMICO has complied with the covenants required by all its loan agreements.

PANC

Long-term debt of PANC consists of the following peso-denominated loans:

				Principal	
Creditor	Interest Rate	Payment Schedule	Collateral	**2011**	2010
CBC	Annual Interest at 6.47%	Payable at maturity date April 7, 2016	None	**₱500,000**	₱–
RBC	Annual Interest at 6.47%	Payable at maturity date April 7, 2016	None	**100,000**	–
SBC	Annual interest at 7.22%	20 quarterly payments of ₱12.5 million starting January 16, 2009	Mortgage trust indenture covering PANC's property, plant and equipment	–	162,500
				600,000	162,500
Less: deferred financing cost				**4,029**	–
				₱595,971	₱112,500

The loan agreement with SBC requires PANC, among others, not to permit its total liabilities to total stockholders' equity to exceed a certain ratio. This loan was fully prepaid in 2011.

2011 Fixed Rate Corporate Notes

On April 7, 2011, PANC availed of a total of ₱600.0 million from the Notes Facility Agreement it signed on April 5, 2011 with Australia and New Zealand Banking Group Limited as Issue Manager, Security Bank Corporation – Trust Division as Notes Facility Agent and with the Initial Note Holders. The Notes Facility Agreement provided for the issuance of various maturity dates corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the SRC and Rule 9.2(2) of the SRC Rules.

Prior to the maturity date, PANC may redeem in whole the relevant outstanding notes on the 6th interest payment date. The amount payable in respect to such early redemption shall be the accrued interest on the principal amount being earlier redeemed plus the breakage cost. Breakage cost is calculated as the present value of the remaining principal amortizations and interest payments discounted at the sum of the comparable benchmark tenor yield plus the original spread on the loan.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity dates at its face value.

Under the notes facility agreement, PANC shall not permit its debt to equity (DE) ratio to exceed 3:1 calculated based on its year-end audited financial statements.

Amortized transaction cost is recorded as part of the interest expense. Unamortized transaction cost amounted to ₱4.03 million as of December 31, 2011.

As of December 31, 2011 and 2010, PANC has complied with the covenants required by the loan agreements.

19. **Customers' Deposits**

	2011	2010
Transformer deposits	**₱984,557**	₱854,669
Lines and poles deposits	**779,130**	778,587
Bill deposits	**400,508**	371,128
Others	**5,833**	6,901
	₱2,170,028	₱2,011,285

Transformers and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility. These deposits are noninterest-bearing and are refundable only after their related contract is terminated and the assets are returned to the Group in their proper condition and all obligations and every account of the customer due to the Group shall have been paid.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and DSOAR also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Interest on bill deposits amounted to ₱2.0 million, ₱3.8 million and ₱5.7 million in 2011, 2010 and 2009, respectively (see Note 32).

The Group classified customers' deposit under noncurrent due to the expected long-term nature of these deposits.

20. **Finance Lease**

TLI
In September 2009, TLI, an AP subsidiary, and PSALM executed an IPP Administration Agreement (“Agreement”) where PSALM appointed TLI to manage the 700 MW contracted capacity of NPC in the coal-fired power plant in Pagbilao, Quezon. TLI assumed dispatch control of the contracted capacity on October 1, 2009.

Under the Agreement, TLI was given the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk, and the right to receive the transfer of the power plant at the end of the agreed term for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been accounted for as a finance lease. Accordingly, TLI recognized in 2009 the capitalized asset and related liability of ₱44.79 billion (equivalent to the present value of the minimum lease payments using TLI’s incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in the financial statement as “power plant” and “finance lease obligation” accounts, respectively (see Notes 3 and 12). The discount determined at inception of the agreement is amortized over the period of the Agreement and is recognized as interest expense in the consolidated statement of income. Interest expense in 2011 and 2010 amounted to ₱5.48 billion and ₱5.12 billion, respectively (see Note 32).

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2011 and 2010 are as follows:

December 31, 2011

	Dollar payments	**Peso equivalent of dollar payments**	**Peso payments**	**Total**
Within one year	**$27,600**	**₱1,209,984**	**₱1,324,800**	**₱2,534,784**
After one year but not more than five years	**415,320**	**18,207,629**	**19,935,360**	**38,142,989**
More than five years	**758,000**	**33,230,720**	**36,384,000**	**69,614,720**
Total contractual payments	**1,200,920**	**52,648,333**	**57,644,160**	**110,292,493**
Less unamortized discount	**591,208**	**25,918,569**	**31,658,965**	**57,577,534**
Present value	**$609,712**	**₱26,729,764**	**₱25,985,195**	**₱52,714,959**

December 31, 2010

	Dollar payments	Peso equivalent of dollar payments	Peso payments	Total
Within one year	$12,000	₱526,080	₱576,000	₱1,102,080
After one year but not more than five years	262,920	11,526,413	12,620,160	24,146,573
More than five years	938,000	41,121,920	45,024,000	86,145,920
Total contractual payments	1,212,920	53,174,413	58,220,160	111,394,573
Less unamortized discount	649,532	28,475,484	34,613,973	63,089,457
Present value	$563,388	₱24,698,929	₱23,606,187	₱48,305,116

21. **Capital Stock**

Information on the Company's authorized capital stock follows:

	Number of Shares 2011	2010
Authorized capital stock:		
Common shares, ₱1 par value	**9,600,000,000**	9,600,000,000
Preferred shares, ₱1 par value	**400,000,000**	400,000,000

Outstanding capital stocks are as follows:

	Number of Shares 2011	2010
Common shares issued	**5,694,599,621**	5,694,599,621
Less treasury shares	**172,727,800**	172,727,800
Balance at end of year	**5,521,871,821**	5,521,871,821
Preferred shares issued:		
Balance at beginning of year	**150,000,000**	150,000,000
Redeemed	**(150,000,000)**	–
Balance at end of year	**–**	150,000,000

The redeemable preferred shares are presented in the consolidated balance sheets as part of current and noncurrent liabilities in accordance with PAS 32 as follows:

	2011	2010
Redeemable preferred shares of the Company	**₱–**	₱1,500,000

The preferred shares are non-voting, non-participating, non-convertible, cumulative re-issuable and redeemable and may be issued from time to time by the BOD in one or more series and fixed before issuance thereof, the number of shares in each series, and all designations, relative rights, preferences and limitations of the shares in each series. Preferred shares that are redeemed by the Company may be re-issued.

The Company's outstanding preferred shares as of December 31, 2010 consist of (1) Series "E" amounting to ₱1,000,000 with fixed dividend rate of 8.25% per annum; and (2) Series "F" amounting to ₱500,000 with fixed dividend rate of 8.5% per annum.

The Company shall redeem the preferred shares at the end of the corresponding agreed periods from Issue Dates (Final Redemption Dates) regardless of the existence of unrestricted retained earnings or other amounts legally available for the payment of dividends in such period, provided that the Issuer has, after redemption, sufficient assets in the books to cover debts and liabilities inclusive of capital stock, and subject to the Issuer's compliance with the applicable laws, rules and regulations, including the requirements of the SEC. The final redemption dates are as follows: (1) December 2011 for series "E" (shown as current in the December 31, 2010 consolidated balance sheet); and (2) December 2013 for series "F". The preferred shares shall be redeemed by payment in cash of 100% of the Issue Price plus all accrued and unpaid cash dividends on the Final Redemption Date. Preferred shares Series "E" and "F" were fully redeemed in December 2011.

Interest recognized on the preferred shares amounted to ₱119,112 in 2011, ₱126,646 in 2010 and ₱161,596 in 2009 (see Note 32).

On November 16, 1994, the Company listed with the Philippine Securities Exchange (PSE) its 821,486,000 common shares that were offered to the public at an issue price of ₱5.70 per share. Gross proceeds from this issuance of new shares amounted to ₱4.6 billion. Transaction costs incidental to the IPO totaling ₱528 million were charged against "Additional paid-in capital" in the consolidated balance sheet.

As of December 31, 2011, 2010 and 2009, the Company has 10,195, 10,702 and 11,184 shareholders, respectively.

Treasury Shares
As of December 31, 2011 and 2010, approximately 172.7 million AEV shares have been bought into treasury with a total cost of ₱1,295.2 million.

22. Retained Earnings

On March 3, 2011, the BOD approved the declaration of a regular cash dividend of ₱1.58 a share (₱8.7 billion) to stockholders of record as of March 17, 2011. These dividends were paid on April 5, 2011.

On March 10, 2010, the BOD approved the declaration of a regular cash dividend of ₱0.52 a share (₱2.9 billion) to stockholders of record as of March 24, 2010. These dividends were paid on April 16, 2010.

On February 11, 2009, the BOD approved the declaration of a regular cash dividend of ₱0.27 a share (₱1.5 billion) to stockholders of record as of February 26, 2009. These dividends were paid on March 23, 2009.

23. Revenues

a. The Uniform Rate Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.

b. Bank revenues in 2011 and 2010 consist of the following:

	2011	2010
Interest income (see Notes 4 and 5)	**₱1,072,623**	₱911,503
Service fees and bank charges	**893,330**	559,955
	₱1,965,953	₱1,471,458

24. **Costs and Expenses**

Cost of goods sold consists of:

	2011	2010	2009 (As re-presented, see Note 14)
Raw materials used, purchases and changes in biological assets and inventories	**₱10,847,191**	₱11,464,408	₱9,712,002
Direct labor (see Note 25)	**65,511**	54,885	137,455
Manufacturing overhead			
Power	**209,934**	185,245	147,889
Depreciation (see Note 12)	**178,866**	153,089	159,399
Repairs and maintenance	**124,640**	94,862	59,591
Indirect labor (see Note 25)	**86,052**	80,701	39,768
Fuel and lubricants	**47,285**	37,032	28,913
Medicines and vaccines	**33,671**	32,460	28,072
Taxes and licenses	**27,968**	23,115	19,826
Freight and handling	**27,408**	23,348	10,113
Royalty fee	**17,971**	17,747	15,515
Utilities and supplies	**10,370**	38,380	8,659
Insurance	**9,870**	6,048	34,807
Rental	**9,342**	–	–
Pest control	**8,121**	7,490	4,153
Employees' benefits (see Note 25)	**6,982**	2,768	22,170
Others	**62,218**	54,048	48,519
	860,698	756,303	627,664
Cost of goods manufactured	**11,773,400**	12,275,596	10,477,121
Finished goods inventory (see Note 6)			
Beginning of year	**169,274**	44,910	114,168
End of year	**(85,058)**	(169,274)	(44,910)
	11,857,616	12,151,232	10,546,379
Cost of goods sold attributable to the discontinued operations (see Note 14)	–	(2,206,641)	(1,432,867)
	₱11,857,616	₱9,944,591	₱9,113,512

Operating expenses consist of:

	2011	2010	2009 (As re-presented, see Note 14)
Depreciation and amortization (see Note 12)	**₱3,540,779**	₱4,224,072	₱2,176,456
Personnel (see Notes 25 and 27)	**2,050,464**	1,861,285	1,199,633
Repairs and maintenance	**682,912**	871,186	813,781
Outside services (Note 35)	**673,805**	1,560,331	1,890,478
Taxes and licenses	**601,579**	571,118	422,918
Freight and handling	**504,227**	560,116	308,862
Management and professional fees (see Note 31)	**388,806**	69,743	117,538
Insurance	**340,160**	425,096	266,921
Transportation and travel	**267,871**	218,564	139,161
Advertising	**143,724**	115,054	108,533
Rent (see Note 33)	**118,897**	260,553	22,224
Training and development	**88,306**	23,513	52,424
Utilities	**39,968**	110,275	16,593
Fuel and lubricants	**29,692**	3,251,852	2,249,181
Commissions	**2,332**	38,548	91,602
Charter hire (see Note 35)	**–**	1,093,873	680,979
Others	**682,611**	1,992,883	1,467,161
	10,156,133	17,248,062	12,024,445
Operating expenses attributable to the discontinued operations (see Note 14)	**–**	(8,094,502)	(6,723,102)
	₱10,156,133	₱9,153,560	₱5,301,343

Other operating expenses consist of miscellaneous items, the most significant of which are materials and supplies and meals of passengers and vessel crews.

