

COVER SHEET

9 1 4 2

S.E.C. Registration Number

F I L E S T A T E C O R P O R A T I O N

[Empty grid for company name]

(Company's Full Name)

7 T H F L O O R R E N A I S S A N C E

T O W E R M E R A L C O A V E N U E

P A S I G C I T Y

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

MR. RAMON G. JIMENEZ

Contact Person

633-6205

Company Telephone Number

1 2 3 1

Month Day

2012

calendar year

SEC FORM - 17A  
FORM TYPE

[Empty boxes for month and day]

Month Day

Registered/Listed  
Secondary License Type, If Applicable

[Empty grid for department]

Dept. Requiring this Doc.

[Empty box for articles number]

Amended Articles Number/ Section

Total Amount of Borrowings

[Empty boxes for domestic and foreign borrowings]

Domestic

Foreign

\*\*\*\*\*

To be accomplished by SEC Personnel concerned

[Empty grid for file number]

File Number

\_\_\_\_\_

LCU

[Empty grid for document I.D.]

Document I.D.

\_\_\_\_\_

Cashier

STAMPS

Remarks = pls. use black ink for scanning

**PART I - BUSINESS AND GENERAL INFORMATION**  
**SECURITIES AND EXCHANGE COMMISSION**

SEC FORM 17-A

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

1. For the fiscal year ended December 31, 2012
2. SEC Identification Number 9142                      3. BIR Tax Identification No. 041-000-194-408
4. Exact name of registrant as specified initials charter FIL-ESTATE CORPORATION
5. Philippines    6.  (SEC Use Only)  
Province, Country or other jurisdiction of                      Industry Classification Code  
Incorporation or organization
- 7th Floor Renaissance Tower  
6. Meralco Ave., Pasig City                      1600  
Address of Principal Office                      Postal Code
8. (632) 633-62-05  
Issuer's Telephone Number, including area code
9. Not Applicable  
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Section 8 n 12 of the SRC, or Sec 4 n 8 of the RSA

Title of Each Class	Number of Shares of common Stock Outstanding and Amount of Debt Outstanding
<u>Common Stock - P1 par value</u>	<u>998,403,181 (out of the total shares)</u>

11. Are any or all these securities listed on the Philippine Stock Exchange.  
Yes [X]      No [ ]

12. Check whatever the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder of Section 11 of the RSA and SRA Rule 11 (1a)-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 report).

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.

**Not Applicable**

**FIL-ESTATE CORPORATION**

**TABLE OF CONTENTS  
SEC FORM 17-A**

		<b>Page</b>
<b>Part I</b>	<b>BUSINESS AND GENERAL INFORMATION</b>	
Item 1	Business	1-5
Item 2	Property	5
Item 3	Legal Proceedings	5
Item 4	Submission of Matters to A Vote of Security Holders	6
<b>Part II</b>	<b>OPERATIONAL AND FINANCIAL INFORMATION</b>	
Item 5	Marketing of Registrant's Common Equity and Related Stockholder's Matters	6-7
Item 6	Management's Discussion and Analysis of Plan of Operation	7-10
Item 7	Financial Statements	10
Item 8	Changes in and Disagreements with Accountants on Accounting And Financial Disclosure	10
<b>Part III</b>	<b>CONTROL AND COMPENSATION INFORMATION</b>	
Item 9	Directors and Executive Officers of the Registrant	10-12
Item 10	Executive Compensation	12-14
Item 11	Security Ownership of Certain Beneficial Owners and Mgnt.	14
Item 12	Certain Relationships and Related Transactions	15
<b>Part IV</b>	<b>CORPORATE GOVERNANCE</b>	16
<b>Part V</b>	<b>EXHIBITS AND SCHEDULES</b>	
Item 14	a. Exhibits b. Reports on SEC Form 17-C	

**SIGNATURES**

**STATEMENT OF MANAGEMENT RESPONSIBILITY**

**STATEMENT TO FINANCIAL STATEMENTS AND SUPPLEMENTARY**

## Item 1. Business

### Business Development

Fil-Estate Corporation (the Company), formerly San Jose Oil Company, Incorporated, was incorporated in September 17, 1954 and was listed on the Philippine Stock Exchange (PSE) on May 4, 1964. The primary purpose of the corporation was originally to prospect for and market oil, natural gas and other minerals and secondarily invest in non-mining corporation or other enterprises.

In July 1996, the Board of Directors (BOD) and the stockholders of the Company approved (a) the change in Company's primary purpose from oil exploration to that of a holding Company authorized to engage in property and infrastructure development and the relegation of the present primary purpose to one of the Company's secondary purposes, and (b) the increase in the Company's authorized capital stock from P300.0 million, divided into 30.0 billion shares with par value of P0.01 per share, to P2 billion, divided into 2 billion shares with a par value of P1.00 per share (c) the declassification of Class A and B common shares to a single class of common share.

On January 22, 1998, The Securities and Exchange Commission ("SEC") approved the change in corporate name to Fil-Estate Corporation, the shift in the primary purpose to that of a holding company engaged in property development, the declassification of Class A and B common shares to a single class of common shares, and the change in the par value of its shares from P0.01 in 1997 to P1.00 in 1998.

On December 11, 2000, the SEC approved the Company's increase in authorized capital stock from P 300 million shares to P2 billion shares. Fil-Estate Management, Inc. (FEMI) subscribed to 700 million shares in exchange for the assignment of its interests in the Metro Rail Transit Holdings, Inc. (MRTHI) and Metro Rail Transit Corp., Limited (MRTCL).

On September 9, 2004, the SEC approved the extension of the Company's term of existence for another fifty (50) years.

The Company's key investment is in the form of equity interest in MRTHI and Metro Rail Transit Holdings II, Inc. ("MRTHII"). The combined investment in these holding companies represents approximately twenty nine percent (29%) interest in the EDSA Metro Rail Transit systems ("EDSA MRT systems"). The Phase I of the MRT project (LRTS Phase I) started full operation on July 15, 2000, and involved thirteen (13) stations from the North Triangle to Taft Avenue.

The Company has a 24.45% equity interest in Monumento Rail Transit Corporation ("Monumento Rail") which expectedly allows participation in the train system extension (e.g. Makati Loop) and additional train/vehicle procurement, in the event the Philippine government awards the project to MRTC.

The Company has not been the subject of any bankruptcy, receivership or similar proceedings for the last three (3) years. There has likewise been no material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business for the same period.

**Equity Infusion.** On March 19, 2007, the Company accepted the proposal of FEMI to infuse its 30% equity ownership in Camp John Hay Development Corporation (CJHDEVCO) in exchange for up to 450.0 million shares of the Company at P1.00 par value, subject to the approval of the SEC.

On September 11, 2007, the Company signed a Deed of Assignment whereby the 30% equity ownership of FEMI in CJHDEVCO is transferred to the Company in exchange for 450.0 million shares at P1.00 par values subject to the approval of the Bases Conversion Development Authority (BCDA). The Deed of Assignment by FEMI of its equity interest in CJHDEVCO in favor of the Company was signed in 2007 in conjunction with CJHDEVCO's active discussions with certain property developers and business process outsourcing operators who intend to invest in the CJHDEVCO area. The expansion of the CJHDEVCO

tourism and leisure complex in the northern resort destination of Baguio City will involve about 20 hectares of new development out of the total 247-hectare former rest and recreation facility of the United States Military. It is further expected that the profitability of CJHDEVCO will also be boosted by such investments and which, in turn, will positively affect the financial performance of the Company.

On July 1, 2008, the BCDA gave its consent on the transfer made by FEMI of its 30.0% equity interest in CJH in exchange for new shares of stocks of the Company.

On April 23, 2009, the Company and FEMI (the parties) executed an Amendment to the Deed of Assignment which (a) amends the number of shares to be transferred to 1.5 million shares still representing 30.0% equity interest in CJHDEVCO, and (b) extends date of closing of transaction to June 30, 2010 or any date agreed upon by the parties in writing, in order to allow the parties to fully comply with the conditions precedent to closing as set forth in the Deed of Assignment, particularly the consent from the SEC.

On January 9, 2012, CJHDEVCO rescinded the Restructured Memorandum of Agreement it entered into with BCDA on July 1, 2008, in view of the continuing inability of BCDA to make good its one-stop shop 30-day permit issuance guaranty. CJH subsequently filed a case against BCDA for arbitration with the Philippine Dispute Resolution Center, Inc.

On March 14, 2012, the House of Representatives passed a resolution creating a technical working group aimed to assisting CJHDEVCO and BCDA in amicably resolving the dispute.

On April 12, 2012, BOD approved the deferment of the assignment, transfer and conveyance in favor of the Company, of FEMI'S 30.0% equity in CJHDEVCO until the resolution of the dispute between CJHDEVCO and BCDA.

As at April 11, 2013, the implementation of the transfer of the 30.0% equity of FEMI in CJHDEVCO is still pending as the dispute between CJHDEVCO and BCDA is still under arbitration and has not yet been resolved.

***Conversion of liabilities to equity.*** On January 28, 2008, the BOD approved the conversion of a portion of the liabilities to FEMI amounting to about P400.0 million into equity shares of the Company at a par value of P1.00 per share. In view of the increase in the balance of liabilities to FEMI, the amount to be converted to equity was increased to P600.0 million as approved by the BOD on April 18, 2011. The amount of liability for conversion was further increased to P800.0 million as subsequently approved by the BOD on April 12, 2012.

As at April 11, 2013, the Company has yet to seek approval from the SEC and submit to other statutory requirements in relation to the conversion of liabilities into equity accounts.

***Infusion of certain properties.*** On April 12, 2012, the Company accepted the infusion by FEMI of certain properties of Mt. Zion Memorial, Inc. (MZMI) worth P500.0 million shares of the Company at P1.00 par value. MZMI is wholly-owned subsidiary of FEMI engaged in the development of Class A memorial parks. Organized in 1999, MZMI now has twelve (12) memorial parks nationwide with a total combined saleable memorial lots aggregating 50 hectares, with an estimated value of P2,500.0 million. A significant amount of annual income is expected to be generated from this infusion.

As at April 11, 2013, the Company has yet to seek approval from the SEC in relation to the said transaction.

***Cooperation Agreement.*** On November 12, 2010, the Company, Fil-Estate Properties, Inc. (FEPI) and FEMI (collectively termed as the 'Fil-Estate Companies') entered into a Cooperation Agreement with Metro Pacific Investment Corporation (MPIC) relating to the Fil-Estate Companies' rights and interests in the MRT Companies. Under the Cooperation Agreement, the Fil-Estate Companies shall appoint MPIC as its attorney-in-fact in connection with the exercise of the rights and interests of the Fil-Estate Companies in the MRT Co. The completion and consummation of the transaction contemplated by the

parties is subject to certain conditions, which as at April 11, 2013, has not yet occurred. As such, MPIC and Fil-Estate Companies are now discussing possible scenarios on how to implement the transactions contemplated by the parties when they entered into the Cooperation Agreement.

*Other Business Mandate.* The Company continues to pursue its new business mandate of getting involved in property projects relating to resort/leisure and entertainment facilities. A more aggressive outlook in property development is also being adopted by the Company in view of an upsurge in the business process outsourcing sector and the increase in demand for retirement and leisure homes.

## **Business of Issuer**

The business of the Company arises from its investments in the equity of the entities mentioned above. Hence, the Company has no principal products or services nor does the Company derive revenues or sales from any product or services. No part of the revenues or income of the Company has been derived from any foreign sales for the last three years. Corollary, the Company has no need of any distribution methods for any product or service. The Company has no publicly-announced new product or services.

There is no competition in respect of other train services. The MRT project complements other train systems and public transportation available in Metro Manila. Passengers along EDSA do have a choice between riding the MRT system and using the buses and/or public utility vehicles (i.e. FXs and taxis).

Not being engaged in the manufacturing of any product, the Company does not need any raw materials, energy or other items from suppliers for its business.

The MRT system is not dependent on a single customer but on public ridership. Current ridership is about 450,000 people per day. The Government, through the Department of Transportation and Communication ('DOTC'), is responsible for the collection of fares and for the day-to-day operation of the system. The owner of the system, MRTC, on the other hand is assured of a scheduled rental payment over the life of the Build Lease Transfer (BLT) agreement with DOTC.

The Company is 76% owned by FEMI. The company is not dependent on any transaction with and/or related parties.

