# COVER SHEET

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SEC Registration Number

PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY

(Company's Full Name)

Ortigas Avenue Extension, Taytay, Rizal

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

**Mr. Marlon M. Molano**

(Contact Person)

**635-2260 to 65**

(Company Telephone Number)

| 0 3 | 3 1 | 1 7 - A | 0 6 | 1 7 |
|---|---|---|---|---|
| *Month* | *Day* | (Form Type) | *Month* | *Day* |
| (Fiscal Year) | | | (Annual Meeting) | |

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

**476**

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

*SGVMC112946*

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A

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

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

2. SEC Identification Number **23022**

3. BIR Tax Identification No. **000-099-692-000**

4. Exact name of issuer as specified in its charter **Panasonic Manufacturing Philippines Corporation**

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

6. [ ] (SEC Use Only)
   Industry Classification Code:

7. **Ortigas Avenue Extension, Taytay, Rizal** — **1901**
   Address of principal office — Postal Code

8. **(632) 635-22-60 to 65**
   Issuer's telephone number, including area code

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

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

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common shares, P1.00 par value** | |
| **Class A** | **84,723,432** |
| **Class B** | **337,994,588** |

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

    Yes [ **X** ] No [ ]

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

    **The Company's Class A shares are listed in the Philippine Stock Exchange.**

12. Check whether the issuer:

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

Yes [ **X** ] No [ ]

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

Yes [ **X** ] No [ ]

13. Estimated aggregate market value of the voting stock held by non-affiliates of the issuer as of March 31, 2011 and June 30, 2011 based on stock market price amounted to about ₱ 400,387,812 and ₱ 300,290,859 respectively.

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

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

**Not Applicable**

**DOCUMENTS INCORPORATED BY REFERENCE**

15. Information in the attached Annual Report and Financial Statements incorporated by reference to this SEC Form 17-A are clearly indicated in the part of this Form where the information is required.

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# PART I - BUSINESS AND GENERAL INFORMATION

## ITEM 1 - BUSINESS

### ❑ BUSINESS

Panasonic Manufacturing Philippines Corporation (PMPC) (the Parent Company) was originally established on May 14, 1963 under the name Festival Manufacturing Corporation. PMPC is a subsidiary of Panasonic Corporation – Japan. On December 8, 2004, the Company's name was changed to its present name.

PMPC holds 40% ownership interest in the Precision Electronics Realty Corporation (PERC) (the Subsidiary), which is engaged in the business of realty brokerage.

The Parent Company's shares were listed at the Philippine Stock Exchange on January 15, 1983.

Fiscal year 2010, the Company integrated its Washing Machine and Electric Fan departments to reinforce and transform its factories into a more flexible, efficient and cost-competitive operating unit. Likewise, the Company continuously implemented innovations to its production lines and successfully introduced various models of innovative local products with good designs, particularly refrigerators and washing machines. Total sales performance for the fiscal year 2010 increased by 10.0% versus fiscal year 2009 (See Annex "A").

On January 16, 2009, the BOD authorized the cessation of the operations of the Battery Division which manufactures batteries and flashlights effective end of March 2009.

On May 23, 2007, the BOD authorized the cessation of the operations of the Product Technology Center (PTC) which manufactures parts and dies and mould effective end of July 2007. PTC functions were integrated into various manufacturing departments (Refrigerator, Air Conditioner, Electric Fan and Battery) to maximize the efficiency in the use of machines and resources in the center.

There has been no bankruptcy, receivership or similar proceeding or any material reclassification, consolidation of a significant amount of assets not in the ordinary course of business in the last three (3) years of the Parent Company's and its subsidiary's operations.

### ❑ PRODUCTS

The Parent Company is a manufacturer, importer and distributor of electronic, electrical, mechanical, electro-mechanical appliances, other types of machinery, parts and components, battery, and other related products bearing the "Panasonic" brand.

PERC is engaged in the business of realty brokerage and/or act as agent of any persons, firms or corporation, domestic or foreign, for and in transaction relative to the acquisition, sales, lease, mortgage, disposition of, administration and management of real state and/or improvements thereon; to acquire by purchase, lease or other lawful means, lands and interest in lands, and to own, hold, improve, use, administer and manage any real state so acquired or held by the corporation.

The primary products of PMPC are refrigerators, air conditioners, television sets, and washing machines. Other products of PMPC include electric fans, freezers, Digital AV products (DVD/VCD mini-components, home theater systems, video & still cameras, D-Snap multi-AV devices, etc.); communications equipment/devices (corded/cordless telephones, fax machines, PABX, etc.); office automation equipment (copiers, POS machines, Panaboard, plasma displays, LCD projectors, closed-circuit video equipment, etc.); cooling equipment (package/split-type air conditioners, air-moving equipment); and various kitchen and home appliances (rice cookers, vacuum cleaners, hair dryers/stylers, etc.). These products are grouped into the following segments: AVC Networks, Home Appliances and Others. Segment reporting information is disclosed in Note 32 of the financial statements included in the accompanying Annual Report.

Information as to sales and relative contributions of the main products to total sales were as follows:

| | Years Ended March 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Domestic | **85.0%** | 87.0% | 84.0% |
| Export | **15.0%** | 13.0% | 16.0% |
| | **100.0%** | 100.0% | 100.0% |
| | | | |
| Refrigerator | **29.1%** | 30.8% | 28.1% |
| Air conditioner | **33.3%** | 30.9% | 29.0% |
| Television | **15.6%** | 14.2% | 6.2% |
| Washing machine | **9.3%** | 11.3% | 11.8% |
| Others | **12.7%** | 12.7% | 24.9% |
| | **100.0%** | 100.0% | 100.0% |

**Geographical Information**

The tables below show the revenue information of the Group based on the location of the customer (in thousands).

| | Year Ended March 31, 2010 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Philippines | **₱6,045,394** | ₱5,643,363 | ₱5,040,752 |
| Hong Kong | **867,959** | 726,817 | 679,192 |
| Africa | **133,098** | 27,052 | 141,799 |
| Cambodia | **48,489** | 25,696 | 22,739 |
| Singapore | **9,308** | 19,317 | 24,055 |
| Bangladesh | **471** | 16,404 | 103,020 |
| Myanmar | **1,493** | 1,497 | 1,223 |
| Fiji | **946** | 315 | 404 |
| Brunei | **–** | – | 4,090 |
| Vietnam | **–** | – | – |
| Total Revenue | **₱7,107,158** | ₱6,460,461 | ₱6,017,274 |

- **STATUS OF ANY PUBLICLY ANNOUNCED NEW PRODUCT OR SERVICE**

The Parent Company and PERC (the Group) do not have any publicly announced new major product or service that is being developed.

## ❑ DISTRIBUTION NETWORK

The Company's principal office is located along Ortigas Avenue Extension, Taytay, Rizal. The Company has a PEZA registered activity (Airconditioner) located at 102 Laguna Boulevard Laguna Technopark, Sta. Rosa City, Laguna.

Aside from its warehouses located in its plant in Taytay and Sta. Rosa, the Parent Company also has three (3) regional branches located in Pampanga, Cebu and Davao. The Parent Company has a nationwide network of sales offices and accredited dealers to cater to its customers anywhere in the country. For customers' convenience, the Parent Company has established a nationwide distribution network through its area offices and accredited service centers are strategically located at key towns, provinces, and cities.

Because of this wide distribution network, the Parent Company is not dependent upon a single dealer or a few dealers, the loss of which would have a material adverse effect on the Parent Company.

## ❑ COMPETITION

**Philippine GDP strongly rebounded in 2010 after a sluggish growth in 2009 – A**fter the slow economic growth of only 1.1% in 2009 due to ill effects of the global economic crisis, the Philippines robustly recovered and expanded by 7.3% in 2010. The country benefited from the improvement in the global economy, high election-spending, strong personal consumption with rising OFW remittances and favorable business conditions in the local economy.

**Peso strengthened in 2010 –** The stability of the Philippine's currency in 2009 was followed by an appreciating peso in 2010. From an average of ₱ 47.6/$ in 2009, peso strengthened and averaged ₱ 45.1/$ in 2010. It ended the year at ₱ 43/$ level as high dollar inflows from strong rebound of exports, high OFW remittances and foreign investment boosted the peso.