Overhead expenses consist of:

	2011	2010	2009 (As re-presented, see Note 14)
Outside services	**₱73,072**	₱191,498	₱188,570
Personnel (see Notes 25 and 27)	**34,119**	973,498	967,309
Communication, light and water	**4,818**	102,444	98,187
Rent	**1,702**	90,234	93,054
Depreciation and amortization (see Notes 12 and 13)	**1,504**	176,674	194,541
Advertising	**–**	92,750	120,693
Entertainment, amusement and recreation	**–**	25,207	34,790
Provision for impairment losses (see Note 5)	**–**	20,850	30,129
Others	**34,871**	382,300	368,464
Total carried forward	**150,086**	2,055,455	2,095,737

	2011	2010	2009 (As re-presented, see Note 14)
Total brought forward	**150,086**	2,055,455	2,095,737
Overhead expenses attributable to the discontinued operations (see Note 14)	–	(1,792,545)	(1,757,975)
	₱150,086	₱262,910	₱337,762

Terminal expenses consist of:

	2011	2010	2009 (As re-presented, see Note 14)
Transportation and delivery	**₱–**	₱592,981	₱302,351
Outside services	–	334,072	241,587
Personnel (see Notes 25 and 27)	–	151,765	112,425
Depreciation and amortization (see Note 12)	–	99,641	123,737
Repairs and maintenance	–	90,081	80,214
Rent	–	62,868	43,426
Fuel and lubricants	–	37,308	29,602
Others	–	105,263	72,425
	–	1,473,979	1,005,767
Terminal expenses attributable to the discontinued operations (see Note 14)	–	(1,473,979)	(1,005,767)
	₱–	₱–	₱–

Sources of depreciation and amortization are as follows:

	2011	2010	2009 (As re-presented, see Note 14)
Property, plant and equipment (see Note 12)	**₱3,374,330**	₱4,515,554	₱2,522,290
Software development costs (see Note 15)	**14,133**	67,120	82,335
Bearers (see Notes 8 and 15)	**12,893**	21,105	27,207
Intangible asset - service concession rights (see Note 13)	**305,478**	49,697	43,407
	3,706,834	4,653,476	2,675,239
Depreciation and amortization attributable to the discontinued operations (see Note 14)	–	(1,350,526)	(1,017,453)
	₱3,706,834	₱3,302,950	₱1,657,786

25. **Personnel Expenses**

	2011	2010	2009 (As re-presented, see Note 14)
Salaries and wages	**₱1,775,065**	₱2,540,538	₱2,164,475
Employee benefits (see Note 27)	**470,074**	522,680	314,285
	2,245,139	3,063,218	2,478,760
Personnel expenses attributable to the discontinued operations (see Note 14)	–	(1,415,217)	(1,289,774)
	₱2,245,139	₱1,648,001	₱1,188,986

26. **Other Income**

	2011	2010	2009 (As re-presented, see Note 14)
Recovery of payments to PSALM	**₱187,382**	₱113,408	₱–
Non-utility operating income	**151,387**	168,786	174,586
Change in fair value of biological assets (see Note 8)	**150,572**	252,777	207,864
Service and other fees	**147,963**	139,291	214,232
Provision for decline in value of various assets, project costs and others	**39,208**	(95,390)	(14,693)
Rental income (see Note 31)	**30,930**	20,529	16,452
Gain (loss) on sale of:			
Property, plant and equipment	**20,248**	(19,710)	29,973
AFS investments	–	57,895	296
Stock investments	–	24,738	52,500
Foreign exchange gains - net (see Note 33)	**11,983**	1,387,072	559,915
Unrealized valuation gain on investment property - net	**5,991**	66,282	–
Dividend income	**1,365**	1,382	6,795
Impairment loss on property and equipment (see Note 12)	–	(778,830)	–
Increase (decrease) in carrying amount of goodwill and property, plant, and equipment in disposal group	–	–	574,789
Others - net	**304,832**	72,459	286,031
	1,051,861	1,410,689	2,108,740
Other charges (income) attributable to the discontinued operations (see Note 14)	–	655,036	(296,200)
	₱1,051,861	₱2,065,725	₱1,812,540

Rental income earned from and direct operating expenses of investment properties amounted to ₱30,930 and ₱17,739, respectively, in 2011; ₱20,529 and ₱12,606, respectively, in 2010; and ₱16,452 and ₱9,426, respectively, in 2009.

Included in "Foreign exchange gains - net" are the net gains and losses relating to currency forward transactions of a subsidiary.

In 2008, the Group decreased the carrying amount of its goodwill in ATS and certain ATS property and equipment by the aggregate amount of ₱574,789, based on the fair value less cost to sell of the said investment following its classification to non-current asset held for sale. In 2009, the planned sale was terminated.

27. Pension Benefit Plans

The Group has defined benefit pension plans covering substantially all of its employees, which require contributions to be made to separately administered funds.

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

Net benefit expense

	2011	2010	2009 (As re-presented, see Note 14)
Interest cost on benefit obligation	**₱97,274**	₱119,666	₱98,978
Current service cost	**84,236**	112,986	55,823
Net actuarial losses (gains) recognized	**4,617**	13,933	(68)
Amortization amounts for:			
Actuarial loss	**1,352**	–	–
Increase in liability	**1,011**	–	–
Past service cost	**86**	–	–
Expected return on plan assets	**(84,226)**	(95,666)	(66,964)
Separation cost	**–**	16,995	–
Expense (income) due to asset limit	**–**	296	(26,036)
Curtailment gain	**–**	(4,766)	–
Nonvested benefits	**–**	–	2,001
Vested benefits	**–**	–	230
Net benefit expense	**104,350**	163,444	63,964
Net benefit expense attributable to the discontinued operations (see Note 14)	**–**	(63,543)	(26,972)
	₱104,350	₱99,902	₱36,992
Actual return on plan assets	**₱94,926**	₱312,353	₱187,756

Pension asset - net

	2011	2010
Fair value of plan assets	**₱1,305,524**	₱1,128,469
Defined benefit obligation	**(1,422,926)**	(1,017,662)
Funded (under-funded) obligation	**(117,402)**	110,807
Unrecognized actuarial losses (asset ceiling)	**267,552**	70,543
Unrecognized past service cost	**3,028**	7,119
	153,178	188,469
Net pension asset attributable to the discontinued operations (see Note 14)	**–**	(41,394)
	₱153,178	₱147,075

Net pension asset above comprise gross pension asset amounting to ₱190,270 and ₱179,425 as of December 31, 2011 and 2010, respectively; and gross pension liability amounting to ₱37,092 and ₱32,350 as of December 31, 2011 and 2010, respectively.

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

	2011	2010
Opening defined benefit obligation	**₱1,017,662**	₱1,165,003
Actuarial losses	**250,372**	99,567
Current service cost	**93,781**	112,986
Interest cost	**87,729**	119,666
Defined benefit obligation of acquired subsidiary (see Note 9)	**7,568**	41,139
Transfers to (from) affiliates	**4,876**	(191,937)
Past service cost	**1,531**	–
Benefits paid	**(37,587)**	(46,799)
Employee transfers	**(3,006)**	4,154
Separation cost	**–**	16,995
Defined benefit obligation of disposed subsidiary (see Note 14)	**–**	(299,060)
Curtailment gain	**–**	(4,052)
Closing defined benefit obligation	**₱1,422,926**	₱1,017,662

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

	2011	2010
Opening fair value of assets	**₱1,128,469**	₱884,965
Contributions by employer	**106,477**	312,400
Actuarial gains	**52,246**	216,178
Expected return	**37,643**	96,174
Fair value of plan assets of acquired subsidiary (see Note 9)	**7,294**	70,672
Contributions due to transfer	**2,347**	–
Benefits paid	**(25,501)**	(46,269)
Employee transfers	**(3,006)**	–

(Forward)

	2011	2010
Fund transfer	**(₱445)**	₱–
Transfer to affiliates	–	(187,782)
Fair value of plan assets of disposed subsidiary (see Note 14)	–	(217,869)
Closing fair value of plan assets	**₱1,305,524**	₱1,128,469

The Group expects to contribute approximately ₱84.8 million to the defined benefit pension plan in 2012.

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

The principal assumptions used as of December 31, 2011, 2010 and 2009 in determining pension benefit obligations for the Group's plans are shown below:

	2011	2010	2009
Discount rates	**6% - 7%**	8% - 11%	9% - 11%
Expected rates of return on plan assets	**7%**	7%	10%
Future salary increase rates	**6%**	6%	5% - 8%

Amounts for the current and previous periods are as follows:

	2011	2010	2009	2008	2007
Defined benefit obligation	**₱1,422,926**	₱1,017,662	₱1,165,005	₱589,321	₱685,531
Fair value of plan assets	**1,305,524**	1,128,469	884,965	587,009	747,521
Deficit (surplus)	**117,402**	(110,807)	280,140	2,312	(61,990)
Experience adjustments on plan liabilities	**18,524**	139,577	126,731	(108,880)	(109,174)
Experience adjustments on plan assets	**4,813**	62,899	(5,029)	(63,312)	(32,778)

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

	2011	2010
Investments in:		
Cash, common trust fund and money market placements	**55.62%**	52.08%
AFS investments	**41.43%**	43.54%
Notes and other receivable	**2.95%**	4.38%
	100.00%	100.00%

28. **Income Taxes**

The provision for income tax consists of:

	2011	2010	2009 (As re-presented, see Note 14)
Current			
Corporate income tax	**₱1,359,970**	₱1,338,819	₱1,083,158
Final tax	**221,850**	13,147	3,249
	1,581,820	1,351,966	1,086,407
Deferred	**146,994**	(138,299)	119,308
	1,728,814	1,213,667	1,205,715
Provision for (benefit from) income tax attributable to the discontinued operations (see Note 14)	**–**	(410,967)	167,337
	₱1,728,814	₱1,624,634	₱1,038,378

A reconciliation of the statutory income tax rate with the Group's effective income tax rates follows:

	2011	2010	2009 (As re-presented, see Note 14)
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Non-deductible interest expense	**6.18**	5.29	3.32
Non-deductible depreciation expense	**1.16**	1.13	0.74
Non-deductible impairment provisions (recoveries)	**0.05**	0.83	(0.14)
Loss (gain) on sale of investments already subjected to final tax	**–**	0.10	(0.14)
Interest income subjected to final tax at lower rates - net	**(0.38)**	(0.20)	(0.60)
Nontaxable equity in net earnings of associates	**(11.90)**	(7.11)	(11.62)
Income subject to ITH	**(18.87)**	(27.30)	(7.37)
Others	**(0.13)**	1.44	(1.98)
	6.11%	4.18%	12.21%

Net deferred income tax assets at December 31 relate to the following:

	2011	2010
NOLCO	**₱119,802**	₱141,619
Difference between the carrying amount of nonmonetary assets and the related tax base	**61,039**	–
Allowances for:		
Impairment and probable losses	**55,588**	62,097
Inventory obsolescence	**9,697**	28,867
Unamortized contributions for past service	**31,698**	–
MCIT	**15,276**	16,417
Accrued retirement benefits	**4,765**	768
Unrealized foreign exchange losses	**921**	27,879
Pension cost	**(14,571)**	–
Unrealized foreign exchange gain	**(5,898)**	–
Others	**(9,653)**	(26,557)
	₱268,664	₱251,090

Net deferred income tax liabilities at December 31 relate to the following:

	2011	2010
Unrealized foreign exchange gains	**₱399,888**	₱319,631
Pension asset	**28,920**	28,684
Unamortized customs duties and taxes capitalized	**21,742**	18,324
Unamortized streetlight donations capitalized	**6,676**	6,249
Capitalized interest expense	**5,508**	5,565
Allowances for doubtful accounts and probable losses	**(40,215)**	(32,196)
Unamortized past service cost	**(18,493)**	(21,127)
Others	**(6,038)**	(3,535)
	₱397,988	₱321,595

In computing for deferred income tax assets and liabilities, the tax rates used were 30% and 10%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax rate for renewable energy developers as allowed by the Renewable Energy Act of 2008.