The business of the Company does not require any patent, trademarks, copyrights, licenses, franchises, concessions and royalty agreements. The Company has substantial investment in corporations (MRTC) having concession agreements with the government, specifically agreements with the DOTC under the Build Operate and Transfer Law ('BOT Law'). Under the BLT Agreement with DOTC, the MRTC is committed to design, finance, build, complete and lease a light rail transit system ("LRTS") operating from North Avenue to Taft Avenue connecting approximately 16.8 kilometers with 13 stations. The MRTC completed the said LRTS in June 2000. As provided under the BLT Agreement, upon completion of the LRTS, the DOTC shall operate the same and pay MRTC guaranteed rental fees for a period of twenty five (25) years, from date of completion. The rental fees are used to pay debt to foreign funders, equity rental payments to stockholders of MRTC to guarantee a fifteen percent (15%) net economic return and maintenance fees. However, maintenance fees merely pass through MRTC and are remitted immediately to the maintenance provider, Sumitomo Corporation of Japan.

The investment of the Company in the Edsa MRT system does not require further approvals from the Philippine Government. The MRT system in Edsa has already complied and continues to comply with the governmental requirements directly related to the project.

The Company does not expect or anticipate that new government approvals will be required for the underlying project within the foreseeable future.

## **Effects of existing or probable regulations on the business**

The business of the Company is to hold its investments in the securities of other corporations. Hence, its income is derived from dividends from other corporations.

Existing government regulations do not impose any tax on dividends received by a domestic corporation from other domestic corporations. Any law or policy changes to the existing regulations on dividends may have an effect on the income of the Company. However, to date, the Company is not aware of any pending legislation that may affect the Company's source of income.

## **Research and development activities**

The Company has not been involved in any significant research and development activities over the last three fiscal years.

## **Costs and effects of compliance with environmental laws**

The Company does not engage in business operations subject to regulations requiring compliance with environmental laws.

## **Employees**

The Company has no existing employees and it does not anticipate having within the ensuing twelve (12) months. Corollary, there are no existing Collective Bargaining Agreements with employees. Administrative, Operation, Finance and Executive functions are being handled by its parent company, Fil-Estate Management, Inc.

## **Risks**

The Company's principal financial exposures consist of its payables to associates and a stockholder. Such financial instruments were used in prior years to raise funds for working capital and to retire interest bearing US Dollar denominated bank loans. The Company, as a matter of policy, discourages the use of foreign currency denominated obligation to avoid foreign currency risks and exchange losses. On the other hand, the Company encourages the creation of US dollar denominated assets to take advantage of potential gains arising from foreign exchange movements. On balance, the Company maintains a margin currency position in each asset and liability management.

The residual financial risks from the Company's financial instruments are cash flow/liquidity risks, credit risks and equity price risks.

Cash flow/liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet or settle its obligations and to support the Company's operations and activities.

The Company coordinates and negotiates closely with each principal stockholder to manage cash flow risks by jointly identifying new sources of cash flow infusions into the Company over the next five years.

Credit risk arises from the possibility of the Company incurring a loss due to the failure of the debtors to meet their contractual debt obligations.

The Company's exposure to credit risk arises primarily from its deposits with banks of good credit rating. The maximum exposure to credit risk is equivalent to the carrying amount of these cash in banks.



The Company is exposed to fair value changes on its Available for Sale ('AFS') investment in listed equity securities.

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

The Company continuously conducts an internal review of its financial risks management objectives and policies.

## **Item 2. Properties**

As of December 31, 2012, the Company has no other properties other than its Investment in the MRT companies. The Company is the recorded and beneficial owner of the shares of stock representing its investments in the said corporation.

The Company holds 4,278,511 shares or 18.6% interest in MRTHI) and 24,034,840 shares or 12.65% interest in MRTHII. MRTHI has 84.9% interest in MRTHII which wholly owns MRTC. MRTHI, MRTHII, MRTC, and Monumento Rail are collectively referred to as the MRT companies. The earnings of the MRT companies are derived from lease financing income relating to equity rentals received from the DOTC as defined in the BLT Agreement.

Notwithstanding the sale of future share distributions as discussed in Note 4 to the Financial Statements, the Company continues to hold on to the legal rights over the shares of stock in MRTHI and MRTH II. As of April 11, 2013, the Company, together with certain MRTHI shareholders, other than Astoria Investment Ventures, Inc. and Emerging Allied Infrastructure Ventures, Inc., still owns 76.6% of MRTHI.

On August 18, 2005, the Company and FEMI entered into a "Letter of Agreement," whereby FEMI has agreed to grant and granted the Company the sole option to assign to FEMI its equity interests in MRTHI and MRTH II as settlement of the Company's liabilities to FEMI amounting to P1,775 million (included in "Due to a stockholder" in the financial statements) and any additional advances or interest which FEMI may charge to the Company in relation to the said advances. Under the Letter of Agreement, should the Company opt to sell the said investments to third party or parties in the future, FEMI has the right of first refusal to purchase the said investments at its prevailing market value.

On November 12, 2010, Fil-Estate Companies entered into a Cooperation Agreement with MPIC relating to the Fil-Estate Companies' rights and interests in the MRT Companies. Under the Cooperation Agreement, the Fil-Estate Companies shall appoint MPIC as its attorney-in-fact in connection with the exercise of the rights and interests of the Fil-Estate Companies. The completion and consummation of the transaction contemplated by the parties is subject to certain conditions, which as at April 11, 2013 has not yet occurred. As such, MPIC and Fil-Estate Companies are now discussing possible scenarios on how to implement the transactions contemplated by the parties when they entered into the Cooperation Agreement.

The Company does not hold property subject of any lease arrangement. The Company is not expecting to purchase or sell any equipment within the ensuing twelve (12) months.

## **Item 3. Legal Proceedings**

There are no material legal proceedings to which the Company or its direct affiliates are a party or of which any of their property is subject. The Company has no knowledge or information as to any such legal proceedings contemplated by government authorities or any other entity.

#### 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 calendar year covered by this report.

### PART II - OPERATIONAL AND FINANCIAL INFORMATION

#### Item 5. Market for Registrants Common Equity and Related Stockholders Matters

##### (1) Market Information

The Company's stocks are being traded at the Philippine Stock Exchange. However, for the last five (5) years, trading of the Company's shares has been suspended.

In view of the suspension of trading of the Company's shares, the high and low sales prices of such shares for each quarter of the calendar years 2010, 2011 and 2012 cannot be determined.

Quarter	2013		2012		2011	
	High	Low	High	Low	High	Low
1 <sup>st</sup>	0.00	0.00	0.00	0.00	0.00	0.00
2 <sup>nd</sup>			0.00	0.00	0.00	0.00
3 <sup>rd</sup>			0.00	0.00	0.00	0.00
4 <sup>th</sup>			0.00	0.00	0.00	0.00

The shares of the Company were last traded on March 20, 2007 at a price of P0.26 per share.

##### (2) Holders

The number of stockholders of record as of March 31, 2013 is approximately 1,911. Common shares issued as of March 31, 2013 is 289,171,951 shares. As reflected in the balance sheets, FEMI subscribed to an additional 700.0 million shares in the Company.

##### Top 20 stockholders based on issued common shares as of March 31, 2013:

	Name of Stockholders	Number of Shares	% of Ownership
1	Fil-Estate Management, Inc.	757,540,199	76.58%
2	PCD Nominee Corporation (Filipino)	100,678,533	10.18%
3	Alakor Securities Corporation	66,778,253	6.75%
4	Bank of Commerce - Trust Services Group	43,211,800	4.37%
5	Bank of Commerce TG-91-07-001-C	6,383,000	0.64%
6	PCD Nominee Corp. (Non-Filipino)	3,046,629	0.31%
7	Fil-Estate Management Inc.	2,059,998	0.21%
8	Bancommerce Investment Corp	2,000,000	0.20%
9	Noel Carino	1,506,500	0.15%
10	Jaime Borromeo	1,000,000	0.10%

11	Leroy Tan	675,500	0.07%
12	Belson Securities, Inc. A/C#196-358	664,000	0.07%
13	Roberto N. Del Rosario	628,000	0.06%
14	CFC Corporation	576,000	0.06%
15	The Holders of the Unexchanged San Jose Oil Co., Inc.	556,839	0.06%
16	Li Chih Hui	500,000	0.05%
17	David Go Securities Corp.	414,200	0.04%
18	Trandline Securities Corp.	382,500	0.04%
19	Alberto Mendoza &/or Jeanie C. Mendoza	300,000	0.03%
20	John Gokongwei Jr.	270,000	0.03%

### (3) Dividends

No dividends have been declared in the last two (2) most recent calendar years.

Under the Company's By-Laws, there are no restrictions in the declaration of dividends other than what is prescribed in the Corporation Code, namely that these shall be declared only from surplus profit and no stock dividend shall be issued without the approval of stockholders representing not less than two-thirds of all stock outstanding and entitled to vote at a general or special meeting called for the purpose.

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

The Company has not sold any securities within the past three (3) years which were not registered under the SRC. The Company, within the same period, has not issued any new share nor reacquired securities nor issued securities in exchange for property, services or other services nor issued new securities resulting from the modification of outstanding securities. The Company has not applied for nor received written confirmations from the Commission under SRC Rule 10.1.

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

### Plan of Operation:

#### 1. MRT Operations

Fil-Estate Corporation continues to be a stakeholder of the Metro Rail Transit Project through its holding company Metro Rail Transit Holdings, Inc. and its associate, Monumento Rail Transit Corp.

FEC also plans to continue its strategy in maintaining itself as a holding corporation with key investment in the form of equity interest in MRTHI and MRTHII. The combined investment in these two holding companies represents approximately 29% interest in the EDSA MRT Systems. The Phase 1 of the MRT Project (LRTS Phase 1) started full operation on July 15, 2000, which involved 13 stations covering the North Triangle to Taft Avenue. The operation for the next 12 months will be strictly confined to that of an investee corporation.

The Company will continue, through its holdings in Monumento Rail, to actively pursue its participation in the train system extensions (e.g. Makati Loop) and capacity expansion through procurement of additional trains/vehicles.

## **I. Operations for the next twelve months**

The Company does not anticipate any material transactions that will require additional funding nor does it foresee any cash flow or liquidity problems within the next twelve (12) months.

The Company does not have plans for any product research and development within the same period.

There are no expected purchases or sale of plant and significant equipment within the next 12 months as the Company is not engaged in any manufacturing business.

The Company's accounting and administrative functions are currently handled by FEMI for no consideration and is not expecting to hire any employee within the next twelve (12) months.

## **Management Discussions and Analysis**

The revenues anticipated by the Company out of the MRTH and MRTIII investments will come in the form of dividends to be declared by MRTC out of its accumulated earnings arising from rental payment under BLT agreement. However, no dividend income was realized from 2003 to 2012.

The Company received advances of P333.5 million from MRTHI and MRTH II in prior years which will be applied against future dividends to be declared by MRTHI and MRTH II. The advances had not been discounted as there is no reliable basis of estimating the cash flow.

### **Review of 2012 Operation**

Cash increased by about P21.8 Thousand, from P141.6 Thousand in 2011 to P163.4 Thousand in 2012 due to payment of various accruals and current year's operating expenses.

The increase in "AFS Investment" of P190.6 Thousand was due to the increase in the fair market values of the Company's quoted equity securities.

The increase in "Accounts Payable and Accrued Expenses" of P6.4 Million was due to excess provision on DST for advances from FEMI from 2009-2010 and withholding taxes on interest expense from such advances.

The Due to a Stockholder account increased by P3.4 Million in view of advances received from FEMI which was used to pay off the regular operating expenses of the Company.

The Company's Net Operating Loss of P9.6 Million was brought about by the regular operating expenses of the Company.

The net loss of the Company decreased by P64.8 Million in 2012 as FEMI waived the 4% interest due on its advances to the Company.

### **Review of 2011 Operation**

Cash decreased by about P1.6M, from P1.7 Million in 2010 to P141 Thousand in 2011 due to payment of various accruals and current year's operating expenses.

The Due to a Stockholder account increased by P73.0 Million in view of advances received from FEMI which was used to pay off the regular operating expenses of the Company, and interest accrued on these advances.

The decrease in Accrued expenses account of about P154 Thousand was due to payments of various accrued expenses.

The Company's Net Operating Loss of P73.6 Million was brought about by the regular operating expenses of the company amounting to P3.5 Million and interest expense accrued on FEMI advances amounting P71 Million.

## **Review of 2010 Operation**

The increase in "Cash on Hand and in Banks" of P1.7 Million was the net effect of the substantial amount of deposits received in consideration for the Cooperation Agreement and of payments made to FEMI and other creditors and for current year's operating expenses.

The increase in "AFS Investment" of P4.2 million was due to the increase in the fair market values of the Company's quoted equity securities.