**Stable inflation and low interest rates in 2010** – From a low inflation rate 3.2% in 2009, the hike in prices in 2010 has been manageable with inflation averaging 3.8%. The gradual hike in commodity, food and services prices during the year contributed to the benign inflation sustained in 2010.

**Industry Competition –** Other companies remain aggressive in strengthening their hold of the market. The Company's major competitors are Samsung, Carrier, Condura, LG, Sharp and Sony among others.

**Market Position – Philippine Appliance Market Position (GFK 2010)**

| PRODUCT | DEMAND | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| LCD | 411,860 | Samsung | LG | Sony | Sanyo | **Panasonic** |
| PDP | 3,930 | **Panasonic** | LG | Samsung | | |
| REF – NF | 144,500 | Samsung | LG | **Panasonic** | Electrolux | Sharp |
| REF – DC | 590,100 | **Panasonic*** | Condura* | Sanyo | Sharp | LG |
| AC - SAC | 38,600 | **Panasonic** | Carrier | Samsung | LG | Kolin |
| AC - WAC | 386,200 | Carrier* | LG | **Panasonic*** | Samsung | Condura* |
| WM – FA | 103,816 | LG | Samsung | Sharp | **Panasonic** | Whirlpool |
| WM –2TUB | 260,906 | Sharp* | **Panasonic*** | LG | American H. | Whirlpool |
| WM – 1TUB | 318,278 | Sharp* | **Panasonic*** | Camel* | Fujidenzo | American H. |

*** Local Production**

**2011 Projections** – For 2011, analyst are projecting that the lack of election-related spending could cause a slower growth in the country's economy but it would still be sustained by strong personal consumption with rising OFW remittances, high dollar inflows from strong rebound of exports and favorable business conditions in the local economy (See Anne "A").

## ❑ RAW MATERIALS AND SUPPLIES

The Parent Company imports substantially all of its raw material requirements, merchandise, machinery and equipment, and other spare parts and supplies from PC and affiliates. Purchases from PC amounted to ₱246.2 million, ₱93.0 million and ₱260.7 million in 2011, 2010 and 2009, respectively. Purchases made from affiliates amounted to ₱2.5 billion, ₱2.5 billion and ₱2.0 billion in 2011, 2010 and 2009, respectively.

## ❑ TRANSACTIONS WITH RELATED PARTIES

For transactions with related parties, please refer to Note 14 of the attached Annual Audited Financial Statements.

## ❑ TECHNICAL ASSISTANCE AND TRADEMARK LICENSE AGREEMENT

The Parent Company has several Technical Assistance Agreements with PC. Under the terms of the agreements, the Parent Company pays semi-annual technical assistance fees equivalent to a certain percentage of sales of selected products ranging from 3.0% to 3.5%. Technical assistance fees charged by the Parent Company amounted to ₱102.1 million, ₱100.0 million and ₱104.3 million in 2011, 2010 and 2009, respectively (see Note 22). Out of these amounts, ₱3.8 million pertains to discontinued operations in 2009.

The Parent Company has existing trademark license agreements with PC and affiliates. Under the terms of the agreements, the Parent Company is granted a non-exclusive license to use the trademark "KDK" and "Panasonic" on or in relation to its products starting April 2004. The Parent Company pays royalty equivalent to 1.0% of the sales price of the products bearing the brands. Brand license fees charged by the Parent Company amounted to ₱29.2 million, ₱30.0 million and ₱31.6 million in 2011, 2010, and 2009, respectively, while brand license fees charged by the affiliates amounted to ₱1.6 million, ₱1.4 million and ₱0.7 million in 2011, 2010 and 2009, respectively (see Note 22). Out of these amounts, ₱1.1 million pertains to discontinued operations in 2009.

All this Technical Assistance and Trademark License Agreements are also registered with the Intellectual Property Office (IPO).

## ❑ HUMAN RESOURCES AND LABOR MATTER

As of March 31, 2011, the Parent Company has 618 full time employees:

| | Administrative | Operations | Total |
|---|---|---|---|
| Under CBA | - | 264 | 264 |
| Non-CBA | 354 | - | 354 |
| | **354** | **264** | **618** |

Around half of the Parent Company's employees are rank and file employees who are subject to collective bargaining agreements (CBA). The Company did not deal with any labor strike for the past three years nor were there union complaints submitted to the Department of Labor and Employment.

In addition to the statutory benefits, the Company provides life insurance; hospitalization benefits; vacation, sick, birthday and emergency leaves; and company and emergency loans to employees.

The Parent Company also maintains a retirement plan for its regular full-time employees.

## ❑ RESEARCH AND DEVELOPMENT COSTS

The amount spent for research and development costs and its percentage to sales for each of the last three fiscal years ended March 31 were as follows:

| | | |
|---|---|---|
| **2011** | **₱12,191,510** | **0.17%** |
| 2010 | 19,845,147 | 0.31% |
| 2009 | 23,130,954 | 0.38% |

The Company's research and development activities are mainly driven by new technology and/or improvements of the technical know-how and production technique relating to the Products, which is useful for the manufacture/assembly of the Products. The efficient use of technology is expected to boost productivity and reduce manufacturing costs.

## ❑ NEED FOR GOVERNMENT APPROVAL OF PRINCIPAL PRODUCTS OR SERVICES

The Parent Company's principal products and services are offered to customers only upon receipt of the necessary regulatory approvals or clearances. The Company strictly complies with government product safety and quality standards before these are offered to the market. The Company also complies with the related regulatory requirements such as reserves, liquidity position, provision on losses, anti-money laundering provisions and other reportorial requirements.

## ❑ EFFECT OF EXISTING OR PROBABLE GOVERNMENTAL REGULATIONS ON THE BUSINESS

The Group strictly complied with the existing reportorial requirements of the regulatory agencies such as Securities and Exchange Commission, Philippines Stock Exchange and the Bureau of Internal Revenues, among others. In its fiscal year 2010 consolidated financial

statements, the Group adopted the changes to Philippine Accounting Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee. The Group will dedicate time and personnel to ensure proper and effective implementation of the future changes in accounting standards.

## ❑ COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS

Compliance with the various environmental laws definitely entails costs and additional investments on the part of the Company, resulting higher production costs and operating expenses. The costs for the Company spent for the treatment of wastes, monitoring and compliance, permits did not effect the Company's operation.

## ❑ RISK MANAGEMENT OBJECTIVES AND POLICIES

This is incorporated by reference to Note 33 of the Consolidated and Parent Company Audited Financial Statements, pages 39 to 46.

The Company monitors all major risks including but not limited to the following: liquidity, market, foreign currency, equity price, credit, and operational risks. Exposures across these risks areas are regularly identified, measured, controlled, monitored, and reported to both Executive Officers and to the Board.

All policy directions, business strategies and management initiatives emanate from the Board which strives to provide the most effective leadership for the Company. The Board endeavors to remain steadfast in its commitment to provide leadership, direction and strategy by regularly reviewing the Group's performance. For this purpose, the Board convenes in quarterly meetings and in addition, us available to meet in the interim should the need arise. The Group has also adopted internal guidelines setting forth matters that require the Board's approval.

The Parent Company has established an Enterprise Risk Management (ERM) framework for the strategic management of business risks. The framework provides a useful forum for communicating risk issues at different levels of the organization and thereby improves visibility on risk. It covers all key business areas of the Parent Company, and it has been in operation since early 2006. Structured cross-discipline processes and organizations have been put in place at corporate and divisional levels for risk identification, mitigation and monitoring. A standard rating system is employed to prioritize risks, and changes to existing risks and the emergence of new risks are regularly reviewed. A manual that governs the working of the ERM framework has been compiled, and regular briefing sessions are being conducted, to promulgate the application and ensure consistent understanding of ERM.

The operation of the ERM framework, was overseen by the Enterprise Risk Committee, is underpinned by line management taking direct risk management responsibilities as risk owners. The Executive Committee and BOD review significant risks semi-annually and annually, respectively, to ensure that such risks are under satisfactory control.