No deferred income tax assets were recognized on AP's NOLCO and MCIT amounting to ₱220.5 million and ₱30.9 million, respectively, as of December 31, 2011 and ₱114.8 million and ₱23.8 million, respectively, as of December 31, 2010, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized.

There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

29. Earnings per Common Share

Earnings per common share amounts were computed as follows:

	2011	2010	2009
a. Net income attributable to equity holders of the parent	**₱21,191,344**	₱21,865,302	₱8,306,868
b. Net income from continuing operations attributable to equity holders of the parent	**21,191,344**	23,168,628	7,950,138
c. Weighted average number of common shares issued and outstanding	**5,521,872**	5,521,872	5,561,675
d. Earnings per common share (a/c)	**₱3.838**	₱3.960	₱1.494
e. Earnings per common share from continuing operations (b/c)	**₱3.838**	₱4.196	₱1.429

There are no dilutive potential common shares as of December 31, 2011, 2010 and 2009.

30. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group's identified operating segments, which are consistent with the segments reported to the BOD, the Group's CODM, are as follows:

- power segment, which is engaged in power generation and sale of electricity;
- food manufacturing segment, which is engaged in the production of flour and feeds and swine breeding;
- the financial services segment, which is engaged in banking operations; and
- the parent company and others, which include the operations of the Company, air transport services, ship and crew management services, and real property business of the Group.

Effective January 2011, the transportation segment, which comprises the ATS Group and provides domestic sea and land transportation and logistics services, is no longer treated as a separate reportable segment (see Note 14).

For management purposes, beginning 2011, the Group is organized into four (4) business segments based on their products and services. No operating segments have been aggregated to form the above reportable operating segments.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statement of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity and other services which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's-length basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and that the revenue can be reliably measured. Sale of power to Manila Electric Company accounted for 31% and 30% of the power generation revenues of the Group in 2010 and 2009, respectively; while sale of power to VECO accounted for 17% and 81% of the power generation revenues of the Group in 2009 and 2008, respectively. There is no concentration of significant customers on any of the segments.

Financial information on the operations of the various business segments are summarized as follows:

	2011					
	Power	Financial Services	Food Manufacturing	Parent Company and Others	Eliminations	Consolidated
REVENUES						
Third parties	₱54,475,637	₱1,965,953	₱14,752,836	₱802,947	₱–	₱71,997,373
Inter-segment	–	–	–	505,280	(505,280)	–
Total revenue	54,475,637	1,965,953	14,752,836	1,308,227	(505,280)	71,997,373
RESULTS						
Segment results	20,355,415	769,055	1,523,859	187,195	89,337	22,924,861
Unallocated corporate income (expenses)	676,237	8,363	151,181	305,417	(89,337)	1,051,861
INCOME FROM OPERATIONS						23,976,722
Interest expense	(7,345,575)	–	(196,086)	(314,993)	–	(7,856,654)
Dividends on redeemable preferred shares	–	–	–	(119,112)	–	(119,112)
Interest income	861,521	–	5,666	217,192	–	1,084,379
Share in net earnings of associates	8,436,906	2,795,690	214,166	18,311,796	(18,529,492)	11,229,066
Provision for income tax	(1,117,209)	(244,367)	(251,381)	(115,857)	–	(1,728,814)
NET INCOME						26,585,587
OTHER INFORMATION						
Segment assets	₱36,177,995	₱12,674,913	₱5,166,308	₱4,838,192	₱ (136,804)	₱58,720,604
Investments and advances	29,206,192	19,677,649	1,130,152	58,024,800	(59,275,867)	48,762,926
Unallocated corporate assets	88,238,253	323,866	2,668,037	1,634,677	643,512	93,508,345
Consolidated total assets						200,991,875
Segment liabilities	82,768,086	11,086,268	5,705,399	5,923,678	(127,257)	105,356,174

(Forward)

	2011					
	Power	Financial Services	Food Manufacturing	Parent Company and Others	Eliminations	Consolidated
Unallocated corporate liabilities	567,636	74,317	–	16,021	–	657,974
Consolidated total liabilities						106,014,148
Capital expenditure	7,462,398	64,983	492,028	550,979	–	8,570,388
Depreciation and amortization	3,339,445	39,497	196,760	116,999	–	3,692,701

	2010						
	Power	Financial Services	Food Manufacturing	Transport Services (Discontinued Operations)	Parent Company and Others	Eliminations	Consolidated
REVENUE							
Third parties	₱59,543,462	₱1,471,458	₱12,879,584	₱13,420,558	₱220,755	₱–	₱87,535,817
Inter-segment	2,143	–	–	–	407,994	(410,137)	–
Total revenue	59,545,605	1,471,458	12,879,584	13,420,558	628,749	(410,137)	87,535,817
RESULTS							
Segment results	26,267,944	639,719	1,746,193	(557,999)	141,986	(229,248)	28,008,595
Unallocated corporate income (expenses)	1,564,036	71,766	268,745	(365,742)	(259,910)	(46,918)	1,231,977
INCOME FROM OPERATIONS							29,240,573
Interest expense	(6,678,293)	–	(67,732)	(240,532)	(277,072)	–	(7,263,629)
Dividends on redeemable preferred shares	–	–	–	–	(126,646)	–	(126,646)
Interest income	224,158	–	4,224	8,024	56,548	–	292,954
Share in net earnings of associates	4,627,014	2,218,916	86,749	41,639	20,172,267	(20,263,223)	6,883,362
Provision for income tax	(920,697)	(212,103)	(422,754)	383,736	(41,849)	–	(1,213,667)
NET INCOME							27,812,947
OTHER INFORMATION							
Segment assets	₱27,920,247	₱8,807,494	₱3,902,809	₱640,866	₱7,079,304	(₱587,666)	₱47,763,054
Investments and advances	28,896,439	15,821,266	915,986	6,327	48,217,248	(49,007,291)	44,849,975
Unallocated corporate assets	77,847,256	227,794	2,405,626	93,414	1,136,641	643,513	82,354,244
Consolidated total assets							174,967,273
Segment liabilities	76,305,892	7,664,689	4,763,077	626,580	7,192,944	(557,202)	95,995,980
Unallocated corporate liabilities	516,770	68,971	49,651	17,999	474	–	653,865
Consolidated total liabilities							96,649,845
Capital expenditure	4,208,027	42,825	276,984	3,670,520	144,318	–	8,342,674
Depreciation and amortization	3,003,977	37,251	166,248	1,366,707	79,293	–	4,653,476

	2009						
	Power	Financial Services	Food Manufacturing	Transport Services (Discontinued Operations)	Parent Company and Others	Eliminations	Consolidated
REVENUE							
Third parties	₱23,174,265	₱–	₱11,048,314	₱11,762,738	₱244,637	₱–	₱46,229,954
Inter-segment	–	–	–	61,691	295,940	(357,631)	–
Total revenue	23,174,265	–	11,048,314	11,824,429	540,577	(357,631)	46,229,954
RESULTS							
Segment results	5,456,167	–	1,351,270	513,444	159,508	46,384	7,526,773
Unallocated corporate income (expenses)	813,411	–	222,820	327,475	791,418	(46,384)	2,108,740

(Forward)

	2009						
	Power	Financial Services	Food Manufacturing	Transport Services (Discontinued Operations)	Parent Company and Others	Eliminations	Consolidated
INCOME FROM OPERATIONS							9,635,513
Interest expense	(2,813,978)	–	(55,840)	(99,110)	(183,167)	–	(3,152,095)
Dividends on redeemable preferred shares	–	–	–	–	(161,596)	–	(161,596)
Interest income	409,972	–	6,113	28,530	72,122	–	516,737
Share in net earnings of associates	2,536,637	1,768,050	–	53,434	5,950,134	(5,986,576)	4,321,679
Provision for income tax	(631,190)	–	(297,004)	(201,056)	(76,465)	–	(1,205,715)
NET INCOME							9,954,524
OTHER INFORMATION							
Segment assets	₱9,915,103	₱–	₱3,035,263	₱4,799,883	₱819,958	(₱165,509)	₱18,404,698
Investments and advances	24,896,238	13,467,608	–	74,208	34,106,955	(33,976,587)	38,568,422
Unallocated corporate assets	76,635,313	–	2,281,180	5,747,905	1,082,976	560,314	86,307,688
Consolidated total assets							143,280,808
Segment liabilities	75,862,419	–	2,863,846	5,427,097	4,066,398	(137,020)	88,082,740
Unallocated corporate liabilities	431,372	–	81,329	35,327	7,829	–	555,857
Consolidated total liabilities							88,638,597
Capital expenditure	23,473,164	–	260,639	1,940,756	112,638	–	25,787,197
Depreciation and amortization	1,412,900	–	162,201	1,033,545	66,593	–	2,675,239

31. Related Party Disclosures

In the normal course of business, the Group enters into transactions with related parties, principally consisting of the following:

a. Service contracts of ACO and certain associates with the Company at fees based on agreed rates. Professional and technical fees paid by ACO and certain associates to the Company totaled ₱177,817, ₱179,692 and ₱151,596 in 2011, 2010 and 2009, respectively.

b. Temporary cash advances to and from ACO and certain associates for working capital requirements. The advances are unsecured and interest bearing at interest rates ranging from 1.5% to 6.5% in 2011, 1.8% to 3.0% in 2010, and 3.0% to 6.4% in 2009. Interest income recognized on these advances amounted to ₱293,491 in 2011, ₱129,419 in 2010 and ₱52,302 in 2009 while interest expense amounted to nil in 2011 and 2010 and ₱5,183 in 2009. These advances will be settled in cash upon maturity.

c. Cash deposits and investments in UBP. At prevailing rates, the deposits and money market placements earned interest income amounting ₱297,173, ₱133,013 and ₱49,140 in 2011, 2010 and 2009, respectively.

d. Aviation services rendered by AEV Aviation to ACO and certain associates. Total aviation service income generated from these related parties amounted to ₱12,552, ₱9,884 and ₱9,612 in 2011, 2010 and 2009, respectively.

e. Lease of commercial office units by ACO and certain associates from CPDC for a period of three years. Rental income amounted to ₱19,179 in 2011, ₱17,987 in 2010 and ₱17,968 in 2009.

f. Freight revenues from ACO subsidiaries and certain associates amounted to nil, ₱6,662 and ₱15,541 in 2011, 2010 and 2009, respectively. Expenses incurred from related parties amounted to nil, ₱67,632 and ₱59,751 in 2011, 2010 and 2009, respectively.

Significant outstanding account balances with related parties as of December 31, 2011 and 2010 are as follows:

	Relationship		Cash and Cash Equivalents	Amounts Owed by Related Parties	Amounts Owed to Related Parties
ACO	Parent	**2011**	**₱–**	**₱4,985**	**₱–**
		2010	–	₱4,544	₱–
EAUC	Associate	**2011**	**–**	**–**	**18,415**
		2010	–	–	129,999
UBP	Associate	**2011**	**8,528,811**	**–**	–
		2010	9,152,773	–	–
Others		**2011**	**–**	**–**	**–**
		2010	–	105,788	3,003
		2011	**₱8,528,811**	**₱4,985**	**₱18,415**
		2010	₱9,152,773	₱110,332	₱148,414

The compensation of key management personnel of the Group follows:

	2011	2010	2009
Short-term employee benefits	**₱92,607**	₱49,202	₱55,705
Post-employment benefits	**4,660**	2,617	5,016
	₱97,267	₱51,819	₱60,721

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

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments, bank loans, long-term debt, obligations under finance lease and non-convertible, cumulative, redeemable preferred shares. The main purpose of these financial instruments is to raise finances for the Group's operations and its investments in existing subsidiaries and associates and in new projects. The Group has other financial assets and liabilities such as trade and other receivables and trade and other payables and customer deposits which arise directly from operations.

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Company.

Financial risk committee

The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Treasury service group
The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Group's risks in line with the policies and limits.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings.