The increase in "Accounts Payable and Accrued Expenses" of P350.0 million was due to substantial amount of deposits received in consideration for the Cooperation Agreement.

The decrease in "Due to a Stockholder" of P277.0 million was the net effect of cash payments to FEMI and of the cash advances received by the Company and the interest accrued on these advances.

The Company's Net Operating Loss of P73.7 million was primarily due to interest expense accrued on FEMI advances which amounted to P68.3 million and general and administrative expenses of P5.3 million.

## **Key Performance Indicators**

The Company cannot independently act to address its performance indicators because its operation is strictly confined to its Investment in MRTHI, the company which holds the BLT Agreement with the government.

## **Other Matters**

As of December 31, 2012, there are no material trends, events and uncertainties known to management that would have an adverse effect on the operations of the Company.

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonable likely to result in the increase or decrease in the Company's liquidity in any material way.

The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company has no significant trade payables that have not been paid within the stated terms.

The Company is not aware of any event that will trigger a direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons that were created during the reporting period.

The Company has no material commitments for capital expenditures.

The Company is not aware of any significant elements of income or loss that did not arise from the Company's ongoing operations nor of any seasonal aspects that have a material effect on the financial condition or results of operations.

## Item 7. Financial Statements

Refer to the Audited Financial Statements as of December 31, 2012 and 2011 certified by Mr. Gerard B. Sanvictores, Partner, SGV & Co. respectively.

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

There have been no disagreements with the Company's Accountants, past or present, on accounting and financial disclosures. Since 1996 up to the present, Sycip Gorres Velayo & Co. continues to be engaged as the external auditor of the Company.

## PART III - CONTROL AND COMPENSATION INFORMATION

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

#### (A) Executive Officers of the Registrant

(1) The names, ages, citizenships, term of office, tenure as directors and experiences for the past five years of all the directors and executive officers are as follows:

Name	Age	Citizenship	Executive Position	Term	Years Served
Robert John L. Sobrepeña	58	Filipino	Chairman of the Board	1	1996 - 2013
Ferdinand T. Santos	62	Filipino	President	1	1996 - 2013
Noel M. Cariño	58	Filipino	Director	1	1996 - 2013
Enrique A. Sobrepeña	86	Filipino	Director	1	1997 - 2013
Rafael Perez de Tagle, Jr.	58	Filipino	Director	1	2000 - 2013
Ruben R. Payumo	73	Filipino	Director, Independent	1	2004 - 2013
Francisco C. Gonzalez	69	Filipino	Director, Independent	1	2010 - 2013
Alice Odchigue-Bondoc	46	Filipino	Director	1	2004 - 2013
Roberto S. Roco	60	Filipino	Director	1	2004 - 2013
Gilbert Raymund T. Reyes	55	Filipino	Corporate Secretary	1	2003 - 2013

**ROBERT JOHN L. SOBREPEÑA**, Filipino, age 58, is the Chairman of the Board of the Company and is one of the three founding members of the Fil-Estate Group of Companies. Mr. Sobrepeña concurrently holds various positions in the Fil-Estate Group. He is the Chairman of the Board of several companies such as Fil-Estate Management, Inc. MRT Development Corporation, CJHDEVCO, Camp John Hay Hotel, Fil -Estate Ecocentrum Corp., and Club Leisure Management, Inc. He graduated with a Bachelor's Degree in Science major in Psychology and Marketing from De La Salle University in 1978.

**ATTY. FERDINAND T. SANTOS**, Filipino, age 62, is the President and is one of the three founding members of Fil-Estate Group of Companies. He concurrently holds various positions in the Fil-Estate Group. He is the President of Fil-Estate Management, Inc., Global Estate Resorts, Inc., CJHDEVCO and Fil-Estate Ecocentrum Corporation. He took his Bachelor of Arts at Arellano University in 1970. He has a Bachelor of Law degree from San Beda College where he graduated Valedictorian and Magna Cum Laude in 1974. He was a topnotcher in the 1974 Philippine Bar Exams (2<sup>nd</sup> Placer).

**NOEL M. CARIÑO**, Filipino, age 58, is a Director of the Company and is one of the three founder of the Fil-Estate Group of Companies. He holds various positions in the Fil-Estate Group. Mr. Cariño was a Director of the Subdivision and Housing Development Association and of the Chamber of Real Estate and Builders Association. Currently he is the President of the WAR Against Poverty Foundation.

**RAFAEL PEREZ DE TAGLE JR.**, Filipino, age 58, is also a Director of MRT Development Corporation, CJHDVECO, Fil-Estate Ecocentrum Corporation, Camp John Hay Hotel and CAP General Insurance. He has a degree in Arts major in Economics from De La Salle University in 1976.

**ENRIQUE A. SOBREPENA JR.**, Filipino, age 86, a Director of the Company, is concurrently the President and Chief Executive Officer of College Assurance Plan Phils., CAP Life Insurance Corporation, CAP Technologies Corporation, Comprehensive Annuity Plans and Pension Corporation, CAP Realty, Inc and CAP General Insurance Company. Mr. Sobrepeña is also a Director of the CJHDEVCO and CAP Foundation for Socio-Economic Cooperation, Inc. He graduated with Bachelor of Arts at Siliman University an 1949 and Bachelor of Laws at University of Manila in 1952. He was awarded Doctor of Humanitis, Honoris Causa by the University of Manila in 2001 and Doctor of Business Administration, Honoris Causa by University of Baguio in 2002.

**RUBEN R. PAYUMO**, Filipino, age 73, has been elected in March 2004 as Independent Director. He is the President and Chief Executive Officer of Casa Luna Company and Arkitektura, Inc. since 1995. He is also a Director of Madera Construction and Development Company and FIXCO Company. He has been the Managing Director of R.R.Payumo + Partners, Architects since 1989.

**FRANCISCO C. GONZALEZ**, Filipino, age 69, is the Chairman of the Board and CEO of Romago Corporation and Fabriduct & Metal Systems, Inc. He is the Chairman of the Board of Romago, Inc. Guam and Electro Mechanical Products International, Inc. He also serves as President of Asia Pacific Golf Cars Corporation. He is also a Director and serves as Chairman of the Membership Committee of The Manila Southwoods Golf & Country Club, Inc. and Forest Hills Golf & Country Club, Inc. He is also the proprietor of A & P of Manila.

**ROBERTO S. ROCO**, Filipino, age 60, is the Chief Financial Officer of Global Estate Resorts, Inc. He is also a Director of Fil-Estate Ecocentrum Corporation, MRT Development Corporation and FEPI. He graduated from Ateneo de Manila University with a degree in Bachelor of Science major in Management.

**ALICE O. BONDOC**, Filipino, age 46, is also Vice President for Good Governance and Assistant Corporate Secretary of the Company. She is also a Director of Camp John Hay Leisure, Inc. She concurrently holds various positions in the Fil-Estate Group of Companies. She took her Bachelor of Science in Business Management major in Legal Management at Ateneo de Manila University and graduated Honorable Mention and Departmental Awardee of the Department of Legal Management in 1987. She holds a Doctor of Jurisprudence degree from Ateneo de Manila University School of Law and graduated Second Honors-Silver Medal Awardee in 1992.

**GILBERT RAYMUND T. REYES**, Filipino, age 55, has been the Corporate Secretary of the Company since 2003. He is a founding partner of the Poblador Bautista and Reyes Law Offices. He graduated with a Bachelor of Science degree major in Biology at the University of the Philippines in 1979. He holds a Bachelor of Law degree from the University of the Philippines College of Law and graduated Magna Cum Laude in 1983.

## **(2) Significant Employees**

The Company has no employee who is not an executive officer but who is expected by the Company to make a significant contribution to the business. The business of the Company is not highly dependent on the services of any key personnel.

## **(3) Family Relationships**

Mr. Enrique A. Sobrepeña is the father of Mr. Robert John L. Sobrepeña.

## **(4) Involvement in Certain Legal Proceedings**

The Company's directors and executive officers have not been subject of the following legal proceedings in the last five (5) years:

1. Any bankruptcy petition filed by or against any business to which such person was a general partner or executive officer either at the time of bankruptcy or within two years prior to that time;
2. Any pending or conviction by final judgment in a criminal proceeding, domestic or foreign;
3. Any order, judgment or decree, not subsequently reversed, suspended or vacated of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities or commodities or banking activities;
4. Found by a domestic or foreign court of competent jurisdiction, the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated securities or commodities law or regulation and the judgment has not been reversed, suspended or vacated.

## **Item 10. Executive Compensation**

### **(B) Executive Compensation**

No compensation was paid in 2012 and 2011 for the benefit of Chief Executive, Officers and Directors of the Company.

#### **(1) General**

Section 8 of the Company's By-Laws on Compensation, provides that "Each director shall receive a reasonable per diem allowance for his attendance at each meeting of the board. As a compensation, the Board shall receive and allocate an amount of not more than five (5%) percent of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper."

The directors receive a per diem of P10,000 per attendance at Board Meetings, and there is no provision in this section that maybe construed as precluding any director from serving in any other capacity and receiving any compensation thereof.



The Company plans to compensate its Chief Executive, Officers and Directors for any and all services rendered in 2010 and prior years. The amount of compensation is still to be determined and will be subject to the approval by the BOD.

### Summary Compensation Table:

Name	Position	Salary	Bonus	Other Annual Compensation (Per Diem)
Robert John L. Sobrepeña	Chairman of the Board			0
Atty. Ferdinand T. Santos	President			0
Noel M. Cariño	Director			0
Rafael Perez de Tagle	Director			0
Atty. Enrique A. Sobrepeña, Jr	Director			0
Roberto S.Roco	Director			0
Fransico C. Gonzalez	Director, Independent			0
Arch. Ruben R. Payumo	Director, Independent			0
Atty. Alice O. Bondoc	Director/VP for Good Governance			0
Atty. Gilbert Raymund T. Reyes	Corporate Secretary			0
Group Compensation 2012				0
Group Compensation 2011				0
Group Compensation 2010				0

### Standard Arrangements

There are no existing standard arrangements pursuant to which directors of the Company are compensated, directly or indirectly, for any services provided as director, nor are there any additional amounts payable to any of the Directors for committee participation or special assignments for the last completed fiscal year and the ensuing year.

### Other Arrangements

There are no other existing arrangements or consulting contracts, pursuant to which any of the directors of the Company was compensated or is to be compensated, directly or indirectly, during the last completed fiscal year and the ensuing fiscal year, or for any services provided as director.

### Employment Contract and Termination of Employment and Change-in-control Arrangements

The management of the Company is currently being undertaken by the executive officers of the parent company. For this reason, the Company has no existing employment contract with any executive officer nor is there any existing compensatory plan or arrangement, including payments to be received from the Company, with respect to an executive officer's employment with the Company and its subsidiaries or from a change-in-control of the Company or a change in the named executive officer's responsibilities following a change-in-control and the amount involved, including all periodic payments or installments, which exceed P2,500.00.

### Warrants and Options Outstanding: Repricing

The Company has not issued any warrants and there are no outstanding warrants or options held by the Company's CEO, the named executive officers, or any of the officers and directors, as a group.

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

### (1) Security Ownership of Certain Record and Beneficial Owners

As of March 31, 2013, Fil-Estate Corporation knows of no one who beneficially owns more than 5% of Fil-Estate Corporation's issued common stock except as set forth in the table below.

Titles of Class	Name, address of record owner and relationship to issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	<b>Fil-Estate Management, Inc.</b> 6 <sup>th</sup> Floor Renaissance Tower, Meralco Ave. Ortigas, Pasig City	<b>Robert John L. Sobrepena - Chairman</b>	Filipino	757,540,199	76.58%
	<b>PCD Nominee Corp. (Filipino)</b> G/F MKSE Bldg., Ayala Avenue Makati City	<b>Virgilio Castillo President</b>	Filipino	100,678,533	10.18%
	<b>Alakor Securities Corp. (Filipino)</b> 9F Quad Alpha Centrum, 123 Pioneer Street Mandaluyong City	<b>Presentacion Ramos- President</b>	Filipino	66,778,253	6.75%

Mr. Robert John L. Sobrepena is the Chairman of Fil-Estate Management, Inc., a company he owns to the extent of about one-third (1/3) of the outstanding shareholdings. He is also the Chairman of the Board of the Company.

Mr. Virgilio Castillo is the President of PCD Nominee Corporation. He holds the voting power over the shares of stocks of PCD Nominee.

Mr. Presentacion Ramos is the President of the Alakor Securities Corporation. He holds the voting power over the shares of stocks of Alakor Securities.