## ❑ COMPLIANCE WITH ENVIRONMENTAL & OTHER LAWS

As an industrial corporation, the Parent Company conducts its operations in compliance with all environmental, occupational health and safety and other related regulations of the government and along with the environmental policy and directives of PC, with its

dedication to continuously improve its environmental, occupational health and safety, product safety performance and responding to the requirement of the industrial organization in managing, controlling and mitigating all types of risk that the Parent Company has been exposed to. In fact, the Parent Company, more often than not, implements environment-protection measures ahead of government regulations.

## ITEM 2 - PROPERTIES

Manufacturing operations are conducted in a plant with an area of 72,503.5 sq. m. located in Taytay, Rizal and another plant with an area of 147,195 sq. m. in Sta. Rosa, Laguna. All facilities are owned by the Parent Company except for the land which is being leased from its subsidiary, for a period of 25 years, expiring in 2020. Rental expense from these leases amounted to ₱28.9 million during the recent fiscal year. Operations of sales offices and service centers in Pampanga, Cebu and Davao are operated on properties owned by the Parent Company except for the land that is also owned by its subsidiary.

Operations of other sales offices and service centers are being conducted on properties leased by the Parent Company in various areas: Naga, Isabela, Pangasinan, La Union, Bacolod, Iloilo and Cagayan de Oro.

The Parent Company has no properties that are mortgaged or used as lien.

## ITEM 3 - LEGAL PROCEEDINGS

The Parent Company and its subsidiary are not currently involved in any litigation or legal proceedings that could be expected to have material adverse effect on the Company and its subsidiary or their respective results of operations.

## ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

## ITEM 5 - MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### 1. MARKET INFORMATION

Common shares outstanding as of June 23, 2011 were:

| | |
|---|---|
| Class "A" | 84,723,432 |
| Class "B" | 337,994,588 |
| | 422,718,020 |

**The Parent Company's common equity is traded in the Philippine Stock Exchange.**

The following table shows the market prices in Philippine pesos of the Parent Company's Class A shares listed in the Philippine Stock Exchange for the first quarter of fiscal year 2011 and fiscal years 2010 and 2009:

| | | **FY 2011** | |
|---|---|---|---|
| | | **High** | **Low** |
| **Jan -** | **Mar** | **6.00** | **6.00** |
| **Apr -** | **Jun** | **4.50** | **4.50** |

| | | FY 2010 | | FY 2009 | |
|---|---|---|---|---|---|
| | | High | Low | High | Low |
| Jan - | Mar | 6.50 | 6.50 | 7.00 | 4.20 |
| Apr - | Jun | 7.00 | 6.30 | 7.00 | 5.80 |
| Jul - | Sept | 7.00 | 6.50 | 6.80 | 6.20 |
| Oct - | Dec | 6.50 | 6.50 | 6.80 | 6.50 |

### 2. DIVIDENDS

The payment of dividend, either in the form of cash or stock, will depend upon the Parent Company's earnings, cash flow and financial condition, among other factors. The Parent Company may declare dividends only out of its unrestricted retained earnings. These represent the net accumulated earnings of the Company, with its capital unimpaired, that are not appropriated for any other purpose.

Dividends paid are subject to the approval by the Board of Directors. The Company's Board of Director declared cash dividends as follows:

| Date of Declaration | Cash Dividend Per Share | Date of Record | Date of Payment |
|---|---|---|---|
| **Fiscal Year 2011** | | | |
| **April 13, 2011** | **5%** | **April 29, 2011** | **May 20, 2011** |
| Fiscal Year 2010 | | | |
| January 12, 2011 | 5% | January 26, 2011 | February 4, 2011 |
| Apri 7, 2010 | 5% | April 26, 2010 | May 20, 2010 |
| Fiscal Year 2009 | | | |
| December 16, 2009 | 5% | January 7, 2010 | January 21, 2010 |
| May 29, 2009 | 5% | June 19, 2009 | June 30, 2009 |

## 3. HOLDERS

As of April 30, 2011, there are 476 holders of the Parent Company's common shares. The table below sets forth the top 20 shareholders as of April 30, 2011.

| Name | No. of Shares Held | % to Total |
|---|---|---|
| 1. Panasonic Corporation (Japanese) | 337,994,588 | 79.96 % |
| 2. PCD Nominee Corporation (Filipino) | 24,709,806 | 5.85 % |
| 3. PMPC Employees Retirement Plan | 17,992,130 | 4.26 % |
| 4. Great Pacific Life Assurance Corporation | 8,397,572 | 1.99 % |
| 5. Pan Malayan Management & Investment | 4,606,076 | 1.09% |
| 6. Jesus V. Del Rosario Foundation, Inc. | 3,828,421 | 0.91% |
| 7. Vergon Realty Investment Corporation | 3,389,453 | 0.80 % |
| 8. Tan Suy Tin | 1,971,568 | 0.47 % |
| 9. J.B. Realty and Development Corporation | 1,778,915 | 0.42 % |
| 10. Automatic Appliance, Inc. | 1,373,563 | 0.32 % |
| 11. Antonio R. Punzalan | 1,031,201 | 0.24 % |
| 12. So Sa Gee | 855,716 | 0.20 % |
| 13. Joselito P. de Joya | 808,765 | 0.19 % |
| 14. David S. Lim | 656,393 | 0.16 % |
| 15. Efren M. Sangalang | 603,156 | 0.14 % |
| 16. Wellington Lim | 595,905 | 0.14 % |
| 17. Edward Lim | 587,141 | 0.14 % |
| 18. Vicente L. Co | 577,245 | 0.14 % |
| 19. Jenny Lim | 518,179 | 0.12 % |
| 20. Jason S. Lim | 500,000 | 0.12 % |
| Jonathan Joseph Lim | 500,000 | 0.12 % |
| Vicente S. Lim | 500,000 | 0.12 % |

## 4. RECENT SALE OF UNREGISTERED SECURITIES

The Parent Company has neither sold any securities nor reacquired or issued new securities in exchange of properties within the past three (3) years.

## ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The Company management discussion and analysis or plan of operation are attached hereto as Annex "A".

The following are discussions on the Consolidated Financial Conditions and Results and Results of the Company and its Subsidiary (The Group) based on the Audited Financial Statements as of and for the years ended March 31, 2011, 2010 and 2009.

## RESULTS OF OPERATION (Continuing Operations)

- **Fiscal Year 2010 vs. 2009**

Consolidated sales of the Group for the FY 2010 amounted to ₱7.107 billion, increased by 10.0% from ₱6.460 billion posted in fiscal year 2009 despite severe business conditions.

Selling expenses increased by ₱190.0 million (14.5%) due mainly to increase in sales promotion by ₱142.0 million (11.6%) and advertising expense by ₱53.1 million (132.8%). On the other hand, provision for warranty expense decreased by ₱5.1 million (10.9%).

General and administrative expenses increased by ₱15.2 million (2.8%) due mainly to salaries and compensation increased for the year.

Non-operating income decreased by ₱4.0 million (4.9%) due mainly to interest income from time deposit with banks by ₱2.2 million (4.1%) and foreign currency exchange gain by ₱6.1 million.

Provision for income tax decreased by ₱85.7 million (83.0%) due mainly to reductions in deferred income taxes assets resulting from expired MCIT ₱34.6 million and expired NOLCO ₱15.2 million in fiscal year 2009. The Group also recognized deferred tax assets arising from MCIT of fiscal year 2008 amounting to ₱33.3 million.

The Group's net income after tax for the fiscal year 2010 amounted to ₱45.5 million, increased by ₱40.3 million (780.5%) posted in fiscal year 2009, due mainly to increase in deferred income tax assets and increased in selling expenses.

- Known Trends

  There are no known events, trends, and demands, commitments or uncertainties that might affect the Group's liquidity or cash flows within the next twelve (12) months.

  There are no trends, events or uncertainties know to management that are reasonably expected to have material favorable or unfavorable impact on the net income or revenues from continuing operations of the Group.

- Events that will trigger direct or contingent financial obligation

  In the normal course of business, the Group has various commitments and contingent liabilities that are not presented in the accompanying financial statements.

  The management believes that these actions are without merit or that the ultimate liability, if any, resulting from these cases will not adversely affect the financial position or results of operation of the Parent Company.

  The Group does not anticipate material losses as a result of these commitments and contingent liabilities.

- Material off-balance transactions, arrangements or obligations

  There were no material off-balance transactions, arrangement or obligations that had a material effect on the Group's financial conditions or result of operations.