Market Risk
The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Group's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2011, 3.6% of the Group's long-term debt had floating interest rates ranging from 3.22% to 6.40%, and 96.4% are with fixed rates ranging from 3.68% to 10.10%. As of December 31, 2010, 5.2% of the Group's long-term debt had floating interest rates ranging from 2.46% to 6.71%, and 94.8% are with fixed rates ranging from 5.23% to 10.10%.

The following tables set out the carrying amount, by maturity, of the Group's financial instruments that are exposed to cash flow interest rate risk:

December 31, 2011

	Less than 1 year	1-5 years	More than 5 years	**Total**
Long-term debts				
Floating rate	**₱409,153**	**₱533,429**	**₱–**	**₱942,582**
Fixed rate	**1,195,597**	**15,793,460**	**9,751,081**	**26,740,138**
Payable to preferred shareholder of a subsidiary – floating	**16,902**	**46,068**	**–**	**62,970**
	₱1,621,652	**₱16,372,957**	**₱9,751,081**	**₱27,745,690**

December 31, 2010

	Less than 1 year	1-5 years	More than 5 years	Total
Long-term debts				
Floating rate	₱821,333	₱431,100	₱–	₱1,252,433
Fixed rate	730,689	16,890,764	5,025,901	22,647,354
Payable to preferred shareholder of a subsidiary - floating	13,797	62,970	–	76,767
Redeemable preferred shares			–	
Fixed rate	1,000,000	500,000	–	1,500,000
	₱2,565,819	₱17,884,834	₱5,025,901	₱25,476,554

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The interest expense recognized during the period is as follows:

	2011	2010	2009
Long-term debts (see Note 18)	**₱2,186,121**	₱1,631,149	₱1,505,184
Obligations under finance lease (see Note 20)	**5,476,632**	5,122,830	1,245,963
Bank loans (see Note 16)	**122,152**	418,466	321,855
Advances from related parties (see Note 31)	**17,997**	32,510	37,737
Long-term obligation on PDS	**34,487**	35,099	35,644
Payable to a preferred shareholder of a subsidiary	**17,273**	19,807	–
Customers' deposits (see Note 19)	**1,992**	3,768	5,712
	7,856,654	7,263,629	3,152,095
Interest expense attributable to discontinued operations (see Note 14)	–	(228,878)	(74,101)
	₱7,856,654	₱7,034,751	₱3,077,994

The interest income recognized during the period is as follows:

	2011	2010	2009
Cash and cash equivalents	**₱1,072,941**	₱176,629	₱403,641
Intercompany deposits	**11,438**	116,325	113,096
	1,084,379	292,954	516,737
Interest income attributable to discontinued operations (Note 14)	–	(5,263)	(12,851)
	₱1,084,379	₱287,691	₱503,886

Interest on redeemable preferred shares amounting to ₱119,112, ₱126,646 and ₱161,596 in 2011, 2010 and 2009, respectively, are recognized as dividends on redeemable preferred shares in the consolidated statements of income.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) as of December 31, 2011 and 2010:

	Increase (decrease) in basis points	Effect on income before tax
2011	**200**	**(₱10,056)**
	(100)	**5,028**
2010	100	(₱13,292)
	(50)	6,646

The Group's sensitivity to an increase/decrease in interest rates pertaining to derivative instruments is expected to be insignificant in 2011 and 2010 due to their short-term maturities and immateriality relative to the total assets and liabilities of the Group.

There is no other impact on the Group's equity other than those already affecting the consolidated statement of income.

Foreign exchange risk
The foreign exchange risk of the Group pertains significantly to its foreign currency denominated borrowings, including obligations under finance lease. To mitigate the risk of incurring foreign exchange losses, foreign currency holdings are matched against the potential need for foreign currency in financing equity investments and new projects. As of December 31, 2011 and 2010, foreign currency denominated borrowings account for 32.02% and 30.78%, respectively, of total consolidated borrowings.

The following table presents the Group's foreign currency denominated assets and liabilities:

	2011		2010	
	US Dollar	**Peso Equivalent[1]**	US Dollar	Peso Equivalent[2]
Loans and receivables				
Cash and cash equivalents	**$16,704**	**₱732,310**	$10,801	₱473,494
Trade and other receivables	**15,180**	**665,488**	9,233	404,775
Amounts owed by related parties	**885**	**38,781**	13,402	587,544
Total Financial Assets	**$32,769**	**₱1,436,579**	$33,436	₱1,465,813
Other financial liabilities				
Bank loans	**$4,950**	**₱217,008**	$4,750	₱208,240
Trade and other payables	**20,768**	**910,472**	11,436	501,354
Long-term debts	**11,890**	**521,257**	–	–
Advances from shipping principals	**–**	**–**	90	3,946
Obligations under finance lease	**609,712**	**26,729,764**	563,388	24,698,930
Total Financial Liabilities	**$647,320**	**₱28,378,501**	$579,664	₱25,412,470
Net foreign currency denominated liabilities	**($614,551)**	**(₱26,941,922)**	($546,228)	(₱23,946,657)

[1]USD1= ₱43.84
[2]USD1= ₱43.84

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's profit before tax as of December 31, 2011 and 2010.

	Increase (decrease) in US dollar rate against the Peso	Effect on income before income tax
2011		
US dollar denominated accounts	US Dollar strengthens by 5%	(₱1,347,096)
	US Dollar weakens by 5%	1,347,096
2010		
US dollar denominated accounts	US Dollar strengthens by 5%	(₱1,197,333)
	US Dollar weakens by 5%	1,197,333

The increase in US Dollar rate represents depreciation of Philippine peso while the decrease in US Dollar rate represents appreciation of Philippine peso.
The Group's sensitivity to an increase/decrease in foreign currency pertaining to derivative instruments is expected to be insignificant in 2011 and 2010 due to their short-term maturities and immateriality relative to the total assets and liabilities of the Group.

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

Equity price risk
Equity price risk is the risk that the fair value of traded equity instruments decreases as the result of the changes in the levels of equity indices and the value of the individual stocks.

As of December 31, 2011 and 2010, the Group's exposure to equity price risk is minimal.

Credit Risk
For its cash investments (which include those that are restricted), AFS investments, derivative assets, and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these financial assets. With respect to cash and AFS investments, the risk is mitigated by the short-term and or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures.

Concentration risk
Credit risk concentration of the Group's receivables according to the customer category as of December 31, 2011 and 2010 is summarized in the following table:

	2011	2010
Power:		
Distribution		
Residential	**₱312,099**	₱308,887
Commercial	**126,467**	164,468
Industrial	**448,805**	420,154
City street lighting	**6,617**	8,619
Generation		
Spot market	**741,102**	1,702,790
Power supply contracts	**4,945,887**	3,669,286
	6,580,977	6,274,204
Banking:		
Public school teachers	**9,538,368**	6,214,324
Corporate	**35,116**	31,044
Other individuals	**328,321**	274,141
	9,901,805	6,519,509
Total concentration risk	**₱16,482,782**	₱12,793,713

Maximum exposure
The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the statements of financial position and related notes, except that the credit risk associated with the receivables from customers is mitigated because some of these receivables have collaterals.

Maximum exposure to credit risk for collateralized loans is shown below:

	2011			2010		
	Carrying Value	**Financial Effect of Collateral in Mitigating Credit Risk**	**Maximum Exposure to Credit Risk**	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Trade and other receivables						
Power	**₱893,988**	**₱893,988**	**₱–**	₱902,128	₱902,128	₱–
Banking	**353,587**	**34,409**	**319,178**	298,623	41,251	257,372

Financial effect of collateral in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Credit quality
The credit quality per class of financial assets that are neither past due nor impaired is as follows:

December 31, 2011

	Neither past due nor impaired			Past due or individually	
	High	Medium	Low	impaired	**Total**
Loans and receivables					
Cash and cash equivalents	**₱29,543,492**	**₱–**	**₱–**	**₱–**	**₱29,543,492**
Trade and other receivables					
Trade receivables					
Banking	**–**	**10,179,129**	**126**	**203,905**	**10,383,160**
Power	**3,872,256**	**327,145**	**155,681**	**2,225,895**	**6,580,977**
Food manufacturing	**110,396**	**353,622**	**396,131**	**335,913**	**1,196,062**
Holding and others	**566,381**	**725**	**–**	**1,604**	**568,710**
Transport services	**88,640**	**–**	**–**	**–**	**88,640**
Receivable from insurance and other claims	**–**	**–**	**–**	**–**	**–**
Other receivables	**3,376,367**	**91,738**	**97,999**	**133,859**	**3,699,963**
AFS					
Quoted shares of stocks	**74,569**	**–**	**–**	**–**	**74,569**
Unquoted shares of stocks	–	–	–	–	–
Financial asset at FVPL					
Derivative asset	**–**	**–**	**–**	**–**	**–**
	₱37,632,101	**₱10,952,359**	**₱649,937**	**₱2,901,176**	**₱52,135,573**

December 31, 2010

	Neither past due nor impaired			Past due or individually impaired	Total
	High	Medium	Low		
Loans and receivables					
Cash and cash equivalents	₱26,097,203	₱–	₱–	₱–	₱26,097,203
Trade and other receivables					
Trade receivables					
Banking	–	6,839,555	80,541	151,128	7,071,224
Power	2,532,982	1,650,295	198,022	1,893,601	6,274,900
Food manufacturing	102,856	532,689	30,046	274,898	940,489
Holding and others	483,810	–	–	6,871	490,681
Transport services	426,067	–	–	–	426,067
Receivable from insurance and other claims	7,484	–	–	–	7,484
Other receivables	851,924	93,082	3,944	51,271	1,000,221
AFS					
Quoted shares of stocks	33,020	–	–	–	33,020
Unquoted shares of stocks	37,794	–	–	–	37,794
Financial asset at FVPL					
Derivative asset	7,670	–	–	–	7,670
	₱30,580,810	₱9,115,621	₱312,553	₱2,377,769	₱42,386,753

High quality receivables pertain to receivables from related parties and customers with good favorable credit standing. Medium quality receivables pertain to receivables from customers that have history of sliding beyond the credit terms but pay a week after being past due. Unrated receivables are accounts from new customers on which the Group has no basis yet as far as their payment habit is concerned.

The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to AFS investments and derivative asset, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The aging analysis per class of financial assets that are past due but not impaired is as follows:

December 31, 2011

	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 days to 1 year	Over 1 year up to 3 years	Over 3 years		
Loans and receivables							
Cash and cash equivalents	**₱29,543,492**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱29,543,492**
Trade and other receivables							
Trade receivables							
Banking	**10,179,255**	**22,712**	**39,512**	–	–	**141,681**	**10,383,160**
Power	**4,355,082**	**167,378**	**1,743,888**	–	–	**314,629**	**6,580,977**
Food manufacturing	**860,149**	**264,869**	**34,871**	–	–	**36,173**	**1,196,062**
Holding and others	**567,106**	–	**1,604**	–	–	–	**568,710**
Transport services	**88,640**	–	–	–	–	–	**88,640**
Receivable from insurance and other claims	–	–	–	–	–	–	–
Other receivables	**3,566,104**	**(5,732)**	**138,946**	–	–	**645**	**3,699,963**
AFS							
Quoted shares of stocks	**74,569**	–	–	–	–	–	**74,569**
Unquoted shares of stocks	–	–	–	–	–	–	–
	₱49,234,397	**₱449,227**	**₱1,958,821**	**₱–**	**₱–**	**₱493,128**	**₱52,135,573**

December 31, 2010

	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 days to 1 year	Over 1 year up to 3 years	Over 3 years	Impaired	Total
Loans and receivables							
Cash and cash equivalents	₱26,097,203	₱–	₱–	₱–	₱–	₱–	₱26,097,203
Trade and other receivables							
Trade receivables							
Banking	6,920,096	691	49,860	–	–	100,577	7,071,224
Power	4,381,299	455,562	1,061,823	–	–	376,216	6,274,900
Food manufacturing	665,591	219,996	23,770	–	–	31,132	940,489
Holding and others	483,810	–	6,871	–	–	–	490,681
Transport services	426,067	–	–	–	–	–	426,067
Receivable from insurance and other claims	7,484	–	–	–	–	–	7,484
Other receivables	948,950	9,453	41,122	–		696	1,000,221
AFS							
Quoted shares of stocks	33,020	–	–	–	–	–	33,020
Unquoted shares of stocks	37,794	–	–	–	–	–	37,794
Financial asset at FVPL							
Derivative asset	7,670	–	–	–	–	–	7,670
	₱40,008,984	₱685,701	₱1,183,446	₱–	₱–	₱508,621	₱42,386,753

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

Liquidity risk

Liquidity risk is the risk that an entity in the Group will be unable to meet its obligations as they become due. The Group, except City Savings Bank ("CSB") (which has a separate risk management policy), manages liquidity risk by effectively managing its working capital, capital expenditure and cash flows, making use of a centralized treasury function to manage pooled business unit cash investments and borrowing requirements. Currently the Group, except CSB, is maintaining a positive cash position, conserving the Group's cash resources through renewed focus on working capital improvement and capital reprioritization. The Group, except CSB, meets its financing requirements through a mixture of cash generated from its operations and short-term and long-term borrowings. Adequate banking facilities and reserve borrowing capacities are maintained.