The Corporate Secretary or in his absence, the Assistant Corporate Secretary, has been appointed by Fil-Estate Management, Inc. to direct the voting or disposition of the shares held by the said stockholders. FEMI's office is at Mezzanine Floor Renaissance Tower, Meralco Ave., Pasig City.

There are no securities placed under Trust or Agreement.

## (2) Security Ownership of Management

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Robert John L. Sobrepeña	241,000	Filipino	.02436%
	Ferdinand T. Santos	1,000	Filipino	.0001011%
	Noel M. Cariño	1,506,500	Filipino	.152299%
	Enrique A. Sobrepeña	1,000	Filipino	.0001011%
	Alice Odchigue-Bondoc	1	Filipino	.0000001%
	Roberto S. Roco	1	Filipino	.0000001%
	Rafael Perez de Tagle Jr.	1,000	Filipino	.0001011%
	Ruben Payumo	60,000	Filipino	.006065%
	TOTAL	1,811,502		.1830275%

The beneficial ownership of the foregoing directors arises from the direct ownership of the shares above-indicated registered in the name of the said directors.

## (3) Voting Trust Holders of 5% or more

No director, executive officer or nominee of the Company holds more than 5% of the Company's common shares under a voting trust or similar agreement.

## (4) Changes in control since the Last Calendar Year

There has been no change in the controlling majority stockholder of the Corporation. Neither has there been any arrangement with any party, which may result in a change in the control of the Company.

## Item 12. Certain Relationship and Related Transactions

D (1) Fil-Estate Corporation, in the normal course of business, grants and obtains interest bearing cash advances to an affiliated Company.

There were no transactions during the last two years, or proposed transactions, to which the Company was or is to be a party, in which any of the following persons had or is to have a direct or indirect material interest:

- (a) Any director or executive officer of the Company;
- (b) Any nominee for election as a director;
- (c) Any security holder named in response to Part IV, paragraph ©, IRR, SRC
- (d) Any member of the immediate family (including spouse, parents, children, siblings, and in-laws of any of the persons in subparagraph (1)(a), (b) or (c) of this paragraph (D).

D (3) The parent company of the Company is Fil-Estate Management, Inc. which owns 75.88% of the total issued, outstanding and subscribed capital stock of the Company.

## **PART IV - CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

The Company adapted the Self-Rating System on Corporate Governance being implemented by the Securities and Exchange Commission through SEC Memorandum Circular No. 5, Series of 2003 to assess compliance with leading practices on corporate governance. The Compliance Officer meets with the Directors and top-level management from time to time to evaluate compliance with Company's Manual on Corporate Governance.

The Company is in full compliance with its Manual on Corporate Governance. The Compliance Officer is present at all meetings of the Board of Directors and closely coordinates with the Chairman and the President to ensure full compliance with the adopted leading practices on good corporate governance. The Compliance Officer furnishes the Board of Directors and top-level management with copies of new rules, regulations, circulars and orders of the Securities and Exchange Commission and the Philippine Stock Exchange to continuously update its Directors and top-level-management regarding new requirements for compliance with leading practices on corporate governance. In addition, the Compliance Officer requires its Directors and top-level-management to attend seminars on good corporate governance.

There are no material deviations to date from the Company's Manual of Corporate Governance. The Board has no immediate plans to adopt new policies for corporate governance.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 13**

#### **b) Reports on SEC Form 17-C**

Please be advised that Fil-Estate Management, Inc. authorized the waiver of interests due from Fil-Estate Corporation (the "Company") for the period January 1, 2012 to December 31, 2012 arising from the One Billion Eight Hundred Forty-Nine Million Six Hundred Three Thousand Seven Hundred Seventy-Six Pesos & 84/100 (P1,849,603,776.84) advances of Fil-Estate Management, Inc. to the Company.

COVER SHEET

9 1 4 2

SEC Registration No.

F I L - E S T A T E C O R P O R A T I O N

(Company's Full Name)

7 T H F L O O R R E N A I S S A N C E T O W E R  
M E R A L C O A V E N U E P A S I G C I T Y

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

Mr. Ramon G. Jimenez  
Contact Person

6336205 loc. 108  
Company Telephone Number

1 2 3 1  
Month Day  
fiscal year

SEC Form 17-C dated April 17, 2013

FORM TYPE

1st Thursday of March  
Month Day  
annual meeting

Listed

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/ Section

Total Amount of Borrowings  
Domestic Foreign

\*\*\*\*\*

To be accomplished by SEC Personnel concerned

File Number

LCU

Dociment I.D.

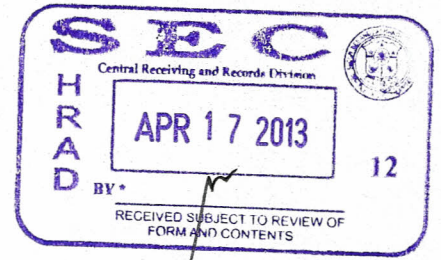
Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE  
AND SRC RULE 17.2(c) THEREUNDER



1. **April 17, 2013**  
Date of Report (Date of earliest event reported)
2. SEC Identification Number: **ASO9124**    3. BIR Tax Identification No. **041-000-194-408**
4. **Fil-Estate Corporation**  
Exact name of issuer as specified in its charter
5. .... 6.  (SEC Use Only)  
Province, country or other jurisdiction of incorporation    Industry Classification Code:
7. **7/F Renaissance Tower, Meralco Ave., Pasig City**    **1600**  
Address of principal office    Postal Code
8. **(632) 6336205**  
Issuer's telephone number, including area code
9. **N.A.**  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Shares</b>	<b>997,946,486 (out of the total share)</b>

11. Indicate the item numbers reported herein:

Please be advised that Fil-Estate Management, Inc. authorized the waiver of interests due from Fil-Estate Corporation (the "Company") for the period January 1, 2012 to December 31, 2012 arising from that One Billion Eight Hundred Forty-Nine Million Six Hundred Thousand Seven Hundred Seventy-Six Pesos & 84/100 (P1,849,603,776.84) advances of Fil-Estate Management, Inc. to the Company.

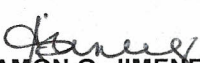
**SIGNATURE**

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

Date: April 17, 2013

**FII-ESTATE CORPORATION**  
Issuer

By:

  
**RAMON G. JIMENEZ**  
Corporate Information Officer/  
VP for Accounting



Signatures

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Company Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on \_\_\_\_\_ .

By:

  
Robert John L. Sobrepeña  
Chief Executive Officer


  
Atty. Ferdinand T. Santos  
President/Chief Operating Officer

  
Ramon G. Jimenez  
VP -Accounting

Alice O. Bondoc  
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 16 APR 2013 day of \_\_\_\_\_ affiant(s) exhibiting to me his/their Social Security System Number, as follows:

NAMES	SSS NO.
Robert John L. Sobrepeña	03-6449007-1
Atty. Ferdinand T. Santos	03-2643588-3
Alice O. Bondoc	33-1923852-8
Ramon G. Jimenez	03-6347637-1

  
ALAN B. QUINTANA  
NOTARY PUBLIC  
Pasig, San Juan, Palanan, Taguig  
App. No. 75 (1998) 1-10, 2014  
6F Renaissance Towers, Pasig City  
ATTORNEY'S REG. NO. 19468  
IBP No. 887182 (1998) 1-2-12  
PTR No. 8410445 (1998) 1-2-2013  
MCLE Compliance No. IV - 0002924

Doc. No.: 930 ;  
Page No.: 01 ;  
Book No.: I ;  
Series of 2013





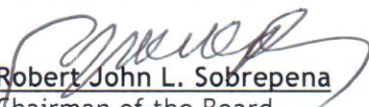
## “STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR THE COMPANY’S FINANCIAL STATEMENTS”

The management of FIL-ESTATE CORPORATION is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, including the additional attachments therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Sycip Gorres Velayo & Co., the independent auditors, appointed by the stockholders for the period December 31, 2012 and 2011, have examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.

Signed under oath by the following:

  
Robert John L. Sobrepena  
Chairman of the Board

  
Atty. Ferdinand T. Santos  
President

  
Ramon G. Jimenez  
Vice-President for Accounting

### ACKNOWLEDGEMENT

Republic of the Philippines)  
**PASIG CITY** )

SUBSCRIBED AND SWORN to before me this 16 APR 2013 affiant exhibiting to me his Social Security System No. 03-6347637-1.

WITNESS MY HAND AND SEAL on this \_\_\_\_\_ day of \_\_\_\_\_ ALAN B. QUINTANA

Doc. No.: 929 ;  
Page No.: 67 ;  
Book No.: 1 ;  
Series of 2013

**ALAN B. QUINTANA**  
NOTARY PUBLIC  
Pasig, San Juan, Palmares, Taguig  
App. No. 75 until Dec 31, 2014  
6F Renaissance Towers, Meralco Ave., Pasig City  
ATTORNEY'S REG. NO. 39468  
IBP No. 887162, Exp. 1-2-12  
PTR No. 8410445, Pasig 1-2-2013  
MCLE Compliance No. IV - 0002924



**Fil-Estate Corporation**

Financial Statements  
December 31, 2012 and 2011 and  
Years Ended December 31, 2012, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

**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,  
December 28, 2012, valid until December 31, 2015  
SEC Accreditation No. 0012-FR-3 (Group A),  
November 15, 2012, valid until November 16, 2015

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Fil-Estate Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of Fil-Estate Corporation, which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of comprehensive income, statements of changes in capital deficiency and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditors' Responsibility*

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

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

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



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fil-Estate Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company has suffered recurring losses which resulted to capital deficiency of ₱765.9 million and ₱756.4 million as at December 31, 2012 and 2011, respectively. These conditions along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's plan for future actions to address such capital deficiency include the infusion of equity ownership and certain properties, continuous financial support from Fil-Estate Management, Inc., the Parent Company, and conversion of liabilities to equity which are further discussed in Note 1. We have performed audit procedures to evaluate management's plans for such future actions as to likelihood to improve the situation and as to feasibility under the circumstances.

**Report on the Supplementary Information Required Under Revenue Regulations No. 19-2011 and 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 required under Revenue Regulations No. 19-2011 and 15-2010 in Notes 14 and 15 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Fil-Estate Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Gerard B. Sanvictores  
Partner

CPA Certificate No. 38790

SEC Accreditation No. 0989-A (Group A),  
June 24, 2010, valid until June 23, 2013

Tax Identification No. 123-305-143

BIR Accreditation No. 08-001998-35-2012,  
June 19, 2012, valid until June 18, 2015

PTR No. 3670023, January 2, 2013, Makati City

April 11, 2013



**FIL-ESTATE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>Current Asset</b>		
Cash on hand and in banks (Note 12)	<b>₱163,367</b>	₱141,646
<b>Noncurrent Asset</b>		
Available-for-sale financial assets (Notes 4, 6 and 12)	<b>1,774,428,491</b>	1,774,237,878
	<b>₱1,774,591,858</b>	₱1,774,379,524
<b>LIABILITIES AND CAPITAL DEFICIENCY</b>		
<b>Current Liability</b>		
Accrued expenses and other current liabilities (Notes 4 and 12)	<b>₱357,436,756</b>	₱351,037,996
<b>Noncurrent Liabilities</b>		
Due to a stockholder (Notes 1, 4, 6 and 12)	<b>1,849,603,777</b>	1,846,224,982
Due to related parties (Note 6)	<b>333,468,624</b>	333,468,624
Total Noncurrent Liabilities	<b>2,183,072,401</b>	2,179,693,606
<b>Capital Deficiency</b>		
Capital stock (Note 7)	<b>998,403,181</b>	998,403,181
Additional paid-in capital	<b>589,120,804</b>	589,120,804
Cumulative change in fair value of available-for-sale financial assets (Note 4)	<b>8,165,669</b>	7,975,056
Deficit (Note 1)	<b>(2,361,606,953)</b>	(2,351,851,119)
Total Capital Deficiency	<b>(765,917,299)</b>	(756,352,078)
	<b>₱1,774,591,858</b>	₱1,774,379,524

*See accompanying Notes to Financial Statements.*



**FIL-ESTATE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2012	2011	2010
<b>INTEREST INCOME</b>	<b>₱368</b>	₱960	₱5,945
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 8)	<b>(9,756,202)</b>	(3,507,781)	(2,162,373)
<b>INTEREST EXPENSE</b> (Note 6)	–	(71,008,653)	(68,281,482)
<b>FOREIGN EXCHANGE LOSS - Net</b>	–	–	(146,868)
<b>NET LOSS</b>	<b>(9,755,834)</b>	(74,515,474)	(70,584,778)
<b>OTHER COMPREHENSIVE INCOME</b>			
Change in fair value of available-for-sale financial assets (Note 4)	<b>190,613</b>	840,956	4,185,717
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(₱9,565,221)</b>	(₱73,674,518)	(₱66,399,061)
<b>LOSS PER SHARE</b> (Note 10)	<b>₱0.0098</b>	₱0.0745	₱0.0706