- Capital expenditures

  The Parent Company has commitments for capital expenditures. Among these are investments on IT-related projects, relocation and renovation of branch premises, acquisition and repairs of furniture, fixtures and equipment needed to bring the Company at par with competitors.

- Significant Elements of Income or Loss

  Significant elements of income or loss will come from continuing operations.

- Seasonal Aspects

  There was no seasonal aspect that had a material effect on the Group's financial conditions or result or operations.

- **Fiscal Year 2009 vs. 2008**

Consolidated sales of the Group for the fiscal year 2009 amounted to ₱6.460 billion, increased by 7.4% from ₱6.017 billion posted in fiscal year 2008 despite severe business conditions.

Cost of goods sold ratio decreased by 3.3% from 74.3% of last year to 70.98% this fiscal year 2009 mainly due to the Group's continuing cost reduction efforts including material costs and fixed costs.

Selling expenses increased by ₱345.3 million (35.8%) due mainly to increased on sales promotion by ₱352.9 million (52.3%) and provision of warranty expense by ₱16.9 million (56.1%). On the other hand, advertising expense decreased by ₱30.4 million (43.2%).

General and administrative expenses decreased by ₱67.9 million (11.2%) due mainly to salaries and employees benefit paid to early retirement of employees affected by the cessation of business operation of PMPC Battery Manufacturing Division and early retirement program.

Non-operating income decreased by ₱61.1 million (42.9%) due mainly to interest income from time deposit with banks by ₱22.0 million (28.75%), dividend income received by ₱13.0 million and gain on sale of property and equipment from the discontinued operations amounted to ₱11.7 million.

Provision for income tax increased by ₱67.5 million (188.8%) due mainly to derecognition of deferred income taxes assets resulting from expired MCIT ₱34.6 million and expired NOLCO ₱15.2 million. The Group also did not recognize deferred tax assets arising from MCIT for this fiscal year 2009.

The Group's net income after tax for the fiscal year 2009 amounted to ₱5.2 million, a decrease of 93.7% from ₱17.7 million posted in fiscal year 2008, due mainly to derecognition of deferred income tax assets, decrease in non-operating income and increase in selling expenses.

- Known Trends

  There are no known events, trends, and demands, commitments or uncertainties that might affect the Group's liquidity or cash flows within the next twelve (12) months.

  There are no trends, events or uncertainties know to management that are reasonably expected to have material favorable or unfavorable impact on the net income or revenues from continuing operations of the Group.

- Events that will trigger direct or contingent financial obligation

  In the normal course of business, the Group has various commitments and contingent liabilities that are not presented in the accompanying financial statements.

  The management believes that these actions are without merit or that the ultimate liability, if any, resulting from these cases will not adversely affect the financial position or results of operation of the Parent Company.

  The Group does not anticipate material losses as a result of these commitments and contingent liabilities.

- Material off-balance transactions, arrangements or obligations

  There were no material off-balance transactions, arrangement or obligations that had a material effect on the Group's financial conditions or result of operations.

- Capital expenditures

  The Parent Company has commitments for capital expenditures. Among these are investments on IT-related projects, relocation and renovation of branch premises, acquisition and repairs of furniture, fixtures and equipment needed to bring the Company at par with competitors.

- Significant Elements of Income or Loss

  Significant elements of income or loss will come from continuing operations.

- Seasonal Aspects

  There was no seasonal aspect that had a material effect on the Group's financial conditions or result or operations.

- **Fiscal Year 2008 vs. 2007**

Consolidated sales of the Group for the fiscal year 2008 amounted to ₱6.017 billion, increased by 1.5% from ₱5.930 billion posted in fiscal year 2007.

Cost of goods sold ratio increased by 4.0% from 70.3% of last year fiscal year 2007 to 74.3% this fiscal year 2008 mainly due to rising prices of raw material costs especially imported materials.

Selling expenses decreased by ₱96.8 million (9.1%) due mainly to reduction in sales promotion expenses by ₱58.24 million (7.9%), provision of warranty expense by ₱3.5 million (10.4%) and advertising expenses by ₱43.8 million (38.4%).

General and administrative expenses increased by ₱52.1 million (9.4%) due mainly to salaries and employees benefit paid to early retirement of employees affected by the cessation of business operation of PMPC Battery Manufacturing Division and early retirement program.

Non-operating income increased by ₱92.2 million (183.5%) due mainly to gain in foreign currency exchange by ₱8.0 million, dividend income received by ₱13.0 million and gain on sale of property and equipment from the discontinued operations amounted to ₱11.7 million.

Provision for income tax decreased by ₱48.7 million (57.7%) due mainly to reductions in deferred income taxes. The Group also did not recognize deferred tax assets arising from MCIT for this fiscal year 2008.

The Group's net income after tax for the fiscal year 2008 amounted to ₱17.7 million a decrease of 74.26% from ₱68.9 million posted in fiscal year 2007 due mainly to increase on cost of sales ratio by 4.0% and increased in general administrative expenses.

- Known Trends

  There are no known events, trends, and demands, commitments or uncertainties that might affect the Group's liquidity or cash flows within the next twelve (12) months.

  There are no trends, events or uncertainties know to management that are reasonably expected to have material favorable or unfavorable impact on the net income or revenues from continuing operations of the Group.

- Events that will trigger direct or contingent financial obligation

  In the normal course of business, the Group has various commitments and contingent liabilities that are not presented in the accompanying financial statements.

  The management believes that these actions are without merit or that the ultimate liability, if any, resulting from these cases will not adversely affect the financial position or results of operation of the Parent Company.

  The Group does not anticipate material losses as a result of these commitments and contingent liabilities.

- Material off-balance transactions, arrangements or obligations

  There were no material off-balance transactions, arrangement or obligations that had a material effect on the Group's financial conditions or result of operations.

- Capital expenditures

The Parent Company has commitments for capital expenditures. Among these are investments on IT-related projects, relocation and renovation of branch premises, acquisition and repairs of furniture, fixtures and equipment needed to bring the Company at par with competitors.

- Significant Elements of Income or Loss

  Significant elements of income or loss will come from continuing operations.

- Seasonal Aspects

  There was no seasonal aspect that had a material effect on the Group's financial conditions or result or operations.

**FINANCIAL CONDITONS**

- **Fiscal Year 2010 vs. 2009**

The Group continues to maintain its strong financial position with total assets amounting to ₱4.857 billion and ₱4.616 billion as of March 31, 2011 & 2010, respectively while total equity amounted to ₱3.7 billion as of the same period.

**Current ratio improved to 3.4:1 as of March 31, 2011 compared to 4.1: 1 as of March 31, 2010**.

Total current assets increased by ₱199.7 million (5.2%
) due mainly to increase in cash and cash equivalents by ₱237.4 million (10.3%) due to increase in sales collection and interest income received from bank deposits amounting to ₱50.0 million. Accounts receivable increased by ₱153.4 million (22.6%) due to increase in sales achievement by 10.0%. On the other hand, inventories decreased by ₱182.9 million (22.5%) due mainly to strict monitoring of inventory. Other current assets decreased by ₱8.3 million (15.0%) mainly due to consumption of BOC tax credit certificate amounting to ₱6.7 million.

Total non-current assets increased by ₱41.5 million (5.5%) due mainly to increase in property, plant and equipment by ₱42.8 (8.1%) to upgrade machineries and equipment. Other asset also increased by ₱15.2 million (75.9%) due mainly to purchased of software for Sales Division new sales system while investment properties decreased by ₱16.2 million (17.6%) due mainly to depreciation of properties.

Accounts payable and accrued expenses increased by ₱203.1 million (27.0%). Trade accounts payable increased by ₱20.3 million (5.6%) for the purchase of local raw materials. Accrued expenses increased by ₱182.8 million (47.3%) which includes increase in provision for product promotion by ₱102.9 million (82.5%); and other accrued expenses for withholding and output taxes, advertising, utilities, freight and releasing charges. Technical Assistance payable increased by ₱8.3 million (20.5%).

Capital expenditures amounted to ₱184.7 million during the year as the Group continues to upgrade its factory facilities, machinery and equipment to improve productivity and profitability of the Company.