The Group is in compliance with all of the financial covenants per its loan agreements, none of which is expected to present a material restriction on funding or its investment policy in the near future. The Group has sufficient undrawn borrowing facilities, which could be utilized to settle obligations.

In managing its long-term financial requirements, the policy of the Group, excluding CSB, is that not more than 25% of long term borrowings should mature in any twelve-month period. As of December 31, 2011 and 2010, the portion of the total long-term debt that will mature in less than one year is 2.02% and 4.79%, respectively. For its short-term funding, the policy of the Group, except CSB, is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The table below analyses the financial liabilities of the Group, except CSB, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

December 31, 2011

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1-5 years	> 5 years
Financial liabilities:						
Operating						
Trade and other payables	**₱6,650,799**	**₱13,714,554**	**₱81,460**	**₱9,160,717**	**₱4,472,377**	**₱–**
Customers' deposits	**2,170,028**	**2,192,050**	**–**	**35,016**	**53,248**	**2,103,786**
Financing						
Bank loans	**5,301,008**	**5,315,176**	**–**	**5,315,176**	**–**	**–**
Derivative liability	**7,580**	**7,580**	**–**	**7,580**	**–**	**–**
Long-term debts	**24,757,367**	**39,745,112**	**–**	**3,309,838**	**28,278,033**	**8,157,241**
Obligations under finance lease	**52,714,959**	**110,292,493**	**–**	**2,534,784**	**38,142,989**	**69,614,720**
Long-term obligation on PDS	**277,046**	**640,000**	**–**	**40,000**	**200,000**	**400,000**
Redeemable preferred shares	**–**	**–**	**–**	**–**	**–**	**–**
Others						
Payable to preferred shareholder of a subsidiary	**62,970**	**93,210**	**–**	**31,070**	**62,140**	**–**
	₱91,941,757	**₱172,000,175**	**₱81,460**	**₱20,434,181**	**₱71,208,787**	**₱80,275,747**

December 31, 2010

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1-5 years	> 5 years
Financial liabilities:						
Operating						
Trade and other payables	₱6,627,810	₱6,627,810	₱–	₱6,627,810	₱–	₱–
Customers' deposits	2,011,285	2,019,151	100	41,402	37,888	1,939,761
Financing						
Bank loans	5,667,340	5,699,055	–	5,699,055	–	–
Derivative liability	–	–	–	–	–	–
Long-term debts	21,775,613	33,289,059	–	3,353,595	24,233,249	5,702,215
Obligations under finance lease	48,305,116	111,394,573	–	1,102,080	24,146,573	86,145,920
Long-term obligation on PDS	282,559	680,000	–	40,000	200,000	440,000
Redeemable preferred shares	1,500,000	1,710,000	–	1,125,000	585,000	–
Others						
Payable to preferred shareholder of a subsidiary	76,767	124,280	–	31,070	93,210	–
	₱86,246,490	₱161,543,928	₱100	₱18,020,012	₱49,295,920	₱94,227,896

CSB closely monitors the current and prospective maturity structure of its resources and liabilities and the market condition to guide pricing and asset/liability allocation strategies to manage its liquidity risks.

In addition, CSB manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. It seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

It is also the policy of the Group to closely monitor CSB's risk exposure.

Liquidity is monitored by CSB on a daily basis. The table below shows the maturity profile of the bank's financial assets and liabilities, based on its internal methodology that manages liquidity based on expected undiscounted cash flows, rather than contractual undiscounted cash flows:

December 31, 2011

	Up to 1 month	Over 1 to 3 months	Over 3 months to 1 year	Beyond 1 year	**Total**
Financial Assets					
Cash and other cash items	**₱203,603**	**₱–**	**₱–**	**₱–**	**₱203,603**
Due from BSP	**1,528,982**	**125,748**	**–**	**–**	**1,654,730**
Due from other banks	**487,787**	**2,696**	**12,130**	**–**	**502,613**
AFS investments	**–**	**–**	**–**	**8,400**	**8,400**
Loans and receivables	**2,011,525**	**4,093,049**	**3,786,520**	**994,613**	**10,885,707**
Other Assets	**86**	**–**	**–**	**4,034**	**4,120**
	4,231,983	**4,221,493**	**3,798,650**	**1,007,047**	**13,259,173**
Financial Liabilities					
Deposit liabilities	**3,106,883**	**211,533**	**223,702**	**4,472,252**	**8,014,370**
Bills payable	**–**	**23,191**	**24,964**	**2,910,079**	**2,958,234**
Accounts payable and accrued expenses	**73,535**	**316**	**51,598**	**125**	**125,574**
Other liabilities	**11,912**	**–**	**–**	**–**	**11,912**
	3,192,330	**235,040**	**300,264**	**7,382,456**	**11,110,090**
	₱1,039,653	**₱3,986,453**	**₱3,498,386**	**(₱6,375,409)**	**₱2,149,083**

December 31, 2010

	Up to 1 month	Over 1 to 3 months	Over 3 months to 1 year	Beyond 1 year	**Total**
Financial Assets					
Cash and other cash items	₱139,187	₱–	₱–	₱–	₱139,187
Due from BSP	1,373,701	116,545	38,451	–	1,528,697
Due from other banks	201,095	536	2,410	–	204,041
AFS investments	–	–	–	4,500	4,500
Loans and receivables	631,103	410,010	6,133,828	652,179	7,827,120
Other Assets	72	–	–	2,270	2,342
	2,345,158	527,091	6,174,689	658,949	9,705,887
Financial Liabilities					
Deposit liabilities	1,394,503	50,746	539,166	3,980,341	5,964,756
Bills payable	11,681	23,363	258,981	2,110,504	2,404,529
Accounts payable and accrued expenses	27,310	14,477	51,752	45,244	138,782
Other liabilities	9,850	–	–	–	9,850
	1,443,344	88,585	849,899	6,136,089	8,517,917
	₱901,814	₱438,506	₱5,324,790	(₱5,477,140)	₱1,187,970

Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Certain entities within the Group that are registered with the BOI are required to raise a minimum amount of capital in order to avail of their registration incentives. As of December 31, 2011 and 2010, these entities have complied with this requirement as applicable (see Note 34).

No changes were made in the objectives, policies or processes during the years ended December 31, 2011, 2010 and 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below at the consolidated level. The Group determines net debt as the sum of interest-bearing short-term and long-term obligations (comprised of long-term debt, obligations under finance lease, redeemable preferred shares and payable to preferred shareholder of a subsidiary) less cash and short-term deposits and temporary advances to related parties.

Gearing ratios of the Group as of December 31, 2011 and 2010 are as follows:

	2011	2010
Bank loans	**₱5,301,008**	₱7,347,281
Long-term debts	**80,460,649**	73,781,670
Temporary advances to related parties	**–**	(2,850)
Cash and cash equivalents	**(29,543,492)**	(26,097,203)
Net debt (a)	**56,218,165**	55,028,898
Equity	**94,977,727**	78,317,428
Equity and net debt (b)	**₱151,195,892**	₱133,346,326
Gearing ratio (a/b)	**37.18%**	41.27%

Financial and Other Risk Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling price of hogs, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase production cost. The Group monitors the prices of grains regularly. The formulation of feeds at a least cost being done by the Group considers the appropriate nutrients the hogs need. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

33. **Financial Instruments**

Set out below is a comparison by category of the carrying amounts and fair values of all of the Group's financial instruments.

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Loans and receivables				
Cash and cash equivalents				
Cash in bank	**₱4,293,825**	**₱4,293,825**	₱9,150,763	₱9,150,763
Short-term deposits	**25,249,667**	**25,249,667**	16,946,440	16,946,440
	29,543,492	**29,543,492**	26,097,203	26,097,203
Trade and other receivables				
Trade receivables				
Banking	**10,240,834**	**10,240,834**	6,970,647	6,970,647
Power	**6,266,348**	**6,266,348**	5,897,988	5,897,988
Transportation services	**88,640**	**88,640**	426,067	426,067
Food manufacturing	**1,159,889**	**1,159,889**	909,357	909,357
Holding and others	**568,710**	**568,710**	490,680	490,680
Receivable from insurance and other claims	**–**	**–**	7,484	7,484
Other receivables	**3,699,964**	**3,699,964**	1,000,221	1,000,221
	51,567,877	**51,567,877**	41,799,647	41,799,647
AFS investments				
Quoted shares of stock	**39,159**	**39,159**	33,020	33,020
Unquoted shares of stock	**35,410**	**35,410**	37,794	37,794
	74,569	**74,569**	70,814	70,814
Financial asset at FVPL				
Derivative asset	**–**	**–**	7,670	7,670
	₱51,642,446	**₱51,642,446**	₱41,878,131	₱41,878,131

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial liabilities				
Financial liability at FVPL				
Derivative liability	**₱7,580**	**₱7,580**	₱323	₱323
Other financial liabilities				
Bank loans	**5,301,008**	**5,301,008**	5,667,340	5,667,340
Trade and other payables				
Trade payables	**4,294,482**	**4,294,482**	3,365,628	3,365,628
Nontrade payables and others	**695,057**	**695,057**	2,177,700	2,177,700
Deposit liabilities	**3,517,163**	**3,517,163**	1,679,941	1,679,941
Accrued expenses	**1,791,838**	**1,791,838**	1,131,312	1,131,312
Due to related parties	**36,459**	**36,459**	129,999	129,999
Deposit liabilities - net of current portion	**4,472,252**	**4,472,252**	3,683,745	3,517,951
Customers' deposits				
Transformers, lines and poles and others	**1,769,520**	**1,769,520**	1,628,308	1,628,308
Bill deposits	**400,508**	**400,508**	382,977	382,977
Long-term obligation on PDS	**277,046**	**419,789**	282,559	413,057
Obligations under finance lease	**52,714,959**	**67,291,284**	48,305,116	58,268,048
Long-term debts				

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Fixed rate	**₱26,740,138**	**₱28,603,315**	₱22,647,354	₱24,657,291
Floating rate	**942,582**	**942,582**	1,252,433	1,252,433
Payable to preferred shareholder of a subsidiary - floating rate	**62,970**	**62,970**	76,767	76,767
Redeemable preferred shares	**–**	**–**	1,500,000	1,573,043
	₱103,023,562	**₱119,605,807**	₱93,911,502	₱105,922,118

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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

Cash and cash equivalents, restricted cash, trade and other receivables and trade and other payables

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to the relatively short-term maturity of these financial instruments.

AFS investments

The fair values of AFS investments are based on quoted market prices, except for unquoted equity shares which are carried at cost since fair values are not readily determinable.

Derivative asset and liabilities

The fair value is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivative valued using a valuation technique with market observable inputs pertains to a foreign exchange forward contract. The most applied valuation technique is forward pricing. The model incorporates various inputs including the credit quality of counterparty and foreign exchange spot and forward rates.