*See accompanying Notes to Financial Statements.*



**FIL-ESTATE CORPORATION**  
**STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY**

	Years Ended December 31		
	2012	2011	2010
<b>CAPITAL STOCK</b> (Note 7)	<b>₱998,403,181</b>	₱998,403,181	₱998,403,181
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>589,120,804</b>	589,120,804	589,120,804
<b>CUMULATIVE CHANGE IN FAIR VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>			
Balance at beginning of year	7,975,056	7,134,100	2,948,383
Other comprehensive income	190,613	840,956	4,185,717
Balance at end of year	<b>8,165,669</b>	7,975,056	7,134,100
<b>DEFICIT</b>			
Balance at beginning of year	<b>(2,351,851,119)</b>	(2,277,335,645)	(2,206,750,867)
Net loss	<b>(9,755,834)</b>	(74,515,474)	(70,584,778)
Balance at end of year	<b>(2,361,606,953)</b>	(2,351,851,119)	(2,277,335,645)
	<b>(₱765,917,299)</b>	(₱756,352,078)	(₱682,677,560)

*See accompanying Notes to Financial Statements.*



**FIL-ESTATE CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	<b>(₱9,755,834)</b>	(₱74,515,474)	(₱70,584,778)
Adjustments for:			
Interest income	<b>(368)</b>	(960)	(5,945)
Interest expense (Note 6)	–	71,008,653	68,281,482
Unrealized foreign exchange loss	–	–	146,868
Increase (decrease) in accrued expenses and other current liabilities	<b>6,398,760</b>	(154,264)	(455,373)
Interest received	<b>368</b>	960	5,945
<b>Net cash used for operating activities</b>	<b>(3,357,074)</b>	(3,661,085)	(2,611,801)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments (payments) of advances (Note 6)	<b>3,378,795</b>	2,061,587	(345,591,277)
Increase in due to related parties	–	–	350,000,000
<b>Net cash generated from financing activities</b>	<b>3,378,795</b>	2,061,587	4,408,723
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>21,721</b>	(1,599,498)	1,796,922
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	–	–	(146,868)
<b>CASH AT BEGINNING OF YEAR</b>	<b>141,646</b>	1,741,144	91,090
<b>CASH AT END OF YEAR</b>	<b>₱163,367</b>	₱141,646	₱1,741,144

*See accompanying Notes to Financial Statements.*





# **FIL-ESTATE CORPORATION**

---

## **NOTES TO FINANCIAL STATEMENTS**

---

### **1. Corporate Information and Status of Operation**

#### Corporate Information

The Company was incorporated as San Jose Oil Company, Inc. on September 17, 1954 and was listed on the Philippine Stock Exchange (PSE) on May 4, 1964 as an oil exploration company and was reorganized in 1996 into a corporate vehicle that will pursue infrastructure-related investments, and was renamed Fil-Estate Corporation (the Company). On September 9, 2004, the Philippine Securities and Exchange Commission (SEC) approved the extension of the Company's corporate life for another 50 years.

The Company is 75.9% owned by Fil-Estate Management, Inc. (FEMI), the Parent Company. The principal activity of the Company is the holding of 4,278,511 shares or 18.6% interest in Metro Rail Transit Holdings, Inc. (MRTHI) and 24,034,840 shares or 12.6% interest in Metro Rail Transit Holdings II, Inc. (MRTH II) (see Note 4). MRTHI has 84.9% interest in MRTH II which wholly owns Metro Rail Transit Corporation (MRTC). MRTHI, MRTH II, MRTC, and Monumento Rail Transit Corporation (Monumento Rail) are collectively referred to as the Metro Rail Transit (MRT) Companies. The earnings of the MRT Companies are derived from lease financing income relating to equity rentals received from the Department of Transportation and Communication (DOTC) as defined in the Build, Lease and Transfer (BLT) Agreement.

Notwithstanding the sale of future share distributions as discussed in Note 4, the Company continues to hold on to the legal rights over the shares of stock in MRTHI and MRTH II. As at April 11, 2013, the Company, together with certain MRTHI shareholders, other than Astoria Investment Ventures, Inc. and Emerging Allied Infrastructure Ventures, Inc., still owns 76.6% of MRTHI.

The registered office address of the Company is Mezzanine Floor, Renaissance Centre, Meralco Avenue, Pasig City.

#### Status of Operation

The financial statements have been prepared on a going concern basis which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred net losses of ₱9.8 million in 2012, ₱74.5 million in 2011 and ₱70.6 million in 2010, with capital deficiency balance of ₱765.9 million and ₱756.4 million as at December 31, 2012 and 2011, respectively. The trading of the Company's shares of stock at the Philippine Stock Exchange has also been suspended for the last five years. The Company currently has no employees and does not anticipate having within the next twelve months. As shown in the succeeding paragraphs, the Company continues to obtain support from FEMI and the management has undertaken steps to improve financial performance by agreeing to proposed equity and property infusions in the Company which are expected to provide significant revenues to the Company. In addition, since the Company continues to hold legal rights over the shares of MRTHI, MRTH II, and MRTC, the Company expects that its residual interest over these shares upon final liquidation of these companies or expiration of the BLT agreement would provide significant cash inflows to the Company. FEMI, in its letter of support to the Company, committed not to demand payment of the amount due from the Company not covered by the "Letter of Agreement" as discussed in Note 4, until such time that the Company has the ability to pay.



*Equity Infusion.* On March 19, 2007, the Company accepted the proposal of FEMI to infuse its 30.0% equity ownership in Camp John Hay Development Corporation (CJH) in exchange for up to 450.0 million shares of the Company at ₱1.0 par value, subject to the approval of the SEC. On September 11, 2007, the Company signed a Deed of Assignment transferring the 30.0% equity ownership of FEMI in CJH in exchange for 450.0 million shares of the Company at ₱1.0 par value subject to the approval of the Bases Conversion Development Authority (BCDA). The Deed of Assignment by FEMI of its equity interest in CJH in favor of the Company was signed in 2007 in conjunction with CJH's active discussions with certain property developers and business process outsourcing operators who intend to invest in the CJH area. The expansion of the CJH tourism and leisure complex in the northern resort destination of Baguio City will involve about 20 hectares of new development out of the total 247-hectare former rest and recreation facility of the United States Military. It is further expected that the profitability of CJH will also be boosted by such investments and which, in turn, will positively affect the financial performance of the Company.

On July 1, 2008, the BCDA gave its consent on the transfer made by FEMI of its 30.0% equity interest in CJH in exchange for new shares of stocks of the Company.

On April 23, 2009, the Company and FEMI (the parties) executed an Amendment to the Deed of Assignment which (a) amends the number of shares to be transferred to 1.5 million shares still representing 30.0% equity interest in CJH and (b) extends date of closing of transaction to June 30, 2010 or any date agreed upon by the parties in writing, in order to allow the parties to fully comply with the conditions precedent to closing as set forth in the Deed of Assignment, particularly the consent from the SEC.

On January 9, 2012, CJH rescinded the Restructured Memorandum of Agreement it entered into with BCDA on July 1, 2008, in view of the continuing inability of BCDA to make good its one-stop-shop 30-day permit issuance guaranty. CJH subsequently filed a case against BCDA for arbitration with the Philippine Dispute Resolution Center, Inc.

On March 14, 2012, the House of Representatives passed a resolution creating a technical working group aimed at assisting CJH and BCDA in amicably resolving the dispute.

On April 12, 2012, the Board of Directors (BOD) approved the deferment of the implementation of the transfer of the 30.0% equity of FEMI in CJH until the dispute between CJH and BCDA has been resolved.

As at April 11, 2013, the implementation of the equity transfer is still pending as the dispute between CJH and BCDA is still under arbitration and has not yet been resolved.

*Conversion of liabilities to equity.* On January 28, 2008, the BOD approved the conversion of a portion of the liabilities to FEMI amounting to about ₱400.0 million into equity shares of the Company at a par value of ₱1.0 per share. In view of the increase in the balance of liabilities to FEMI, the amount to be converted to equity was increased to ₱600.0 million as approved by the BOD on April 18, 2011. The amount for conversion was further increased to ₱800.0 million as subsequently approved by the BOD on April 12, 2012. As at April 11, 2013, the Company has yet to seek approval from the SEC and submit the other statutory requirements in relation to the conversion of liabilities into equity accounts.

*Infusion of certain properties.* On April 12, 2012, the Company accepted the infusion by FEMI of certain properties of Mt. Zion Memorial, Inc. (MZMI) worth ₱500.0 million in exchange for 500.0 million shares of the Company at ₱1.0 par value. MZMI is a wholly-owned subsidiary of FEMI engaged in the development of Class A memorial parks. Organized in 1999, MZMI now



has twelve (12) memorial parks nationwide with a total combined saleable memorial lots aggregating 50 hectares, with an estimated value of ₱2,500.0 million. A significant amount of annual income is expected to be generated from this infusion. As at April 11, 2013, the Company has yet to seek approval from the SEC in relation to the said transaction.

*Cooperation Agreement.* On November 12, 2010, the Company, Fil-Estate Properties, Inc. (FEPI) and FEMI (collectively termed as the “Fil-Estate Companies”) entered into a Cooperation Agreement with Metro Pacific Investment Corporation (MPIC) relating to the Fil-Estate Companies’ rights and interests in the MRT Companies. The cooperation has the following objectives: (i) explore solutions that will enable the expansion of the MRT 3 system through financially and legally viable means, and (ii) to transfer the interests of the Fil-Estate Companies in the MRT Companies, subject to obtaining the necessary consents from the relevant parties. Under the Cooperation Agreement, the Fil-Estate Companies shall appoint MPIC as its attorney-in-fact in connection with the exercise of the rights and interests of the Fil-Estate Companies in the MRT Companies. The completion and consummation of the transaction contemplated by the parties is subject to certain conditions, which as at April 11, 2013, has not yet occurred. As such, MPIC and Fil-Estate Companies are still in the process of discussing possible scenarios on how to implement the transactions contemplated by the parties when they entered into the Cooperation Agreement.

#### Approval for the Issuance of the Financial Statements

The financial statements were approved and authorized for issuance by the BOD on April 11, 2013.

---

## 2. Summary of Significant Accounting Policies

### Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for the quoted equity securities included under available-for-sale (AFS) financial assets, which have been carried at fair value. The financial statements are presented in Philippine Peso, which is the Company’s functional and presentation currency. All values are rounded off to the nearest Peso unit, except when otherwise indicated.

### Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following amended Philippine Accounting Standards (PAS), PFRSs and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which were adopted as at January 1, 2012.

- PAS 12 (Amendments), “Income Taxes – Deferred Tax: 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 application of this amendment will not have a significant impact on the financial position or performance of the Company.

- PFRS 7 (Amendments), “Financial Instruments: Disclosures – Transfers of Financial Assets” — The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The application of these amendments has no impact on the financial position or performance of the Company.

#### Annual Improvements to PFRSs (2009-2011 cycle)

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PAS 1, “Presentation of Financial Statements – Clarification of the requirements for comparative information” — The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company’s financial position or performance.
- PAS 16, “Property, Plant and Equipment – Classification of servicing equipment” — The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The application of this amendment has no impact on the financial position or performance of the Company.
- PAS 32, “Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments” — The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, “Income Taxes”. The application of this amendment has no impact on the financial position or performance of the Company.
- PAS 34, “Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities” — The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity’s previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company’s financial position or performance.



- PFRS 1, “First-time Adoption of PFRS – Borrowing Costs” — The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, “Borrowing Costs”. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

#### 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 be applicable at a future date. The Company intends to adopt those standards when they become effective.

- PAS 1 (Amendments), “Financial Statement Presentation – Presentation of Items of Other Comprehensive Income” — The amendments to the standard is effective for annual periods beginning on or after July 1, 2012, with retrospective application. It changes the grouping of items presented in other comprehensive income. Items that can be reclassified (‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be reclassified. The amendments affect presentation only and have no impact on the Company’s financial position or performance.
- PAS 19 (Revised), “Employee Benefits” — The amendments to the standard is effective for annual periods beginning on or after January 1, 2013, with retrospective application. Amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The application of these amendments has no impact on the financial position or performance of the Company.
- PAS 27 (as revised in 2011), “Separate Financial Statements” — The amendment to the standard is effective for annual periods beginning on or after January 1, 2013. As a consequence of the issuance 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 the separate financial statements. The application of this amendment will not have a significant impact on the financial position or financial performance of the Company.
- PAS 28 (as revised in 2011), “Investments in Associates and Joint Ventures” — The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the issuance of the new PFRS 11, “Joint Arrangements” and PFRS 12, “Disclosure of Interests in Other Entities”, 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 application of this standard will have no impact on the Company’s financial position and performance.