Appropriated retained earnings for plant expansion decreased by ₱75.0 million.

- **Fiscal Year 2009 vs. 2008**

The Group continues to maintain its strong financial position with total assets amounting to

₱4.615 billion and ₱4.573 billion as of March 31, 2010 and 2009, respectively while total equity amounted to ₱3.67 billion and ₱3.71 billion as of March 31, 2010 and March 31, 2009, respectively.

Current ratio improved to 4.1:1 as of March 31, 2010 compared to 4.5: 1 as of March 31, 2009.

Total current assets increased by ₱212.3 million (5.8%) due mainly to increase in inventories by ₱ 169.2 million (26.3%) due to non-achievement of sales forecasted for the year. On the other hand, accounts receivable decreased by ₱47.9 million (6.6%) mainly due to strict monitoring of accounts.

Total noncurrent assets decreased by ₱169.8 million (18.3%) due mainly to decrease in property, plant and equipment by ₱88.7 (14.3%) investment properties decreased by ₱16.2 million (15.0%) due mainly to depreciation of properties. Deferred tax assets decreased by ₱58.8 million (33.8%) due mainly to reductions in income taxes resulting from expired MCIT amounting to ₱34.6 million and NOLCO amounting to ₱15.2 million. Other assets decreased by ₱ 6.1 million (23.3%) due mainly to the collection of Meralco refund amounted to ₱3.3 million and utilization of house rental deposit by ₱2.7 million.

Total current liabilities increased by about ₱136.3 million (17.0%) due mainly to increase in trade accounts payable to consolidated companies for the importation of airconditioner amounting to ₱ 66.7 million (44.3%). Accrued expenses increased by ₱64.9 million (87.3%) due mainly to increase in product promotional expenses, releasing charges and freight cost. Finance lease liability increased by ₱0.2 million (8.3%) due to additional leases on motor vehicles.

Capital expenditures amounted to ₱45.8 million during the year as the Group continues to upgrade its factory facilities, machinery and equipment.

- **Fiscal year 2008 vs. 2007**

The Group continues to maintain its strong financial position with total assets amounting to ₱4.6 billion and ₱4.7 billion as of March 31, 2009 and March 31, 2008, respectively, while total equity amounted to ₱3.7 billion as of March 31, 2009 and March 31, 2008.

Current ratio improved to 4.5:1 as of March 31, 2009 compared to 3.9: 1 as of March 31, 2008.

Total current assets decreased by ₱91.0 million (2.4%) was mainly due to decrease in inventories by ₱128.9 million (16.7%) as a result of strict monitoring of raw materials and finished goods. On the other hand, accounts receivable increased by ₱76.6 million (11.8%).

Total noncurrent assets decreased by ₱9.3 million (1.0%) due mainly to decrease in available-for-sale investment from Panasonic Mobile Communications Co., Ltd (PMCP). Total pension asset was used due mainly to payment of employees affected by the closure of Battery Division and early retirement program. Investment properties decreased by ₱13.1 million (10.8%) due mainly to depreciation of properties. Other assets decreased by ₱6.0 million (18.7%) due mainly to the collection of Meralco refund amounted to ₱3.5 million in FY 2008.

Total current liabilities decreased by about ₱154.3 million (16.0%) due to decrease in dividend by ₱84.5 million and accounts payable by ₱75.7 million (9.0%).

Capital expenditures amounted to ₱216.2 million during the year as the Group continues to upgrade its factory facilities, machinery and equipment.

**CASH FLOWS**

A brief summary of cash flow movement is shown below:

| *(In thousands)* | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net cash provided by operating activities | ₱120,078 | ₱120,078 | ₱116,420 |
| Net cash provided by (used in) investing activities | 18,175 | 18,175 | (43,818) |
| Net cash used in financing activities | (45,350) | (45,350) | (107,906) |

Net cash flow from operations consists of income for the period less change in non-cash current assets, certain current liabilities and others, which include decrease in inventory level.

Net cash provided by (used in) investing activities included the following:

| *(In thousands)* | 2010 | 2009 | 2008 |
|---|---|---|---|
| Interest received from bank deposits | ₱53,032 | ₱53,032 | ₱74,991 |
| Proceeds from sale of PPE | 2,099 | 2,099 | 25,816 |
| Dividends received | 17 | 17 | 13,027 |
| Acquisitions of property, plant and equipment | (41,884) | (41,884) | (212,176) |
| Decrease in other assets | 4,911 | 4,911 | 4,270 |
| Proceeds from return of available-for-sale investment | | – | 50,254 |
| Total | ₱18,175 | ₱18,175 | (₱43,818) |

Major components of net cash used in financing activities are as follows:

| *(In thousands)* | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash dividends paid | (₱42,272) | (₱42,272) | (₱105,679) |
| Finance lease liabilities paid | (3,078) | (3,078) | (2,227) |
| Total | (₱45,350) | (₱45,350) | (₱107,906) |

Despite the stagnant Philippines GDP, financial crisis and slow economic recovery affecting the Group's operations in general, the Group can internally provide its own cash requirements for its operation for the next twelve months and in succeeding years. Various cash flow improvements such as aggressive operational cost reduction, cost negotiation, productivity and system enhancements are being implemented to maintain the Group's loan-free operation.

## RETAINED EARNINGS

Retained Earnings in excess of 100% of paid-in capital will be declared as dividends and/or appropriated for plant expansion and modernization and upgrading of factory facilities and equipment in the future. The appropriated retained earnings pertain to the appropriation for plant expansion and modernization and upgrade of factory facilities and equipment of the Parent Company and for purchase of industrial land for future business expansion of PERC.

## FINANCIAL AND OTHER INFORMATION

**Key Performance Indicators (Continuing Operations Only)**

| Name of Index | Calculation | FY 2010 | Restated FY 2009 | Restated FY 2008 |
|---|---|---|---|---|
| **1. Rate of Sales Increase [a)]** | CY[(b)] Sales – LY[(c)] Sales<br>---------- x 100%<br>LY Sales | **10.0%** | **7.4%** | **1.5%** |
| **2. Rate of Profit Increase [(a)]** | CY Profit Before Tax –<br>LY Profit Before Tax<br>---------- x 100%<br>**LY Profit Before Tax** | **–41.9%** | **– 7.7%** | **– 39.7%** |
| **3. Rate of Profit on Sales [(a)]** | Profit Before Tax<br>---------- x 100%<br>Total Sales | **0.9%** | **1.7%** | **2.0%** |
| **4. Current Ratio** | Current Assets<br>----------<br>Current Liabilities | **3.4** | **4.1** | **4.5** |
| **5. Dividend Ratio to Capital** | Dividend<br>---------- x 100%<br>Average Capital | **10%** | **10%** | **5%** |

***(a) Continuing operations only***
***(b) Current Year***
***(c) Last Year***

(a) Rate of Sales Increase - This measures the sales growth versus the same period last year. Sales increased from a year ago to 10.0% as result of the continuous effort of the Group despite the ever-intensified price competition.

(b) Rate of Profit Increase - This measures the increase in profit before tax versus the same period last year. Rate of profit for the year decreased to negative 41.9% due mainly to increase in direct selling expenses by 14.5%.

(c) Rate of Profit on Sales - This measures the percentage of profit before tax versus total sales for the period. . Rate of profit decreased to 0.9% from 1.7% last year due mainly to increase in selling expenses and decrease in non-operating income.

(d) Current Ratio - This measures the liquidity of the Company and its ability to pay off current liabilities. Current ratio decreased to 3.4.1 as of March 31, 2011 from 4.1.1 as of March 31, 2010.

(e) Dividend Ratio to Capital - This measures the dividend payout ratio versus capital for the period. The Group declared a 10% cash dividend for the fiscal year 2010 and 2009.

## ITEM 7 - FINANCIAL STATEMENTS

The Audited Consolidated Financial Statements and Supplementary Schedules of the Group are already incorporated in the Annual Report filed as part of this Form 17-A for the year ended March 31, 2011. Please refer to Index to Exhibits.

## ITEM 8 - INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

### A. Independent Public Accountants

The Group, upon the recommendation of the Audit Committee of the Board of Directors composed of Evangelista Cuenco as Chairman and Hiroyoshi Fukutomi and Emiliano Volante as members, has approved the engagement SyCip, Gorres, Velayo & Co. (SGV) as external auditors of the Group for fiscal year 2009 ended March 31, 2011 and will submit such engagement to its stockholders for ratification. SGV was also the external auditor of the Group for fiscal years 2009, 2008 and 2007.