Fixed-rate borrowings

The fair value of fixed-rate interest bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans ranging from 2.44% to 10.10% in 2011 and 4.26% to 8.73% in 2010.

Variable-rate borrowings

Where the repricing of the variable-rate interest-bearing instruments is frequent (i.e., three-month repricing), the carrying value approximates the fair value. Otherwise, the fair value is determined by discounting the principal plus the known interest payment using current market rates.

Long-term obligation on PDS

The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 2.53% to 7.60% in 2011 and 2.53% to 7.60% in 2010.

Obligations under finance lease
The fair value of the finance lease obligation was calculated by discounting future cash flows using discount rates of 5.83% to 8.37% for dollar payments and 3.13% to 7.72% for peso payments in 2011; and 5.96% to 9.88% for dollar payments and 2.95% to 10.33% for peso payments in 2010.

Customers' deposits
The fair value of bill deposits approximate their carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

Redeemable preferred shares
The fair values of the redeemable preferred shares are based on the discounted value of future cash flows using the applicable rates for similar types of borrowings. Discount rates ranging from 4.26% to 5.99% in 2010 were used in calculating its fair value. These shares fully redeemed in December, 2011.

Fair Value Hierarchy
The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As of December 31, 2011 and 2010, the Group held the following financial instruments that are measured and carried at fair value:

December 31, 2011

	Total	Level 1	Level 2	Level 3
AFS investments	**₱39,159**	**₱39,159**	**₱–**	**₱–**
Derivative asset	**–**	**–**	**–**	**–**
Derivative liability	**7,580**	**–**	**7,580**	**–**
	₱46,739	**₱39,159**	**₱7,580**	**₱–**

December 31, 2010

	Total	Level 1	Level 2	Level 3
AFS investments	₱33,020	₱33,020	₱–	₱–
Derivative asset	7,670	–	7,670	–
Derivative liability	(323)	–	(323)	–
	₱40,367	₱33,020	₱7,347	₱–

During the year ended December 31, 2011 and 2010, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

Derivative financial instruments
The Group enters into non-deliverable short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases.

As of December 31, 2011 and 2010, the Group has outstanding non-deliverable buy Dollar and sell Peso forward exchange contracts with counterparty banks with an aggregate notional amount of $0.3million and $56.4 million, respectively, and remaining maturities of 1 month to 8 months and 1 month to 10 months, respectively. The forward rates related to the forward contracts ranged from ₱43.84 to ₱44.81 per US$ and ₱43.84 to ₱44.13 per US$1 as at December 31, 2011 and 2010, respectively. The Group recognized derivative asset relating to these contracts amounting to ₱0.2 million and ₱5.4 million as of December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the Group also has outstanding non-deliverable sell US Dollar buy EURO short-term forward exchange contracts with a counterparty bank with an aggregate notional amount of €4.7 million and €2.24 million, respectively and remaining maturities of less than 1 month to 2 months and less than 1 month to 8 months, respectively. As at December 31, 2011 and 2010, the forward rates related to the forward contracts ranges from €1.2950 to €1.3385 per US$1 €1.3291 to €1.3421 per US$1, respectively.

As of December 31, 2011, the Group recognized derivative liability relating to these contracts amounting to ₱7.7 million and ₱2.3 million. As of December 31, 2010, the Group recognized derivative asset and liability related to these contracts amounting to ₱2.3 million and ₱0.3 million, respectively.

The movements in fair value changes of all derivative instruments for the year ended December 31, 2011 and 2010 are as follows:

	2011	2010
At beginning of year	**₱7,347**	(₱15,630)
Net changes in fair value of derivatives not designated as accounting hedges	**(19,797)**	(40,041)
Fair value of settled instruments	**20,030**	63,018
At end of year	**(₱7,580)**	₱7,347

The loss from the net fair value changes relating to the forward contracts amounting to ₱19.8 million in 2011 and ₱40.0 million in 2010 are included as "Foreign exchange gains - net" under "Other income - net".

34. Registrations with the Department of Energy and BOI

a. On June 19, 2009, the BOI approved APRI's application as a new operator of the Tiwi-Makban Power Plant and granted APRI a pioneer status under the Omnibus Investments Code of 1987. The following are the incentives granted by BOI to APRI:
   - ITH for six (6) years from June 2009 or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant. Revenues generated from the sales of carbon emission reduction credits are also entitled to ITH.

- For the first five (5) years from date of registration, APRI shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of $10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.
- Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.
- Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.
- APRI may qualify to import capital requirement, spare parts and accessories at zero (0%) duty rate from the date of registration to June 16, 2011 pursuant to Executive Order (EO) No. 528 and its Implementing Rules and Regulations.

The following are the significant specific terms and conditions for the availment of the ITH:

- APRI shall start commercial operations in June 2009.
- APRI shall increase its authorized, subscribed and paid-up capital stock to at least ₱5,700,000 and shall submit proof of compliance prior to availment of ITH. This condition was superseded by a BOI letter dated September 18, 2009 clarifying that for the purposes of BOI registration, the BOI has redefined the term equity such that, it shall now cover not only the paid-up capital stock but also other items in the Balance Sheet of the Audited Financial Statements; i.e., additional paid in capital stock, retained earnings. Hence, if APRI has at least 25% stockholders equity as shown in the Audited Financial Statements, it is deemed compliant with the 25% equity requirement and is no longer required to increase its capital stock.
- APRI shall secure a Certificate of Compliance from ERC prior to start of commercial operations.
- APRI is enjoined to undertake Corporate Social Responsibility Projects/Activities

The BOI incentives availed by APRI amounted to ₱2.53 billion in 2011 and ₱3.12 billion in 2010.

b. On December 23, 2009, the BOI pre-approved TLI's application for registration as a new operator of the power plant on a non-pioneer status. Once approved, TLI will be entitled with the following incentives:
    - ITH for a period of four (4) years without extension from January 1, 2010 or actual start of operation, whichever is earlier but in no case earlier than the date of registration. The ITH incentives shall be limited only to the sales/revenue generated from the sale of electricity of the power plant.
    - For the first five (5) years from date of registration, TLI shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board of US$10,000 to one (1) worker and provided that this incentive shall not be availed of simultaneously with the ITH.
    - Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subject to the foregoing limitations.

- Importation of consigned equipment for a period of ten (10) years from date of registration, subject to the posting of re-export bond.

On February 26, 2010, TLI submitted to BOI all its requirements with a commitment to comply with the 25% minimum equity requirement of ₱490.0 million prior to the availment of ITH incentives. As of December 31, 2011 and 2010, TLI has complied with the minimum equity required.

c. PANC is registered with the BOI on its swine finishing farm expansion as "expanding producer of hogs" and its swine breeder farm expansion as "new producer of hogs" on a nonpioneer status under the Omnibus Investment Code of 1987. The registration of the swine finishing farm expansion entitles PANC's swine finishing farm with ITH for a period of three (3) years from the actual start of commercial operations, or January 2009, whichever comes first, but in no case earlier than the date of registration. The registration of the swine breeder farm expansion entitles PANC's swine finishing farm with ITH for a period of four (4) years starting from January 2010 or actual start of commercial operations whichever comes first but in no case earlier than date of registration.

d. PILMICO is registered with the BOI on its new feedmill plant as "new producer of animal feeds on a non-pioneer status with pioneer incentives" and its feedmill plant expansion as "expanding producer of animal feeds" under the Omnibus Investment Code of 1987. The registration entitles PILMCO's new feedmill plant, among others, with ITH for a period of six (6) years from July 2008 or actual start of commercial operation, whichever is earlier, but in no case earlier than the date of registration. PILMICO's feedmill plant started commercial operations in September 2008. The registration of the feedmill plant expansion entitles PILMICO with ITH for a period of three years from September 2010 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration.

35. **Rate Regulation, Power Supply and Other Agreements**

a. Certain subsidiaries are subject to the ratemaking regulations and regulatory policies by the ERC.

b. DLP, CLP and SEZ have contracts with NPC for the purchase of electricity. Pursuant to Section 8 of RA No. 9136, National Transmission Corporation (Transco) was created and has assumed the electrical transmission functions of NPC. The material terms of the contracts are as follows:

	Term of Agreement with NPC	Contract Energy (MWH year)
DLP	Ten years; expiring in December 2015	1,238,475
CLP	Ten years; expiring in December 2015	116,906
SEZ	Two-and-a-half years; renewed in March 2008 expiring in March 2011	90,000

Total power purchases from the NPC and Transco, net of discounts, recognized in the consolidated statements of income, amounted to ₱6.99 billion in 2011, ₱6.61 billion in 2010 and ₱7.1 billion in 2009. The outstanding payable to NPC and Transco on purchased power, presented as part of the "Trade and other payables" account in the consolidated balance sheets amounted to ₱468.1 million and ₱601.1 million as of December 31, 2011 and 2010, respectively (see Note 17).

c. Certain subsidiaries of PHC have Electric Power Supply Agreements with various corporations to supply or sell power and energy produced by the mini hydroelectric power plants. The maturity of these agreements varies from one taker to another with the nearest that matured in 2007 and farthest in 2018. All agreements provide for renewals or extensions subject to mutually agreed upon terms and conditions by both parties.

   ABOJEB and JMI (Agents) have outstanding agreements with foreign shipping principals, wherein the Agents render manning and crew management services consisting primarily of the employment of crew for the principals' vessels. As such, the principals have authorized the Agents to act on their behalf with respect to all matters relating to the manning of the vessels. Total service fees revenues recognized in the consolidated statements of income from these agreements amounted to ₱424.0 million in 2011, ₱414.3 million in 2010 and ₱400.0 million in 2009.

d. APRI Agreements

   Service Contract (SC) with Chevron
   Among the assumed contracts that APRI received from the APA is the SC with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) which provides for the following:

   - The SC is to provide for the exploration and exploitation to APRI of Geothermal Resources in the Area of Interest described in the SC.
   - CGPHI shall be the sole contractor responsible to APRI for the execution of services for the exploration and exploitation operations in accordance with the provisions of SC and, in accordance with the terms hereof, is hereby appointed as the sole contractor of NPC for such purposes in connection with the Area of Interest.
   - CGPHI shall furnish technical assistance required for the exploration for and exploitation of Geothermal Resources in order to make geothermal steam available for utilization into electric power, and shall recover its operating costs and realizes its return solely from the sale of power produced from the Geothermal Energy.
   - APRI shall provide and defray Philippine currency expenses to the extent hereinafter set forth necessary in the exploration for and exploitation of Geothermal Resources and Utilization of geothermal steam for electric power.
   - APRI shall provide and install as its own expense and the with technological assistance of CGPHI as hereinafter provided, such plants, machineries and auxiliary works as may be necessary for the conversion of geothermal steam into electric power and distribution of such power.