- PFRS 7, “Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities” — The amendments to the standard are to be retrospectively applied for annual periods beginning on or after January 1, 2013. 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 affect disclosures only and have no impact on the Company’s financial position or performance.

- PFRS 10, “Consolidated Financial Statements” — This standard becomes effective for annual periods beginning on or after January 1, 2013. The standard replaces the portion of PAS 27, “Consolidated and Separate Financial Statements” that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (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. The application of this standard will have no impact on the Company’s financial position and performance.
- PFRS 11, “Joint Arrangements” — This standard becomes effective for annual periods beginning on or after January 1, 2013. The standard replaces PAS 31, “Interests in Joint Ventures” and SIC 13, “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. It removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The application of this standard will have no impact on the Company’s financial position or performance.
- PFRS 12, “Disclosure of Interests in Other Entities” — This standard becomes effective for annual periods beginning on or after January 1, 2013. The standard includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all 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. The application of this standard will have no impact on the Company’s financial position or performance.



- PFRS 13, “Fair Value Measurement” — This standard becomes effective for annual periods beginning on or after January 1, 2013. The standard establishes a single source of guidance under PFRS for all fair value measurements. The standard 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.
- IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine” — This interpretation becomes effective for annual periods beginning on or after January 1, 2013. It applies to waste removal costs (‘stripping costs’) that are incurred in surface mining activity during the production phase of the mine (‘production stripping costs’). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (‘stripping activity asset’). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The application of this standard will have no impact on the Company’s financial position or performance.
- PAS 32, “Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities” — The amendments to the standard are to be retrospectively applied for annual periods beginning on or after January 1, 2014. These amendments 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. The amendments affect presentation only and have no impact on the Company’s financial position or performance.
- PFRS 9, “Financial Instruments: Classification and Measurement” — The standard is effective for annual periods beginning on or after January 1, 2015. The standard, as issued, reflects the first phase on the replacement of PAS 39, “Financial Instruments: Recognition and Measurement” and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.



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 the classification and measurement of financial liabilities.

- Philippine Interpretation IFRIC 15, "Agreements for the Construction of Real Estate" — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial position or performance of the Company.

### Financial Assets and Financial Liabilities

*Date of Recognition.* The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial Recognition.* Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial assets and financial liabilities measured at FVPL. The subsequent measurement of financial assets and financial liabilities depends on their classification.

*Determination of Fair Value and Fair Value Hierarchy.* The fair value for financial assets and financial liabilities traded in active markets at reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for directly attributable transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For financial assets and financial liabilities where there is no active market, except for investments in unquoted equity securities, fair value is determined by using appropriate valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models. In the absence of a reliable basis for determining fair value, investments in unquoted equity securities are carried at cost, net of any allowance for impairment.

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

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

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

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





Fair value measurement disclosures are presented in Note 12.

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

*“Day 1” Difference.* When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a ‘Day 1’ difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

#### Financial Assets

Financial assets within the scope of PAS 39 are classified as financial assets at FVPL, loans and receivables, held-to-maturity investments (HTM), AFS financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

The Company has no financial assets designated at FVPL, HTM investments and derivatives designated as hedging instruments as at December 31, 2012 and 2011.

*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 designated as AFS financial assets nor financial assets at FVPL. After initial measurement, loans and receivables are subsequently measured at amortized cost less any allowance on impairment. Amortization is determined using the EIR method. Amortized cost is calculated taking into account any discount or premium on acquisition and include fees that are integral part of the EIR and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired as well as through the amortization process. Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company’s cash in banks as at December 31, 2012 and 2011.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are designated as such or do not qualify to be classified in any of the other preceding categories. AFS financial assets include equity and debt securities. Equity investments classified as AFS are those, either designated in this category or not classified in any of the other categories. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized as separate component of other comprehensive income in the cumulative change in fair value of AFS financial assets until the investment is derecognized, at which time the cumulative



gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in profit or loss in finance costs and removed from the cumulative change in fair value of AFS financial assets.

The Company evaluated its AFS financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to HTM is permitted only when the entity has the ability and intent to hold until the financial asset matures accordingly.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

As at December 31, 2012 and 2011, AFS financial assets consist of the Company's investments in quoted equity securities currently traded in the PSE and unquoted equity securities like investments in shares of stock of MRTHI and MRTH II.

#### Financial Liabilities

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification at initial recognition and re-evaluates this designation at every reporting date.

The Company has not designated any financial liabilities at FVPL and derivatives designated as hedging instruments as at December 31, 2012 and 2011.

Other financial liabilities pertain to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability.

This category includes accrued expenses and other current liabilities (excluding statutory payables and deposits received in consideration from the Cooperation Agreement) and due to a stockholder (excluding settlement in equity shares) as at December 31, 2012 and 2011.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

#### Impairment of Financial Assets

The Company assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event 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.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

*Financial 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, 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 Financial Assets.* In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment 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 investment previously recognized in profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized as other comprehensive income.

#### Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of 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. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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. When 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 profit or loss.

#### Investment in an Associate

The Company carries its investment in Monumento Rail, where the Company has the ability to exercise significant influence since the date of acquisition, under the equity method of accounting (see Note 5). Under the equity method, the investment is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share in net assets of the associate, less any impairment in value. The statement of comprehensive income reflects the Company's share of the financial performance of the associate. Where there has been a change recognized directly in equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in capital deficiency.

The share of profit of associates is shown in the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognized in profit or loss.

#### Impairment of Investment in an Associate

In assessing impairment of investment in an associate, the Company determines, after application of the equity method, whether it is necessary to recognize an additional impairment loss. The Company determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in profit or loss. An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment loss 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 had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pretax 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 an interest expense.



### Equity

Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital. Subscriptions receivable becomes due and demandable upon approval of the capital call by the Company's BOD.

Deficit represents the accumulated losses incurred by the Company.

### Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is recognized as the interest accrues, taking into account the effective interest on the asset using the EIR method.

### Costs and Expenses

Costs and 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 decrease in equity, other than those relating to distributions to stockholders. Costs and expenses are recognized in the statement of comprehensive income in the year these are incurred.

### Borrowing Costs

Borrowing costs are generally expensed as incurred.

### Foreign Currency-denominated Transactions and Translations

Transactions denominated in foreign currency are recorded in Philippine Peso by applying to the foreign currency amount the exchange rate between the Philippine Peso and the foreign currency at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies are restated using the closing exchange rate at the reporting date. All differences are recognized in the statement of comprehensive income.

### Income Taxes

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

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences NOLCO can be utilized. Deferred tax, however, is not recognized when it 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.

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



each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

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

#### Loss Per Share

Loss per share is computed by dividing the net loss for the year by the weighted average number of shares outstanding during the year, with retroactive adjustments for stock dividends declared, if any.

#### Business Segments

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products.

*Segment Assets and Liabilities.* Segment assets include all operating assets used by a segment and consist principally of operating cash. Segment liabilities include all operating liabilities and consist principally of accrued expenses and other current liabilities. Segment assets and liabilities do not include AFS financial assets and borrowings, respectively.

*Inter-segment Transactions.* Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any, are accounted for at competitive market prices charged to unaffiliated customers for similar products.

#### Contingencies

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

#### Events after the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the reporting period, if any, (adjusting events) are reflected in the financial statements. However, post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

---

### 3. **Significant Accounting Judgments and Estimate**

The Company's financial statements prepared under PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the judgment and assumptions used in arriving at the estimates to change. The effects of any change in judgment and estimates are reflected in the financial statements as they become reasonably determinable.



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

#### Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

*Determination of 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 functional currency is the currency of the primary economic environment in which the Company operates.

*Determination of Fair Value of Financial Assets and Financial Liabilities.* Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility.

The fair value of financial assets amounted to ₱1,774.6 million and ₱1,774.4 million as at December 31, 2012 and 2011, respectively (see Note 12). The fair value of financial liabilities amounted to ₱93.3 million and ₱83.1 million as at December 31, 2012 and 2011, respectively (see Note 12).

*Determination of Fair Value of Financial Assets not Quoted in an Active Market.* The Company determines whether a reliable measure of fair value is available for equity investments not quoted in an active market. If a reliable measure is not available or ceases to be available, the unquoted equity investments are measured at cost.

The fair values of the Company's investments in MRTH I and MRTH II cannot be reasonably determined as the shares are unquoted nor are there any expected future cash flows in view of the sale of future distributions as discussed in Note 4 and that the investments, pursuant to the "Letter of Agreement" as also discussed in Note 4, will be used to settle the Company's liability to FEMI. The carrying amount of unquoted investments amounted to ₱1,763.7 million as at December 31, 2012 and 2011 (see Note 4).

*Determination of Impairment of AFS Financial Assets.* The Company treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant decline" when the difference between its cost and fair value is 20.0% or more and "prolonged decline" when the fair value of quoted equity securities is lower than its cost for more than 12 months. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price for quoted equities.

In the case of unquoted shares, AFS financial assets are considered impaired when management believes that future cash flows generated from the investment is expected to decline significantly. The Company's management makes significant estimates and assumptions on the future cash flows expected and the appropriate discount rate to determine if impairment exists. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.



There were no impairment for quoted equity securities in 2012, 2011 and 2010. The carrying value of quoted equity securities amounted to ₱10.7 million and ₱10.5 million as at December 31, 2012 and 2011, respectively (see Note 4).

There were no impairment for unquoted equity securities in 2012, 2011 and 2010. Management believes that the carrying value of the unquoted equity securities, after the application of the proceeds from the sale of the share of the future share distributions, can be realized in the future through: a) the Company's share in any additional variable equity rental payments (ERP) received by MRTC from DOTC in the form of a ridership bonus or sharing scheme which were not included in the future share distributions sold; b) the Company's share in the benefits arising from the residual rights in the expansion project; and c) the Company's put option to use the shares of stocks of MRTH I and MRTH II to pay-off its net advances from FEMI pursuant to the "Letter of Agreement". The carrying value of unquoted equity securities amounted to ₱1,763.7 million as at December 31, 2012 and 2011 (see Note 4).

Estimate

The key assumption concerning future and other key source of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

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

Unrecognized deferred tax assets as at December 31, 2012 and 2011 amounted to ₱44.8 million and ₱67.9 million, respectively (see Note 9).

---

**4. Available-for-sale Financial Assets**

This account consists of:

	2012	2011
Unquoted equity securities	₱1,763,697,240	₱1,763,697,240
Quoted equity securities	10,731,251	10,540,638
	<b>₱1,774,428,491</b>	<b>₱1,774,237,878</b>

Unquoted Equity Securities

Details of investments in MRTH I and MRTH II as at December 31, 2012 and 2011 follow:

Acquisition cost	₱3,331,144,116
Less adjustment under PAS 39	(1,567,446,876)
	<b>₱1,763,697,240</b>





The Company's ownership interests as at December 31, 2012 and 2011 in MRTHI and MRTH II follow:

Investee	Interest	Indirect Interest	Effective Interest	Nature of Business
MRTHI	18.6%	–	18.6%	Holding Company
MRTH II	12.6%	15.8%	28.4%	Holding Company

*MRTHI.* MRTHI has 84.9% interest in MRTH II.

*MRTH II.* MRTH II wholly owns MRTC, which was awarded by the Philippine Government (Government), acting through the DOTC, the BLT Agreement to build, lease and transfer a 16.9-kilometer rail transit system in Metro Manila, known as LRTS Phase I, with a right to submit a bid for the Monumento Extension (LRTS Phase II) and the Makati Loop.

*Sale of Future Share Distributions.* In 2002, the Company and other participating shareholders of MRTHI and II (collectively referred to as 'Sellers'), entered into Sale Agreements (Agreements) with TBS Kappitel Corporation Pte Ltd (TBS Kappitel). Under the said Agreements, the Sellers sold to TBS Kappitel all future share distributions arising from the ERP of the LRTS Phase I Project of MRTC in exchange for Original Issuance Discount Bonds (OID Bonds) due in 2009 with an aggregate principal amount of US\$80,630,000 issued by Asian Infrastructure Capital Corporation (Asian Infrastructure).