The audit partner-in-charge, Ms. Janet A. Paraiso was appointed in 2009. The SGV partner-in-charge who audited the Group in 2008 was Mr. Medel T. Nera. In accordance with SRC Rule 68, par. 3 (b) (IV), there is no need to change the audit partner of the Group and its domestic subsidiary.

The representatives of the SGV & Co. are expected to be present at the stockholders' meeting and to be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire to do so.

It is expected that Management will make the recommendation for the appointment of the external auditor for fiscal year 2011 in compliance with the SEC Rules on the Rotation of the External Auditors.

### B. Changes and Disagreements with Accountants on Accounting and Financial Disclosures

The Group's accounting policies are consistent with those of the previous financial year except for the adoption of the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippines Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) effective January 1, 2009 as embodied in Notes 2 and 3 of the Audited Consolidated and Parent Financial Statements, pages 1 to 19 in the notes to consolidated financial statements.

The Group had no disagreements with accountants on any matter of accounting principles or practices, financial statements disclosures or audit scope and procedures.

### C. Audit-Related Fees

**External Audit Fees**

The Group engaged SGV & Co. to audit its annual financial statements and perform related reviews. The following fees, exclusive of VAT were incurred:

| | (Amounts in Php millions) | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| Audit | ₱ **1.60** | ₱ 1.60 | ₱ 1.70 |
| Audit-Related | **–** | – | – |
| Tax | **–** | – | – |
| Total | ₱ **1.60** | ₱ 1.60 | ₱ 1.70 |

**Tax Fees**

There are no fees for tax to external auditors other than for audit services.

Management presents proposals on possible external auditors to be engaged together with their respective proposed audit fees to the Audit Committee for proper consideration. The Audit Committee evaluates and thereafter, upon its recommendation, the appointment of the external auditor is presented to the Board of Directors and/or stockholders for confirmation. However, financial statements duly approved by the Audit Committee are still subject to confirmation of the Board of Directors prior to submission to the respective government regulatory agencies.

## PART III - CONTROL AND COMPENSATION INFORMATION

## ITEM 9 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

### Directors and Executive Officers

| Name | Office/Position | Citizenship | Age |
|---|---|---|---|
| Masaru Maruo | Chairman of the Board | Japanese | 59 |
| Naoya Nishiwaki | President | Japanese | 52 |
| Waichi Tamiya | Vice-President | Japanese | 56 |
| Hiroyoshi Fukutomi | Treasurer / Executive Director | Japanese | 53 |
| Shigeyoshi Terawaki | PPH Vice-President | Japanese | 57 |
| Miguel P. Castro | Director | Filipino | 54 |
| Masao Okawa | Director | Japanese | 52 |
| Evangelista C. Cuenco | Independent Director | Filipino | 80 |
| Emiliano S. Volante | Independent Director | Filipino | 67 |
| Mamerto Z. Mondragon | Corporate Secretary | Filipino | 67 |

***Masaru Maruo***, Japanese**,** is a graduate of Law from Waseda University in Japan. He has been the Chairman of the Board since November 23, 2007. He is also the Associate Director of Matsushita Electric Industrial Co., Ltd. (MEI) – Corporate Management Division for Asia and Oceania. He is a former Director for CRT TV Business Unit, Panasonic AVC Networks Company, Visual Products and Display Devices Business Group from October 2004 to 2007. He is also a former President of Matsushita Television & Network Systems Co., (Malaysia) from April 01, 2001 to October 2004.

***Naoya Nishiwaki,*** Japanese, is a graduate of Faculty of Engineering with a Bachelor's degree from Osaka Perfectural University, Japan. He has been the President and Director of the Company since March 31, 2010. He is a former Managing Director of Panasonic Corporation's Malaysian subsidiary, Panasonic Manufacturing Malaysia Bhd. (PMMA) from May 2007 to March 2010. He was the President and COO of Panasonic Home Appliances Company of America (PHHA) from April 2005 to 2007. He is also a former President of Panasonic Home Appliances de Mexico (PHAM) from May 2004 to March 2005.

***Waichi Tamiya,*** Japanese, is a graduate of Electric & Communications Course from Seisei Technical High School in Shizuoka Prefecture, Japan. He has been elected as PMPC – Vice President since October 04, 2007. He is a former Councilor for Home Appliances Business Group, Matsushita Home Appliances Company (MHAC), Matsushita Electric Industrial Co., Ltd. (MEI) from June 2006 to September 2007. He is also a former President of Matsushita Washing Machine India Pvt. Ltd. (MWI) from January 2003 to June 2006.

***Shigeyoshi Terawaki,*** Japanese, is a graduate of Bachelor of Economics from Osaka University (School of Economics), Japan. He has been a Director and PPH Vice-President since June 2009. He is also the Managing Director for Panasonic Philippines (PPH – Sales Division). He is a former Manager of Vietnam Sales Team, Asia and Oceania Sales Group, Corporate Management Division for Asia & Oceania, Panasonic Corporation from July 2007 to March 2009. From March 2003 to July 2007, he was assigned to Planning Group, Corporate Management Division for Asia & Oceania, MEI, as a Councilor. He was a former Director of PT. National Panasonic Gobel, MEI's Indonesian subsidiary in 2002. From March 1997 to December 2001, he is a former Director of National Panasonic Sales Philippines (NPP).

***Hiroyoshi Fukutomi***, Japanese, is a graduate of Business Administration with Bachelor's degree. He has been the Company's Treasurer since May 1, 2010. He is a former Councilor – Business Operation Team, Corporate Accounting Group of Panasonic Corporation, Japan from April 2008 to April 2010. 2008. From April 2006 to March 2008, he is the Group Manager for Panasonic Corporation – Japan, Home Appliance Business Group.

***Masao Okawa***, Japanese, is a graduate of Bachelor of Laws and Economics with major in Economics, Faculty of Humanities and Social Sciences in Shizuoka University. He has been a Director since July 22, 2008. He is also the Director, Member of the Board of Panasonic Asia Pacific Pte., Ltd., Singapore since April 2008. He is a former Director – Finance and Administration of Panasonic France S.A. (PFS), PC French Subsidiary from May 2000 to March 2008.

***Miguel Castro,*** Filipino, is a graduate of B.S. Mechanical Engineering from FEATI University. He has been a Director since August 01, 2007. He is a former General Manager of PMPC – Refrigerator Division from September 2004 to July 2007 and PMPC – Audio Video and Electric Fan Departments from April 2002 to August 2004.

**Independent Directors**

***Evangelista Cuenco,*** is a graduate of B. S. in Commerce from Far Eastern University and is a Certified Public Accountant. He was previously the President of Consumer Electronic Products Manufacturers Association and Chairman of Philippine Electrical, Electronics and Allied Industries Federation. He used to be the Vice President and General Manager of Wodel, Inc. He was elected as PMPC's Independent Director since January 6, 2003. Currently he is the Chairman of the Audit Committee of the Company.

***Emiliano S. Volante***, Filipino, is a graduate of B. S. in Commerce from Far Eastern University. He was elected as Independent Director since October 2010. He is also a member of the Audit Committee and Compensation/Remuneration Committee. He was a former Financial Consultant for Expresslane Brokerage Corporation from 2003 – 2010. He was also a former Internal Audit Manager of PMPC from 2000-2002.

**Corporate Secretary**

***Atty. Mamerto Z. Mondragon,*** is the Corporate Secretary of the Company since 1975. He is also the Corporate Secretary of Precision Electronics Realty Corporation (PERC).

**Executive Officers**

| POSITION | NAME | AGE | CITIZENSHIP |
|---|---|---|---|
| Chairman of the Board | Masaru Maruo | 59 | Japanese |
| President | Naoya Nishiwaki | 52 | Japanese |
| Vice-President | Waichi Tamiya | 56 | Japanese |
| Treasur / Executive Director | Hiroyoshi Fukutomi | 53 | Japanese |
| PPH Vice-President | Shigeyoshi Terawaki | 57 | Japanese |
| Corporate Secretary | Atty. Mamerto Mondragon | 67 | Filipino |

**Term of Office**

The Directors and Executive Officers are appointed/elected annually by the Board of Directors at the organizational meeting following the stockholders' meeting, each to hold office for a period of one (1) year until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Directors are elected during the annual stockholders' meeting to hold office for a period of one (1) year until next annual stockholders' meeting and their respective successors have been elected and qualified.