   Lease Agreement with PSALM
   On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of twenty-five (25) years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease. Total land lease charged to operations in 2011 and 2010 amounted to ₱19.7 million.

e. Coal Supply Agreement
TLI enters into short-term coal supply agreements. As of December 31, 2011, outstanding coal supply agreements have aggregate supply amounts of 410,000 MT (equivalent dollar value is $29 million) which were due for delivery from January 2012 to March 2012 . The coal supply agreements for the past three years had terms of payment by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.

f. ARI and Subsidiaries' Power Supply Agreement
In February 2007, ARI, in consortium with subsidiaries, HI, HTI and HSI successfully bid for an agreement to supply DLP a total of 400.00 million kilowatt hours (kWh) of new capacity per year for a 12-year period beginning 2009. The delivery of the contracted energy under the agreement is in two phases: Phase I Supply, whereby 200 million kWh per year of Net Expected Energy will be delivered, has a target completion date of August 1, 2009; and Phase II Supply, whereby the additional 200 million kWh per year of Net Expected Energy will be delivered, has a target completion date of August 1, 2010. Net Expected Energy refers to the quantity of electricity generated by the respective projects of the parties of the consortium, net of electricity used by the project, site usage, and step up transformer and transmission losses up to the delivery per meter points, which points are to be agreed upon by the parties. The bid price of the contracted energy is ₱4.0856/kWh delivered, subject to adjustment based on changes to the Philippine consumer price index.

g. HTI Agreements with Local Government Units
On October 29, 2007, HTI, a subsidiary, entered into agreements with various barangays in Davao City wherein each barangay gives its consent to HTI to manage, administer, regulate and undertake the construction of HTI's hydroelectric power plants and other related activities in their respective areas. In consideration thereof, HTI shall pay each of the barangay an annual royalty fee in an amount equivalent to ₱0.01 per kwh of electricity sales of the power plant located within their area to be paid annually beginning the first anniversary date of the commencement of HTI's commercial operations and on every anniversary date thereafter to be increased by ₱0.001 every 5 years. In addition to the royalty fee, HTI shall make donations for the undertaking of certain infrastructure projects and provide financial assistance for the various needs of the community. The agreement likewise provides that HTI shall comply with Sec. 5(i) of RA No. 7638 as implemented by ER No. 1-94 as amended, prescribing the following annual benefits during the operation of the power stations: a) electrification fund to be distributed to the relevant host LGU equivalent to ₱0.0075 per kwh of the total electricity sales; b) development and livelihood fund to be shared by the province, municipality, barangay and region equivalent to ₱0.00125 per kwh of the total electricity sales; and c) reforestation, watershed management, health and/or environmental enhancement fund to be shared by the resettlement area, barangay, municipality, province and region equivalent to ₱1.00125 per kwh of the total electricity sales.

The duration of the agreements is for a period of 25 years and renewable for another 25 years as agreed by the Barangay Council of Wines and HTI.

36. Contingencies

There are legal cases filed against certain subsidiaries in the normal course of business. Management and its legal counsel believe that the subsidiaries have substantial legal and factual bases for their position and are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the consolidated financial statements.

APRI is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the APRI's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.

AP obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain associates in connection with loans and credit accommodations. It provided SBLC for STEAG, LHC, SNAP M and SNAP B in the amount of ₱2.5 billion in 2011 and ₱1.70 billion in 2010.

37. **Other Matters**

a. Renewable Energy Act of 2008
On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the Department of Energy (DOE), in consultation with the Board of Investments (BOI), shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others. The Group expects that the Act may have significant effect on the operating results of some of its subsidiaries and associates that are RE developers. Impact on the operating results is expected to arise from the effective reduction in taxes.

b. EPIRA of 2001

RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of National Power Corporation (NPC) and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. Act No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with IPPs and electricity rates;
ii. Creation of a WESM; and
iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA. There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

38. Event After the Reporting Period

On March 1, 2012, the BOD of the Company approved the declaration of a cash dividend of ₱1.58 a share (₱8.7 billion) to all stockholders of record as of March 16, 2012, payable on April 3, 2012.

SyCip Gorres Velayo & Co.
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Philippines

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

**AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Kasambagan, Cebu City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Equity Ventures, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 1, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-2 (Group A),
February 4, 2010, valid until February 3, 2013
Tax Identification No. 109-247-891
BIR Accreditation No. 08-001998-43-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174866, January 2, 2012, Makati City

March 1, 2012

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2011

and

Independent Auditors' Report

Philippine
Pesos

ORIGINAL

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

INDEPENDENT AUDITORS' REPORT
REPORT ON THE SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue, Cebu City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Aboitiz Equity Ventures, Inc. as at December 31, 2011 and 2010 and for the years then ended, and have issued our report thereon dated February 13, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of all the Effective Standards and Interpretations is the responsibility of the management of Aboitiz Equity Ventures, Inc. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.

Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-2 (Group A),
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June 1, 2009, valid until May 31, 2012
PTR No. 3174866, January 2, 2012, Makati City

March 1, 2012

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

Supplementary Schedules Required
By the Securities and Exchange Commission
As of and for the Year Ended December 31, 2011

NA: NOT APPLICABLE

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2011
(Amounts in Thousands)

Name of Issuing Entity	Number of Shares	Amount Shown in the Balance Sheet	Value Based on Market Quotation at Balance Sheet Date	Income Received or Accrued
Cash In Bank				
ANZ	Not applicable	P 22	Not applicable	P -
Asian United Bank	Not applicable	112	Not applicable	3
Banco de Oro	Not applicable	1,872,414	Not applicable	10,279
Bank of Commerce	Not applicable	223	Not applicable	21
Bank of the Philippine Islands	Not applicable	47,842	Not applicable	90
China Banking Corporation	Not applicable	332	Not applicable	2
Citibank	Not applicable	134	Not applicable	-
Development Bank of the Philippines	Not applicable	3,134	Not applicable	35
Hongkong Shanghai Banking Corporation	Not applicable	404	Not applicable	-
Landbank of the Philippines	Not applicable	4,139	Not applicable	10
Metropolitan Bank and Trust Company	Not applicable	248,165	Not applicable	112
One Network Bank	Not applicable	504	Not applicable	-
Philippine National Bank	Not applicable	54,657	Not applicable	58
Rizal Commercial Banking Corporation	Not applicable	24,368	Not applicable	1,514
Rural Bank of Cotabato	Not applicable	114	Not applicable	-
Standard Chartered Bank	Not applicable	537	Not applicable	-
Security Bank Corporation	Not applicable	34,998	Not applicable	1,314
Sterling Bank of Asia	Not applicable	795	Not applicable	11
Union Bank of the Philippines	Not applicable	1,643,067	Not applicable	41,023
United Coconut Planters Bank	Not applicable	133	Not applicable	-
TOTAL		**P 3,936,094**		**P 54,472**
Money Market Placements				
Allied Banking Corporation	Not applicable	P 3,870	Not applicable	P -
Banco de Oro	Not applicable	6,510,805	Not applicable	288,136
Bangko Sentral ng Pilipinas	Not applicable	1,651,467	Not applicable	-
Bank of the Philippine Islands	Not applicable	4,092	Not applicable	65,148
China Trust Banking Corporation	Not applicable	515,712	Not applicable	15,219
Development Bank of the Phiippines	Not applicable	2,826	Not applicable	-
Eastwest Banking Corporation	Not applicable	50,000	Not applicable	-
First Metro Investment Corporation	Not applicable	1,653,100	Not applicable	113,518
Land Bank of the Philippines	Not applicable	4,278	Not applicable	-
Metropolitan Bank and Trust Company	Not applicable	4,729,650	Not applicable	71,243
Philippine National Bank	Not applicable	643,684	Not applicable	44,476
Rizal Commercial Banking Corporation	Not applicable	40,552	Not applicable	-
Security Bank Corporation	Not applicable	2,525,724	Not applicable	14,238
Sterling Bank of Asia	Not applicable	50,173	Not applicable	-
Union Bank of the Philippines	Not applicable	6,863,734	Not applicable	285,478
TOTAL		**P 25,249,667**		**P 897,456**
Trade Receivables				
Banking	Not applicable	P 10,240,834	Not applicable	Not applicable
Power	Not applicable	6,266,348	Not applicable	Not applicable
Food manufacturing	Not applicable	1,159,889	Not applicable	Not applicable
Holding and others	Not applicable	568,709	Not applicable	Not applicable
Transport services	Not applicable	88,640	Not applicable	Not applicable
TOTAL		**P 18,324,420**		
Other Receivables				
Dividends receivable	Not applicable	P 2,500,000	Not applicable	Not applicable
Accrued revenues	Not applicable	262,048	Not applicable	Not applicable
Others	Not applicable	937,917	Not applicable	Not applicable
TOTAL		**P 3,699,965**		
Available-For-Sale (AFS) Investments				
Publicly-listed:				
Alaska Milk Corporation	525,000	P 6,972	P 6,972	P 1,299
Empire East Land, Inc.	4,377,063	2,583	2,583	-
Megaworld Properties, Inc.	1,842,750	3,133	3,133	44
Others		867	867	22
Non-publicly-listed:				
Manila Golf Club	1	19,250	-	-
Moravia Holdings Corporation	-	13,937	-	-
Alta Vista Golf and Country Club	1	980	-	-
Cebu Holdings, Inc.	1	1,038	-	-
Cebu Country Club	3	8,400	-	-
Sea Orient Corporation	2,834,345	2,834	-	-
Equitable Banking Corporation	8,050	793	-	-
Philippine Long Distance and Telephone Company	11,180	181	-	-
Others		13,601	-	-
TOTAL		**P 74,569**		**P 1,365**

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

AS DECEMBER 31, 2011
(Amounts in Thousands)

Name and Designation of Debtor	Beginning Balance	Additions	Deductions: Amounts Collected	Deductions: Amounts Written Off	Current	Non-Current	Ending Balance
TRADE							
Cebu Praedia Development Corporation	P 390	P 143,530	P -	P -	P 143,920	P -	**P 143,920**
Abotiz Jebsen Company, Inc. - dividend receivable	-	15,625	-	-	15,625	-	**15,625**
Aboitiz Jebsen Manpower Solutions, Inc. - dividend receivable	-	1,903	-	-	1,903	-	**1,903**
Jebsen Maritime, Inc. - dividend receivable	-	9,375	-	-	9,375	-	**9,375**
NON-TRADE							
Pilmico Foods Corporation	39,595	-	(15,829)	-	23,766	-	**23,766**
Pilmico Animal Nutrition Corporation	1,263	-	(409)	-	854	-	**854**
Aboitiz Power Corporation	(9,560)	9,990	-	-	430	-	**430**
Aboitiz Energy Solutions, Inc.	25	-	(3)	-	22	-	**22**
Cebu Private Power Corporation	41	-	(122)	-	(81)	-	**(81)**
Cotabato Light and Power Co., Inc.	204	420	-	-	624	-	**624**
Davao Light and Power Co., Inc.	24,437	-	(1,104)	-	23,333	-	**23,333**
Subic Enerzone Corporation	2,154	951	-	-	3,105	-	**3,105**
Therma Mobile, Inc.	-	137	-	-	137	-	**137**
Hydro Specialists, Inc.	(2)	1	-	-	(1)	-	**(1)**
Abotiz Jebsen Company, Inc.	-	121	-	-	121	-	**121**
Jebsen Maritime, Inc.	-	350	-	-	350	-	**350**
City Savings Bank	-	4,463	-	-	4,463	-	**4,463**
Total	**P 58,547**	**P 186,866**	**P (17,467)**	**P -**	**P 227,946**	**P -**	**P 227,946**

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS

AS OF DECEMBER 31, 2011
(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS Charged to Costs and Expenses	Charged to Other Accounts	Other Changes Additions (Deductions)	Discontinued Operation	Ending Balance
A. Intangibles							
Goodwill	P 1,639,518	P -	P -	P -	P -	P -	P 1,639,518
Intangible asset - service concession rights	936,996	3,225,772	-	-	-		4,162,768
B. Other Noncurrent Assets							
Advances to contractor	-	2,353,605	-	-	-		2,353,605
VAT tax credit receivable	430,470	492,489	-	-	-		922,959
Prepaid rent and other deposits	559,183	-	(105,140)	-	-		454,043
Software and project costs	66,674	115,973	-	-	-		182,647
Bearer biological assets - net	53,372	12,821	-	-	-		66,193
Branch license	500	3,000	-	-	-		3,500
Others	319,436	-	(79,797)	-	-		239,639
Total	**P4,006,149**	**P6,203,660**	**(P184,937)**	**P0**	**P0**	**P0**	**P10,024,872**

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2011
(Amounts in Thousands)

Name of Issuer and Type of Obligation	Amount Authorized by Indentures	Amount Shown as Current	Amount Shown as Long-Term	Remarks
Parent Company:				
BPI Capital Corporation	498,750	1,250	497,500	
BPI-AMTG As Trustee	299,250	750	298,500	
BPI-AMTG ALFM Peso Bond Fund, Inc.	698,250	1,750	696,500	
Metropolitan Bank & Trust Company	2,494,900	5,100	2,489,800	
Subsidiaries:				
Aboitiz Power Corporation	13,456,677	710,105	12,746,572	
Cebu Private Power Corporation	425,101	213,333	211,768	
Hedcor Sibulan, Inc.	3,282,447	260,067	3,022,380	
Hedcor, Inc.	484,500	64,600	419,900	
Balamban Enerzone Corporation	70,000	4,375	65,625	
Subic Enerzone Corporation	565,000	56,500	508,500	
Luzon Hydro Corporation	521,257	195,820	325,437	
City Savings Bank	2,925,353	7,767	2,917,586	
Pilmico Foods Corporation	1,361,235	83,333	1,277,902	
Pilmico Animal Nutrition Corp.	600,000	-	600,000	
Total	**P27,682,720**	**P1,604,750**	**P26,077,970**	

ABOITIZ EQUITY VENTURES, INC.