Asian Infrastructure and the Sellers subsequently agreed that the former shall redeem the OID Bonds held by the Sellers in full by delivering (a) US\$57,678,000 in aggregate principal amount of Asset-Backed Notes ('Notes') – Tranche 1 and (b) US\$22,952,000 in aggregate principal amount of the Tranche 2-A Notes, after which the Sellers would have no further claims against Asian Infrastructure and that the OID Bonds will be cancelled.

The Company also sold to TBS Kappitel all of its rights, title and interest in and the right to receive such future share distribution in MRTHI and/or MRTH II, arising from 7,577,800 shares of common stock of MRTH II acquired by the Company under the Minority Shareholder Sale Agreement, from January 15, 2002 until the final ERP Date. In consideration for the sale, the Company received the aggregate principal amount of US\$3,500,000 of the Tranche 1 Notes.

The Notes were issued by MRT III Funding Corporation Limited (MRT III). Tranche 1 Notes are transferable and bear annual interest at 9.5% and are due on August 7, 2007. Tranche 2-A Notes are without interest rate coupons and are due on August 7, 2008. The Notes were used by the Company to substantially settle its debts to FEMI, a major shareholder (see Note 6).

The security structure of the transactions as described above is covered by several agreements that provide the link between share distributions arising from the ERP of the LRTS Phase I Project of MRTC and payments to the Noteholders. The parties involved include MRTC, MRTHI, MRTH II, TBS Kappitel, the Sellers (which include the Company), the custodian and the trustee. These agreements: (a) facilitate the timely payment of the Sellers' share of the ERP of the LRTS Phase I Project of MRTC ensuring that the right to receive their share in the ERP has been legally independent of the Sellers to the Noteholders, (b) ensure the flow of rental payments independent of the Sellers, (c) bind the Sellers to cause the timely collection of rental payments and to cause MRTC to perform its obligations, and (d) prevent the Sellers from selling their rights in MRTC for as long as the Notes are outstanding. Accordingly, the stock certificates of the Company in MRTHI and MRTH II are under the custody of a trustee and were pledged to MRT III.



MRTC accounts for the lease payments from DOTC under finance lease where lease financing income is recognized using a constant periodic rate of return on the net investment. Future share distribution sold under the Agreements pertains to the Company's share in the ERPs of the LRTS Phase I Project of MRTC.

Pursuant to the Coordination Agreement and Cooperation Agreement, both dated August 7, 2002, the Company and the other participating shareholders of MRTH I and MRTH II shall (a) cause MRTC to perform its obligations under its agreement with the DOTC and cause the timely collection of rental payments and (b) ensure that ERP have been remitted to MRT III bank account either by way of declaration of dividends or by way of advances against dividends.

MRTC has not declared any dividends as at December 31, 2012 and 2011. Pursuant to the agreements above, MRTC has remitted to the MRT III bank account the ERP of the LRTS Phase I Project received from DOTC.

With the sale of the future share distributions from ERPs of the LRTS Phase I project of MRTC, the Company does not recognize its share in earnings of MRTC arising from the ERPs of the LRTS Phase I Project.

Notwithstanding the sale of future share distributions, the Company, together with the other participating shareholders of MRTH I and MRTH II in the securitization, continues to hold on to the legal rights over the shares of stock in MRTH I and MRTH II in compliance with the various agreements related to the Notes as previously discussed, as well as the Company's obligation under the Agreement of MRTC with DOTC whereby the original shareholders of MRTH I and MRTH II are precluded from transferring their equity interest in MRTH I and MRTH II until the end of the BLT Agreement in July 2025. Accordingly, any additional variable ERP to be received by MRTH I and MRTH II through MRTC from DOTC in the future in the form of a ridership bonus or sharing scheme which were not included in the future share distributions sold and any benefits arising from the residual rights in the expansion project shall still accrue to the Company and the other shareholders.

On the basis of these potential benefits, on August 18, 2005, the Company and FEMI entered into a "Letter of Agreement", whereby FEMI has agreed to grant and granted the Company the sole option to assign to FEMI its equity interests in MRTH I and MRTH II as settlement of the Company's liabilities to FEMI amounting to ₱1,700.0 million (included in 'Due to a stockholder' account in the statements of financial position) and any additional advances or interest which FEMI may charge to the Company in relation to the said advances. Under the "Letter of Agreement," should the Company opt to sell the said investments to third party or parties in the future, FEMI has the right of first refusal to purchase the said investments at its prevailing market value. As at April 11, 2013, the "Letter of Agreement" continues to be in effect, and has not been rescinded or cancelled by the parties, considering that the Cooperation Agreement with MPIC as discussed in the succeeding paragraph is still not consummated.

As also discussed in Note 1, on November 12, 2010, the Fil-Estate Companies entered into a Cooperation Agreement with MPIC relating to the Fil-Estate Companies' rights and interests in the MRT Companies. Under the Cooperation Agreement, the Fil-Estate Companies shall appoint MPIC as its attorney-in-fact in connection with the exercise of the rights and interests of the Fil-Estate Companies in the MRT Companies. Deposits received by the Company in 2010 amounted to ₱350.0 million and is recorded as part of "Accrued expenses and other current liabilities" in the statements of financial position. Should the agreement be consummated, the deposits will form part of the total acquisition price. Otherwise, these shall be forfeited and recorded as other income. The completion and consummation of the transaction contemplated by the parties is



subject to certain conditions, which as at April 11, 2013, has not yet occurred. As such, MPIC and Fil-Estate Companies are still in the process of discussing possible scenarios on how to implement the transactions contemplated by the parties when they entered into the Cooperation Agreement.

Management believes that the carrying amount of the investments in MRTHI and MRTH II, after the application of the proceeds from the sale of the share of the future share distributions as discussed above, can be realized in the future through:

- a. The Company's share in any additional variable ERP received by MRTC from DOTC in the form of a ridership bonus or sharing scheme which were not included in the future share distributions sold;
- b. The Company's share in the benefits arising from the residual rights in the expansion project; and
- c. The Company's put option to use the shares of stocks of MRTHI and MRTH II to pay-off its net advances from FEMI pursuant to the "Letter of Agreement" discussed above.

As at April 11, 2013, the Company, together with certain MRTHI shareholders, other than Astoria Investment Ventures, Inc. and Emerging Allied Infrastructure Ventures, Inc., still owns 76.6% of MRTHI.

#### Quoted Equity Securities

The changes in market value of quoted equity securities that were presented as "Change in fair value of available-for-sale financial assets" in the statements of comprehensive income amounted to ₱0.2 million gain, ₱0.8 million gain and ₱4.2 million gain in 2012, 2011 and 2010, respectively.

Movement in AFS financial assets consists of:

	2012	2011
Acquisition cost	<b>₱2,565,582</b>	₱2,565,582
Cumulative change in fair value of AFS financial assets:		
Balance at beginning of year	<b>7,975,056</b>	7,134,100
Changes in fair value during the year	<b>190,613</b>	840,956
Balance at end of year	<b>8,165,669</b>	7,975,056
	<b>₱10,731,251</b>	₱10,540,638

## 5. Investment in Monumento Rail

The Company, through MRTHI, has 24.5% equity interest in Monumento Rail which expectedly allows participation in the train system extension and additional train/vehicle procurement, in the event the Government awards the projects to MRTC, and it will continue to pursue. As at April 11, 2013, Monumento Rail has no commercial activity and is in the process of negotiating with the Government towards the submission of a proposal for the said projects.



As at December 31, 2012 and 2011, the accumulated equity in net losses exceeded the ₱1.2 million cost of the investment in shares of stock of Monumento Rail. Summarized financial information of Monumento Rail based on its unaudited financial statements follow:

	2012	2011
Total assets	<b>₱74,342,094</b>	₱74,361,624
Total liabilities	<b>88,998,919</b>	88,998,919
Total equity	<b>14,656,825</b>	14,558,375
Deficit	<b>42,763,062</b>	42,664,611
Net loss	<b>30,245</b>	-

	2012	2011	2010
Unrecognized share of losses for the period	<b>₱7,410</b>	₱-	₱94,715
Cumulative unrecognized share of losses	<b>1,946,965</b>	1,939,555	1,939,555

## 6. Related Party Transactions

Related parties include enterprises and individuals that directly or indirectly through one or more intermediaries, control, are controlled by, or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries. Key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related entities.

The following table provides the summary of outstanding balances as at December 31, 2012 and 2011 of transactions that have been entered into with related parties:

Category	Year	Classification	Transactions	Outstanding Balance	Terms	Conditions
Parent						
Company-Advances	2012	<b>Due to a stockholder</b>	<b>₱3,378,795</b>	<b>₱1,849,603,777</b>	<b>Non-interest bearing</b> 4% interest per annum	<b>Secured (see Note 4)</b>
	2011	Due to a stockholder	2,061,457	1,775,216,329		Secured (see Note 4)
Interest expense	2012	<b>Due to a stockholder</b>	-	-	-	<b>Secured (see Note 4)</b>
	2011	Due to a stockholder	71,008,653	71,008,653	-	Secured (see Note 4)
	2010	Due to a stockholder	68,281,482	68,281,482	-	Secured (see Note 4)
Other related parties:						
MRTH I Advances	2012	<b>Due to related parties</b>	<b>₱-</b>	<b>₱213,740,407</b>	<b>Non-interest bearing</b> Non-interest bearing	<b>Secured</b>
	2011	Due to related parties	-	213,740,407		Secured
MRTH II Advances	2012	<b>Due to related parties</b>	-	<b>119,728,217</b>	<b>Non-interest bearing</b> Non-interest bearing	<b>Secured</b>
	2011	Due to related parties	-	119,728,217		Secured



Due to a Stockholder

Due to a stockholder pertains to advances from FEMI with interest of 4.0% per annum until 2011. On December 10, 2012, as a form of support to the Company, FEMI waived the 4.0% interest charged to advances made to the Company starting January 1, 2012.

This liability arose mainly from FEMI's payment of the Company's bank loans including interests and penalties, aggregating ₱3,000.0 million and the cost of acquisition of shares of minority stockholders of MRTH II amounting to ₱180.0 million, which was also paid by FEMI. Over the years, the amount of liability was reduced mainly by transferring asset backed notes to FEMI aggregating ₱978.0 million in 2004 and ₱650.0 million prior to 2004 (see Note 4).

As discussed in Note 4, under the "Letter of Agreement" entered into between the Company and FEMI, the Company has the option to transfer its investments in MRTH I and MRTH II in payment for the outstanding advances.

FEMI made advances to the Company totaling to ₱3.4 million and ₱2.1 million in 2012 and 2011, respectively. In 2010, the Company made payments to FEMI amounting to ₱345.6 million.

Interest expense related to these advances amounted to nil, ₱71.0 million and ₱68.3 million in 2012, 2011 and 2010, respectively. Unpaid interests are included under "Due to a stockholder" account in the statements of financial position.

As the Company has a standing option to offset the unquoted equity securities against the advances from FEMI and exercise the option to settle the remaining liability with the delivery of the shares upon expiration of the BLT Agreement in 2025, "Due to a stockholder" was classified as noncurrent.

The accounting and administrative functions of the Company are also being handled by FEMI for no consideration.

Due to Related Parties

Due to related parties pertains to advances received from MRTH I and MRTH II in prior years to be applied against future dividends to be declared by MRTH I and MRTH II. The advances had not been discounted as there is no reliable basis of estimating the cash flow. As at December 31, 2012 and 2011, the outstanding due to related parties are as follows:

MRTH I	₱213,740,407
MRTH II	119,728,217
	<u>₱333,468,624</u>

---

**7. Capital Stock**

As at December 31, 2012 and 2011, the capital stock of the Company consists of:

Authorized - ₱1 par value	<u>₱2,000,000,000</u>
Issued and subscribed capital stock	₱999,850,000
Less subscriptions receivable	<u>1,446,819</u>
	<u>₱998,403,181</u>



Track Record of Registration of Securities

The following summarizes the information on the Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/ Offer Price
January 22, 1998	300,000,000	297,948,837	₱1.00
1999	–	1,901,163	1.00
December 11, 2000	1,700,000,000	–	1.00
2000	–	700,000,000	1.00
	<b>2,000,000,000</b>	<b>999,850,000</b>	

- a. On January 22, 1998, SEC approved the change in par value from ₱0.01 per share to ₱1.0 per share and the declassification of Class A and B common shares to a single class of common shares.
- b. On December 11, 2000, SEC approved the increase in authorized capital stock from ₱300.0 million, divided into 30.0 billion shares with a par value ₱0.01 per share, to ₱2.0 billion divided into 2.0 billion shares with a par value ₱1.0 per share.