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

**Significant Employees**

The Parent values its human resources. It expects each employee to do his share in achieving its set goals.

**Family Relationships**

There are no family relationship up to the fourth civil degree either by consanguinity or affinity among the Group's directors, executive officers or persons nominated or chosen by the Company to become its directors and executive officers.

**Involvement in Certain Legal Proceedings**

The above-named executive officers and directors have not been involved in any material legal proceedings during the past five years that will affect their ability as directors and officers of the Parent Company.

## ITEM 10 - EXECUTIVE COMPENSATION

The aggregate annual compensation of the Parent Company's Directors and Officers for the last two fiscal years and for the ensuing year are as follows:

| Name | Position | Year | Salary | Bonus | Others | Total |
|---|---|---|---|---|---|---|
| | | | (In Millions) | | | |
| Top Five (5) compensated officers | | | | | | |
| Naoya Nishiwaki | President 2010-2011 | | | | | |
| Reynaldo S. Lico | President 2009 | 2011(est.) | 41.1 | 8.0 | 0.4 | 49.5 |
| Waichi Tamiya | Vice-President | | | | | |
| Hiroyoshi Fukutomi | Treasurer / | **2010** | **38.8** | **7.5** | **0.4** | **46.7** |
| Toshihiko Iwamoto | Executive Director | | | | | |
| | | 2009 | 24.5 | 6.4 | 1.3 | 32.2 |
| Shigeyoshi Terawaki | PPH - VP | | | | | |
| Miguel Castro | Director | | | | | |
| All Directors and Officers as a Group | | 2011(est.) | 42.8 | 8.4 | 0.7 | 51.9 |
| | | **2010** | **40.4** | **8.0** | **0.7** | **49.1** |
| | | 2009 | 26.0 | 6.8 | 1.6 | 34.4 |

- *Reynaldo S. Lico, Filipino, retired as President and director and replaced by Mr. Naoya Nishiwaki, Japanese, effective April 1, 2010.*
- *Toshihiko Iwamoto, Japanese, retired as Treasurer and Executive Director and replaced by Mr. Hiroyoshi Fukutomi,, Japanese, effective May 1, 2011.*

*For ensuing year 2011, no significant change is anticipated in the compensation of Directors and Officers.*

The Company has no standard arrangement regarding the remuneration of its existing directors and officers aside from the compensation herein stated.

The directors and executive officers receive salaries, bonuses and other usual benefits that are also already included in the amounts stated above. Aside from the said amounts, they have no other compensation plan or arrangement with the registrant.

The Parent Company has not granted any warrant or options to any of its Directors or Executive Officers.

## ITEM 11 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owner of more than 5% of any class as of March 31, 2011

| Title of Class | Name and Address of Record Owner and Relationship with Issuer | Name of Beneficial Ownership and Relationship with Record Owner | Citizenship | No. of Shares | Percentage |
|---|---|---|---|---|---|
| Common "B" | Panansonic Corporation ("PC") Japan<br>1006 Oaza Kadoma, Kadoma, Osaka 571-8501, Japan<br>Parent Company | Various Stockholders | Non-Filipino | 337,994,588 | 79.96% |

Panasonic Corporation (PC) has the power to decide how the PC shares in Panasonic Manufacturing Philippines are to be voted and has authorized Mr. Fumio Otsubo - PC President to vote on the shares.

Security Ownership of Directors and Management

The following are the securities beneficially owned by directors, nominees and executive officers of the Parent Company as of April 30, 2011.

| Title of Class | Name of Beneficial Owner | Amount of Beneficial Ownership (Php) | Nature of Beneficial Ownership | Citizenship | Percent |
|---|---|---|---|---|---|
| Common "B" | Naoya Nishiwaki | 1 | Direct | Japanese | NIL |
| Common "A" | Miguel Castro | 185 | Direct | Filipino | NIL |
| Common "B" | Masaru Maruo | 1 | Direct | Japanese | NIL |
| Common "B" | Waichi Tamiya | 1 | Direct | Japanese | NIL |
| Common "B" | Hiroyoshi Fukutomi | 1 | Direct | Japanese | NIL |
| Common "B" | Shigeyoshi Terawaki | 1 | Direct | Japanese | NIL |
| Common "B" | Masao Okawa | 1 | Direct | Japanese | NIL |
| Common "A" | Emiliano Volante | 9,879 | Direct | Filipino | NIL |
| Common "A" | Evangelista Cuenco | 10,193 | Direct | Filipino | .0024 |
| Common "A" | Atty. Mamerto Mondragon | 85,360 | Direct | Filipino | .0202 |

The aggregate number of shares owned of record by all or key officers and directors as a group as of April 30, 2011 is 105,623 shares or approximately 0.03% of the Company's outstanding capital stock.

There has been no beneficial owner under the PCD Nominee account who holds more than 5% of the Company's equity securities.

The Company is not aware of any change in control or arrangement that may result in change in control of the Company since the beginning of its last fiscal year.

## ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There have been no material transactions with Directors, Officers, their immediate families and/or entities where they have direct or indirect material interest for the past two (2) years.

Other information required herein is already contained in Note 14 to the Financial Statements already included in the attached Annual Report.

# PART IV - CORPORATE GOVERNANCE

## ITEM 13 - CORPORATE GOVERNANCE

The Parent Company is committed to ensuring high standards of corporate governance in the interest of shareholders and devotes considerable effort to identifying and formalizing best practices. The Company's fundamental concern is to ensure the conditions whereby the directors and managers act in the interest of the Company and its various stakeholders. It has always been guided by a strong conviction of adhering to transparency, accountability and integrity. The Company strongly believes in maintaining a simple and transparent corporate structure driven solely by business needs. Shareholders' interests are utmost and the management is only a trustee of the shareholders capital to carry out the activities in a truthful manner.

The Parent Company's internal governance framework embodies all the principles needed to ensure that the Company's businesses are managed and supervised in a manner consistent with good corporate governance, including the necessary checks and balances.

The Parent Company has revised its Manual on Corporate Governance in accordance with the Code of Corporate Governance issued by the SEC on June 22, 2010 which among others set forth the appointment of senior officer as compliance officer and the duties and responsibilities of the board of directors, management and committees. It also created an internal self-rating system that measures the performance of the Board and Management annually. Its main objective is to ensure the consistent job performance as provided for by the Code.

The Compliance Officer is committed to ensure the Company's corporate principles are consistently complied with throughout the Company and also serves as a contact person for shareholders, employees, customers, suppliers and the general public on issues relating to the implementation of and compliance with these principles.

### a. Evaluation System

The Board created an internal self-rating system that measures the performance of the Board and Management in accordance with the criteria provided for by the Code. It is annually conducted and facilitated by Compliance Officer and Audit Committee, which shall discuss the results thereof at a Board meeting. The Company likewise uses the Corporate Governance Scorecard to evaluate and benchmark its compliance with the best Corporate Governance practices in the industry.

**b. Measure to fully comply with Corporate Governance**

In the opinion of the Directors the Parent Company has complied with the provisions of the Code of Corporate Governance. It has revised its Manual of Corporate Governance in accordance with the revised Code of Corporate Governance issued by SEC on June 22, 2009. Accordingly, it has revised and updated the charters of the committees and formulated policies and procedures (conflict of interest, related party transactions, risk management among others) to comply with the Code. The Directors, Chairman and Executive officers of the Company have taken a seminar on Corporate Governance to be able to understand and implement its intentions in a consistent and satisfactory manner.

**c. No Material Deviation**

The Company has established Internal Control procedures and mechanism to ensure compliance with the Code of Corporate Governance and to avert any possible deviation thereof. There have been no material deviations noted by the Compliance officer.