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2011
(Amounts in Thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
COMMON SHARES	9,600,000	5,694,600	-	2,735,960	64,853	2,893,787
PREFERRED SHARES	400,000	-	-	-	-	-

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

SCHEDULE I - TRADE AND OTHER RECEIVABLES FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

AS DECEMBER 31, 2011
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Cebu Praedia Development Corporation	P -	P 143,920	P 143,920	P -	P -	P 143,530	on demand
Abotiz Jebsen Company, Inc. - dividend receivable	-	15,625	15,625	-	-	-	on demand
Aboitiz Jebsen Manpower Solutions, Inc. - dividend receivable	-	1,903	1,903	-	-	-	on demand
Jebsen Maritime, Inc. - dividend receivable	-	9,375	9,375	-	-	-	on demand
Pilmico Foods Corporation	23,766	-	23,766	(15,829)	-	-	30 days
Pilmico Animal Nutrition Corporation	854	-	854	(409)	-	-	30 days
Aboitiz Power Corporation	430	-	430	9,990	-	-	30 days
Aboitiz Energy Solutions, Inc.	22	-	22	(3)	-	-	30 days
Cebu Private Power Corporation	(81)	-	(81)	(122)	-	-	30 days
Cotabato Light and Power Co., Inc.	624	-	624	420	-	-	30 days
Davao Light and Power Co., Inc.	23,333	-	23,333	(1,104)	-	-	30 days
Subic Enerzone Corporation	3,105	-	3,105	951	-	-	30 days
Therma Mobile, Inc.	137	-	137	137	-	-	30 days
Hydro Specialists, Inc.	(1)	-	(1)	1	-	-	30 days
Abotiz Jebsen Company, Inc.	121	-	121	121	-	-	30 days
Jebsen Maritime, Inc.	350	-	350	350	-	-	30 days
City Savings Bank	4,463	-	4,463	4,463	-	-	30 days
Total	**P 57,123**	**P 170,823**	**P 227,946**	**P (1,034)**	**P -**	**P 143,530**	

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

SCHEDULE J- TRADE AND OTHER PAYABLES TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

AS DECEMBER 31, 2011
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Purchases	Rental	Advances	
AEV Aviation, Inc.	P -	P 22,223	P 22,223	P -	P -	P (5,979)	on demand
Total	**P -**	**P 22,223**	**P 22,223**	**P -**	**P -**	**P (5,979)**	

Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Cebu City

Statement of Retained Earnings Available for Dividend Declaration
December 31, 2011
(Amount in Philippine Currency)

Retained Earnings Available for Dividend Distribution, beginning		8,117,106
Add: Net income actually earned for the year:		
Net income closed to retained earnings	8,802,761	
Add: Reversed deferred income tax benefit on retirement expense	2,504	8,805,265
Less: Adjustments directly made to retained earnings during the year:		
Cash dividends paid	8,724,558	
Treasury shares	-	8,724,558
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION		**8,197,814**

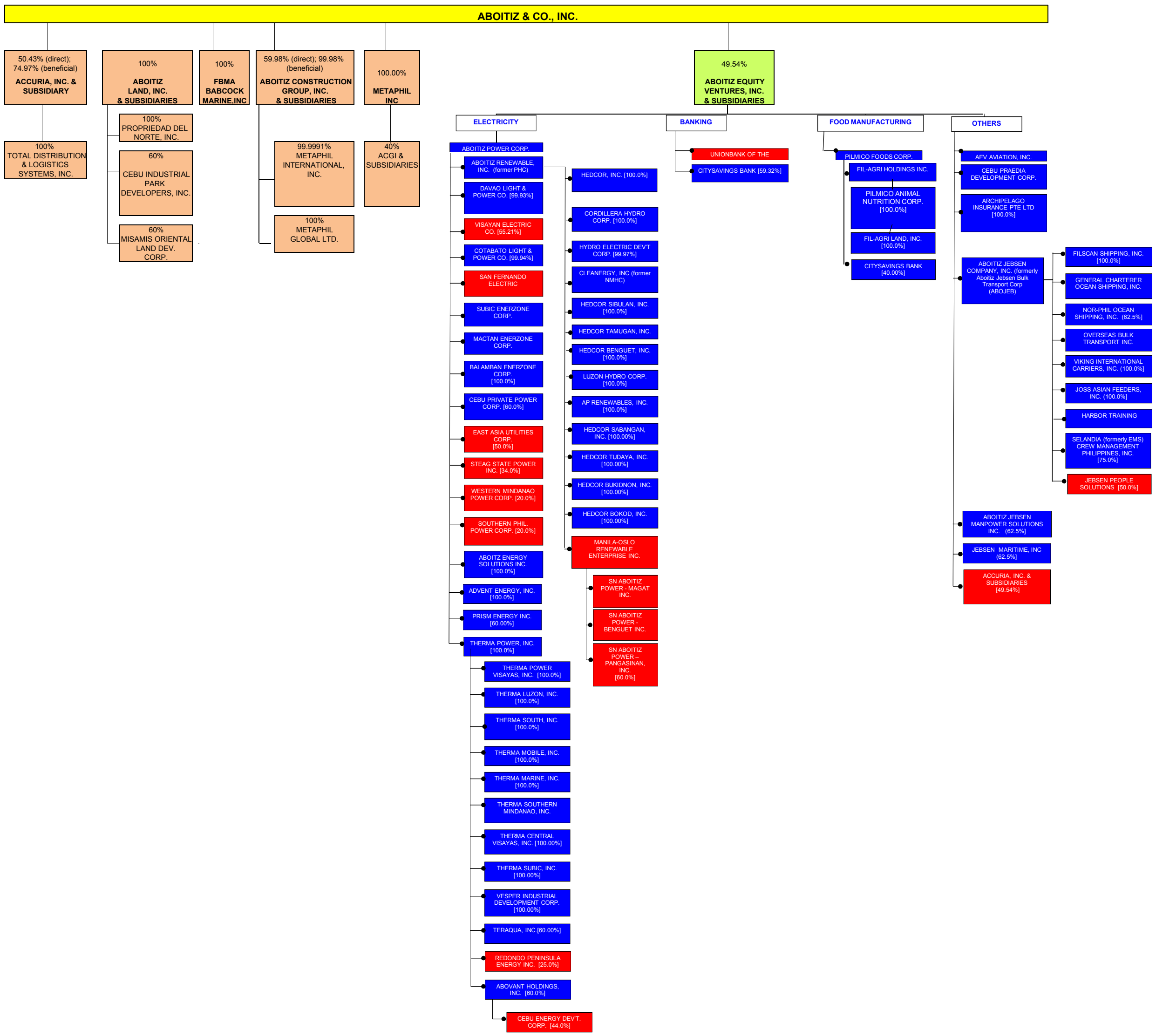
ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES

SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	DEC 2010	DEC 2011
LIQUIDITY RATIOS			
Current ratio	Current assets / Current liabilities	2.36	2.96
Acid test ratio	Cash + Marketable Securities + Accounts Receivable+ Other Liquid Assets / Current liabilities	2.06	2.60
SOLVENCY RATIOS			
Debt to equity ratio	Total liabilities / Total equity	1.23	1.12
Asset to equity ratio	Total assets / Total equity	2.23	2.12
Net debt to equity ratio	Debt - cash & cash equivalents / Total equity	0.70	0.59
Gearing ratio	Debt - cash & cash equivalents / Total equity + (Debt - cash & cash equivalents)	41.27%	37.18%
Interest coverage ratio	EBIT / Interest expense	5.43	5.11
PROFITABILITY RATIOS			
Operating Margin	Operating Profit / Total revenues	38.7%	31.8%
Return on Equity	Net income after tax / Total equity	51.25%	36.68%

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONGLOMERATE MAPPING
As of December 31, 2011

Legend:
- Parent Company
- Reporting Company
- Co-Subsidiary
- Subsidiary
- Associate



Aboitiz Equity Ventures, Inc. and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2011

Standards and Interpretations		Remarks
Philippine Financial Reporting Standards (PFRS)		
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	Adopted
PFRS 2	Share-based Payment	Not Applicable
PFRS 3	Business Combinations	Adopted
PFRS 4	Insurance Contracts	Adopted
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Adopted
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable
PFRS 7	Financial Instruments: Disclosures	Adopted
PFRS 8	Operating Segments	Adopted
Philippine Accounting Standards (PAS)		
PAS 1	Presentation of Financial Statements	Adopted
PAS 2	Inventories	Adopted
PAS 7	Statement of Cash Flows	Adopted
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10	Events after the Reporting Period	Adopted
PAS 11	Construction Contracts	Adopted
PAS 12	Income Taxes	Adopted
PAS 16	Property, Plant and Equipment	Adopted
PAS 17	Leases	Adopted
PAS 18	Revenue	Adopted
PAS 19	Employee Benefits	Adopted
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted
PAS 23	Borrowing Costs	Adopted
PAS 24	Related Party Disclosures	Adopted
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Adopted
PAS 27	Consolidated and Separate Financial Statements	Adopted
PAS 28	Investments in Associates	Adopted
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable

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Standards and Interpretations		Remarks
PAS 31	Interests in Joint Ventures	Not Applicable
PAS 32	Financial Instruments: Presentation	Adopted
PAS 33	Earnings per Share	Adopted
PAS 34	Interim Financial Reporting	Adopted
PAS 36	Impairment of Assets	Adopted
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38	Intangible Assets	Adopted
PAS 39	Financial Instruments: Recognition and Measurement	Adopted
PAS 40	Investment Property	Adopted
PAS 41	Agriculture	Adopted

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Standards and Interpretations	Remarks

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Adopted
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not Applicable
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not Applicable
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives	Adopted
IFRIC 10	Interim Financial Reporting and Impairment	Adopted
IFRIC 12	Service Concession Arrangements	Adopted
IFRIC 13	Customer Loyalty Programmes	Adopted
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Adopted
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners	Adopted
IFRIC 18	Transfers of Assets from Customers	Adopted
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted

Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC 7	Introduction of the Euro	Not Applicable
SIC 10	Government Assistance - No Specific Relation to Operating Activities	Not Applicable
SIC 12	Consolidation - Special Purpose Entities	Not Applicable
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Not Applicable
SIC 15	Operating Leases - Incentives	Adopted
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Adopted
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Adopted
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Adopted
SIC 29	Service Concession Arrangements: Disclosures	Adopted
SIC 31	Revenue - Barter Transactions Involving Advertising Services	Not Applicable
SIC 32	Intangible Assets - Web Site Costs	Adopted

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Schedule of Philippine Financial Reporting Standards
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Standards and Interpretations		Remarks
Philippine Interpretations - Questions and Answers (Q&As)		
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts	Adopted
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	Adopted
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)	Adopted
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE	Not Applicable
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20	Not Applicable
PIC Q&A 2009-01	Framework, paragraph 23 and PAS 1.23 - Financial statements prepared on a basis other than going concern	Adopted
PIC Q&A 2010-01	PAS 39.AG71-72 – Rate used in determining the fair value of government securities	Adopted
PIC Q&A 2010-02	PAS 1R.16 – Basis of preparation of financial statements	Adopted
PIC Q&A 2008-01 (Revised)	PAS 19.78 – Rate used in discounting post-employment benefit obligations	Adopted
PIC Q&A 2011-0	PAS 1 – Requirements for a Third Statement of Financial Position	Adopted