---

**8. General and Administrative Expenses**

This account consists of:

	2012	2011	2010
Provision for probable losses	<b>₱6,766,990</b>	₱571,041	₱–
Transportation and travel	<b>1,199,228</b>	1,178,588	1,221,388
Professional fees	<b>1,061,277</b>	862,159	503,638
Taxes, licenses and permits	<b>622,256</b>	766,671	300,961
Others	<b>106,451</b>	129,322	136,386
	<b>₱9,756,202</b>	<b>₱3,507,781</b>	<b>₱2,162,373</b>

Provision for probable losses amounting to ₱6.8 million and ₱0.6 million as at December 31, 2012 and 2011, respectively were recognized for estimated amounts of probable losses. These are included under “Accrued expenses and other current liabilities” account in the statement of financial position. The information usually required by PAS 37, “Provisions, Contingent Liabilities and Contingent Assets” is not disclosed on the grounds that it can prejudice the Company's position.



## 9. Income Tax

There is no provision for income tax in 2012, 2011 and 2010 since the Company is in a tax loss position.

The deferred tax assets on the unused NOLCO, provision for probable losses and unrealized foreign exchange loss with a total aggregate amount of ₱44.8 million and ₱67.9 million as at December 31, 2012 and 2011, respectively, were not recognized since management believes that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Details of the unrecognized deferred tax asset are as follow:

	2012	2011	2010
NOLCO	₱44,259,482	₱67,732,470	₱69,425,393
Provision for probable losses	560,698	171,312	-
Unrealized foreign exchange loss	-	-	44,060
	<b>₱44,820,180</b>	<b>₱67,903,782</b>	<b>₱69,469,453</b>

The carryforward benefit of NOLCO amounting to ₱44.3 million as at December 31, 2012 that can be and claimed as deduction against regular taxable income are as follows:

Date Incurred	Amount	Addition (Expiration)	Balance	Expiry Date
December 31, 2009	₱81,232,507	(₱81,232,507)	₱-	December 31, 2012
December 31, 2010	70,450,529	-	70,450,529	December 31, 2013
December 31, 2011	74,091,865	-	74,091,865	December 31, 2014
December 31, 2012	-	2,989,212	2,989,212	December 31, 2015
	<b>₱225,774,901</b>	<b>(₱78,243,295)</b>	<b>₱147,531,606</b>	

The reconciliation between the applicable statutory income tax and the effective income tax is as follows:

	2012	2011	2010
Benefit from income tax at statutory income tax rate	<b>(₱2,926,750)</b>	(₱22,354,642)	(₱21,175,433)
Add (deduct)tax effects of:			
Expiration of NOLCO	<b>24,369,752</b>	23,920,482	22,737,798
Changes in unrecognized deferred tax assets	<b>(23,083,602)</b>	(1,565,671)	(1,561,317)
Nondeductible expenses	<b>1,640,710</b>	119	736
Interest income subject to final tax	<b>(110)</b>	(288)	(1,784)
	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>



## 10. Loss Per Share

The computation of loss per share is as follows:

	2012	2011	2010
Net loss (a)	<b>₱9,755,834</b>	₱74,515,474	₱70,584,778
Weighted average number of shares outstanding (b)	<b>999,850,000</b>	999,850,000	999,850,000
Loss per share (a/b)	<b>₱0.0098</b>	₱0.0745	₱0.0706

There are no common stock equivalents that would have a dilutive effect on the loss per share.

## 11. Operating Segment

For management purposes, the Company is organized into one main operating segment, which invests in infrastructure-related investments. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment.

Financial information about the Company's business segments are shown below:

	2012	2011	2010
<b>Earnings Information</b>			
Interest income	<b>₱368</b>	₱960	₱5,945
Interest expense	-	(71,008,653)	(68,281,482)
General and administrative expenses	<b>(9,756,202)</b>	(3,507,811)	(2,162,373)
Net loss	<b>9,755,834</b>	74,515,474	70,584,778
<b>Other Information</b>			
AFS financial assets	<b>1,774,428,491</b>	1,774,237,878	1,773,396,922
Segment assets	<b>163,367</b>	141,646	1,741,144
Segment liabilities	<b>357,436,756</b>	351,037,996	351,192,260

The following illustrate the reconciliations of reportable segment assets and liabilities to the Company's corresponding amounts:

	2012	2011	2010
<b>Assets</b>			
Total assets for reportable segments	<b>₱163,367</b>	₱141,646	₱1,741,144
AFS financial assets	<b>1,774,428,491</b>	1,774,237,878	1,773,396,922
Total assets	<b>₱1,774,591,858</b>	₱1,774,379,524	₱1,775,138,066
<b>Liabilities</b>			
Total liabilities for reportable segments	<b>₱357,436,756</b>	₱351,037,996	₱351,192,260
Due to a stockholder	<b>1,849,603,777</b>	1,846,224,982	1,773,154,742
Due to related parties	<b>333,468,624</b>	333,468,624	333,468,624
Total liabilities	<b>₱2,540,509,157</b>	₱2,530,731,602	₱2,457,815,626





## 12. Categories and Fair Values of Financial Assets and Financial Liabilities

A comparison by category of carrying and fair values of all of the Company's financial assets and financial liabilities as at December 31, 2012 and 2011 are as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables -				
Cash on hand and in banks	₱163,367	₱163,367	₱141,646	₱141,646
AFS financial assets:				
Unquoted equity securities	1,763,697,240	1,763,697,240	1,763,697,240	1,763,697,240
Quoted equity securities	10,731,251	10,731,251	10,540,638	10,540,638
	<b>₱1,774,591,858</b>	<b>₱1,774,591,858</b>	<b>₱1,774,379,524</b>	<b>₱1,774,379,524</b>
<b>Financial Liabilities</b>				
Other financial liabilities:				
Accrued expenses and other current liabilities*	₱7,436,756	₱7,436,756	₱541,486	₱541,486
Due to a stockholder**	85,906,537	85,906,537	82,527,742	82,527,742
	<b>₱93,343,293</b>	<b>₱93,343,293</b>	<b>₱83,069,228</b>	<b>₱83,069,228</b>

\*Excluding statutory payables amounting to ₱0.5 million as at December 31, 2011 and ₱350.0 million deposits received in consideration from the Cooperation Agreement (see Note 4).

\*\*Excluding settlement in equity shares (see Note 6).

Due to the short-term nature of transactions, the fair value of cash in banks, accrued expenses and other current liabilities approximate the carrying values as at reporting date.

Quoted equity securities are recorded at fair value. Fair value of unquoted equity securities for which no reliable basis for fair value measurement is available, are carried at cost.

The quoted equity securities whose fair values are determined using quoted prices in active markets (Level 1) amounted to ₱10.7 million and ₱10.5 million as at December 31, 2012 and 2011, respectively (see Note 4).

As at December 31, 2012 and 2011, the Company does not have any financial assets and financial liabilities carried at fair value that are classified under Level 2 and 3.

There are no transfers among the fair value hierarchies in 2012 and 2011.

Fair value of the amount in "Due to a stockholder" included under "Noncurrent liabilities" in the statement of financial position cannot be reliably measured since the terms of settlement cannot be presently determined.



---

### 13. Financial Risk Management Objectives and Policies

The Company's financial assets and financial liabilities are cash in banks, AFS financial assets, accrued expenses and other current liabilities (excluding statutory payables and deposits received in consideration from the Cooperation Agreement) and due to a stockholder. The BOD reviews and approves policies of managing each of the risks.

#### Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet or settle its obligations and supporting the Company's operations and activities.

Other than accrued expenses and other current liabilities (excluding the deposits received in consideration from the Cooperation Agreement), which are payable on demand, the remaining liabilities have no fixed repayment terms. As discussed in Note 4, the Company has the option to use its investment in MRTH I and MRTH II in payment for its outstanding advances to FEMI while the other due to related parties shall be applied against future dividends. In addition, as discussed in Note 1, FEMI committed not to demand payment of the amount due from the Company which therefore reduces the Company's exposure to liquidity risk.

The Company coordinates and negotiates closely with its Parent Company to manage cash flow risks by jointly identifying new sources of cash flows through potential future investment and/or cash flow infusions into the Company over the next five years.

#### Credit Risk

Credit risk arises from the possibility of the Company incurring a loss due to the failure of the debtors to meet their contractual debt obligations.

The Company's exposure to credit risk relates primarily to its deposits from banks with good credit rating. The gross and net maximum exposure to credit risk is equivalent to the carrying amount of these cash in banks and AFS financial assets.

The Company's financial assets consisting of cash in banks and AFS financial assets with aggregate fair values of ₱1,774.6 million and ₱1,774.4 million as at December 31, 2012 and 2011, respectively, are neither past due nor impaired.

The credit quality of these financial assets are considered high grade because of the following factors considered by management:

*Cash in banks.* These are deposited with a reputable bank that belonged to the top three banks in the Philippines and approved by management. The Company has not experienced any difficulty transacting with this bank.

*AFS Financial Assets.* Unquoted AFS financial assets are unrated while quoted AFS financial assets are assessed as high grade based on financial status of the counterparty and its current stock price performance in the market.



Equity Price Risk

The Company is exposed to fair value changes on its AFS financial assets in listed equity securities.

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

The following table demonstrates the sensitivity of the Company's equity to a reasonably possible change in market prices as at December 31, 2012 and 2011, with all variables held constant:

	Increase (Decrease)	Effect on Equity
<b>2012</b>	<b>0.31</b> <b>(0.31)</b>	<b>₱17,924</b> <b>(17,924)</b>
2011	0.90 (0.90)	₱52,037 (52,037)

*\*Average of percentage movement in market prices of listed AFS financial assets for a year.*

Capital Management

The Company treats its payables to FEMI as part of the aggregate capital base. The primary objective of the Company's management is to maintain a substantial capital base sufficient to support its long-term investment and holding company mandate.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions or business directions as approved by the Company's BOD. To maintain or adjust the capital structure, the Company engages issuance of new shares and the conversion of shareholder advances into capital stock.

The Company monitors capital using a targeted gearing ratio, which is net debt divided by total capital (inclusive of payables to FEMI as part of capital base) plus net debt. The Company's policy is to keep a gearing ratio of 60.0% or lower. The Company includes within net debt, accrued expenses and other current liabilities and due to related parties, less cash.

	2012	2011
Accrued expenses and other current liabilities	<b>₱357,436,756</b>	₱351,037,996
Due to related parties	<b>333,468,624</b>	333,468,624
Less cash on hand and in banks	<b>163,367</b>	141,646
Net debt (a)	<b>690,742,013</b>	684,364,974
Due to a stockholder	<b>1,849,603,777</b>	1,846,224,982
Total capital deficiency	<b>(765,917,299)</b>	(756,352,078)
Capital and net debt (b)	<b>₱1,774,428,491</b>	₱1,774,237,878
Gearing ratio (a/b)	<b>38.9%</b>	38.6%

The Company continuously conducts an internal review of its capital and financial risk management objectives and policies.



---

**14. Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011**

Due to the amendment of certain provisions of Revenue Memorandum Circular No. 57-2011 on December 9, 2011, the Commissioner of Internal Revenue issued RR No. 19-2011 that prescribes the additional procedural and new income tax forms in connection with the preparation and submission of financial statements accompanying tax returns effective December 31, 2011.

Below are the additional disclosure applicable to the Company, pursuant to RR No. 19-2011.

a. Schedule of itemized deductions:

Transportation and travel	₱1,199,228
Professional fees	1,061,277
Taxes, licenses and permits	622,256
Miscellaneous	106,451
	<u>₱2,989,212</u>

b. Taxes and licenses paid for the year are as follows:

Kind of Tax	Official Receipt		Amount
	Number	Date Paid	
Penalty on failure to conduct Annual Stockholders' Meeting	0696232	March 5, 2012	₱312,000
Business permits and registration fees	Various	Various	294,188
Others	Various	Various	16,068
			<u>₱622,256</u>

---

**15. Supplementary Information Required Under RR No. 15-2010**

In compliance with the requirements set forth by the RR No. 15-2010 hereunder is the information on taxes and licenses paid or accrued during the taxable year.

a. Breakdown of taxes and licenses is as follows:

Local:	
Business permits and registration fees	₱303,908
Others	6,348
National -	
Penalties	312,000
Total taxes and licenses	<u>₱622,256</u>

b. Tax assessments and tax cases

The Company has no deficiency tax assessments or ongoing tax cases, protested or not, for the year ended December 31, 2012.