**d. Plans to improve Corporate Governance**

The Compliance officer and the Audit Committee shall periodically review the provisions and enforcement of Company's Manual on Corporate Governance, unless otherwise stated by the Board. The Company's manual is subject to review and amendment to continuously improve the Company's corporate governance practices by assessing their effectiveness and comparing them with evolving best practices, standards identified by leading governance authorities and the Company's changing circumstances and needs.

## PART V - EXHIBITS AND SCHEDULES

### ITEM 14 - EXHIBITS AND REPORTS ON SEC FORM 17-C

(a) Exhibits - See accompanying Index to Exhibits

(b) The following reports on SEC Form 17-C were filed to SEC:

| Date Filed | Item Reported |
|---|---|
| 04/07/2010 | Declaration of 5% cash dividend as of record April 26, 2010 payable on May 20, 2010 |
| 04/28/2010 | Resignation of Mr. Toshihiko Iwamoto as Treasurer<br>Election of Mr. Hiroyoshi Fukutomi effective May 1, 2010 |
| 06/18/2010 | Election of Directors:<br>1. Masaru Maruo – Chairman<br>2. Naoya Nishiwaki<br>3. Waichi Tamiya<br>4. Toshihiko Iwamoto<br>5. Shigeyoshi Terawaki<br>6. Miguel Castro<br>7. Masao Okawa<br><br>Independent Directors:<br>1. Evangelista Cuenco<br>2. Jose Aguirre |
| 07/20/2010 | Resignation of Mr. Toshihiko Iwamoto as Executive Director, Chairman of Compensation/Remuneration Committee and member of Nomination Committee |
| 08/26/2010 | Election of Mr. Hiroyoshi Fukutomi as Executive Director, Chairman of Compensation/Remuneration Committee and member of Nomination Committee<br><br>Resignation of Mr. Jose Aguirre as independent director, member of Audit Committee and Compensation/Remuneration Committee |
| 01/12/2011 | Election of Mr. Emiliano Volante as Independent Director and member of Audit Committee and Compensation/Remuneration Committee effective September 1, 2010 |
| 04/13/2011 | Declaration of 5% cash dividend as of record January 26, 2011 payable on February 4, 2011<br><br>Declaration of 5% cash dividend as of record April 29, 2011 payable on May 20, 2011 |

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Taytay, Rizal on _____.

**PANASONIC MANUFACTURING PHILIPPINES CORPORATION**
REGISTRANT

Pursuant to the requirements of the Securities Regulation Code, this Annual Report has been signed by the following persons in their capacities and on the dates indicated.

By:

| | Date: | | Date: |
|---|---|---|---|
| **MASARU MARUO**<br>Chairman of the Board | _____ | **NAOYA NISHIWAKI**<br>President | _____ |
| **TOSHIHIKO IWAMOTO**<br>Executive Director | 5/24/10 | **ATTY. MAMERTO Z. MONDRAGON**<br>Corporate Secretary | 5/24/10 |

MAY 25 2010

SUBSCRIBED AND SWORN to before me this _____, 2010, affiants exhibiting to me their community tax certificate and passport numbers as follows:

| NAME | CTC/PASSPORT NO. | DATE ISSUED | PLACE ISSUED |
|---|---|---|---|
| Masaru Maruo | TH3986265 | July 27, 2007 | Japan |
| Naoya Nishiwaki | TZ0689198 | February 3, 2010 | Malaysia |
| Toshihiko Iwamoto | TH2033288 | November 21, 2006 | Japan |
| Mamerto Z. Mondragon | 31103608 | February 5, 2010 | Pasig City |

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Page No. 039
Book No. 133
Series of 2010

NOTARY PUBLIC

ALFREDO A. LAPANTA
NOTARY PUBLIC
ANTIPOLO CITY, TAYTAY AND CAINTA
RM 303, ECC BLDG., 117 M.L. QUEZON ST.
ANTIPOLO, CITY
PTR NO. 2628330/01-04-10 CITY OF ANTIPOLO
IBP No. 794667/09-15-09 RIZAL CHAPTER
MCLE COMPLIANCE NO. III - COMPLETED

**ANNEX "A"**

*SGVMC116181*

# MANAGEMENT OPERATION REVIEWS AND PLANS

A year after overcoming the challenges of our restructuring program, FY 2010 ended March 31, 2011 was expected to be a good year for our Company. Thus, along with the challenge of our internal management slogan "Unite Our Efforts – Drive Eco Innovation," we worked hard with enthusiasm and dedication. It was our desire to put our Company's growth back on track by achieving our key performance indicators (KPI) such as sales, operating profit, inventory, lower operational costs and capital cost management (CCM). Consequently, seeing the opportunity in the 2010 election-encouraged confidence among consumers, we pressed on to make this fiscal year in review as a take-off or breakthrough towards a new and vigorous business horizon.

To start off, we integrated our Washing Machine and Electric Fan departments to reinforce and transform our factories into a more flexible, efficient, and cost-competitive operating unit. Likewise, we continuously implemented innovations to our production lines, and renovated our Refrigerator Division's metal and painting lines to improve our fixed cost. We successfully introduce also various models of innovative local products with good designs, particularly refrigerators and washing machines. However, the continuing rise in the price of raw materials, especially in the second half of the fiscal year in review coupled with the impact of the very aggressive promotional campaigns and price competitiveness of other players in the industry prevented us from fully realizing our business objectives and performance target.

Generally, it is interesting to note that the sales performance of our window air conditioners and electric fans was favorable due to the combined strengths of our domestic and export operations, posting 120 percent, and 113 percent, respectively, versus last year. On the other hand, our washing machine business was greatly affected by the very low pricing scheme offered by other industry players as it posted an unfavorable sales performance achieving only 76 percent against last year. Our refrigerator business too suffered performance decline and hardly managed to post 90 percent versus last year's sales achievement. We did our best in implementing cost efficient measures, but such efforts were not enough to secure most of the benefits from our limited market opportunities. Our consolation is the indication that we were not totally beaten as we were able to maintain our leadership in the industry in terms of market share position. This was reconfirmed by the recognition accorded to us by GfK Philippines as the 2010's Best Selling Brand for Refrigerators in the country.

With these aforementioned performance highlights, our consolidated PMPC sales reached 7.107 billion pesos, which is actually a double digit growth versus last fiscal year's 6.460 billion peso achievement. Our sales division, Panasonic Philippines (PPh), contributed 5.960 billion pesos or 107 percent with sales of imported products achieving 17 percent higher than last fiscal year's sales performance.

The results of our business operation in this fiscal year in review highlighted our concerted efforts to work united and mindfully driving eco innovations as we uphold our corporate objectives and values in overcoming difficulties. Indeed, we had our shortcomings as manifested by the low profitability for the last two fiscal years, in which we posted only 45 million pesos this year in review and only 5 million pesos last fiscal year. Maybe we could also add as part of our long-term corporate gains the reduction of our carbon dioxide emission, in which at the end of this fiscal year in review we have reduced 4,043 tons since FY 2005. This is part of our commitment to become a "Green Factory".

For 2011, analysts are projecting that the lack of election-related spending could cause a slower growth in the country's economy, but it would be sustained by remittances, strong consumer consumption, and exports. Farm output too is expected to rise this year following last year's dry spell. Rising oil prices, however, will be the major threat to the country's growth along with the impact of the euro-zone crisis. This means that in our new fiscal year, we will be facing again a new set of challenges and opportunities. And in line with our basic policy to strive further in order to secure sales growth and profit by producing and offering market-based products this year, we will exert our best effort to understand the real market situation, enhancement of R&D capability, cost-efficient manufacturing, and complete our preparation for PMPC to become a "Green Factory". As part of the Panasonic Group, we need to contribute to Panasonic's vision looking to the 100th anniversary of its founding by exerting united efforts to keep the spirit of our unchanging commitment of contributing progress to society and to enrich people's lives through our business activities and programs. Moreover, we will continue to grasp our consumer needs and wants through our extensive and nationwide lifestyle research. Coupled with this is our commitment to realize a more accurate PSI through the generation of feedbacks and implementation of effective marketing strategy. Consequently, along with our desire to establish slim, effective, and efficient organization, we will centralize procurement activities under our Purchasing Management Center, and QC functions under our Quality Assurance Center.

On our environmental initiatives, we consider fiscal year 2011 as an important preparation period for our commitment to serve society as we embark on becoming an eco model factory by FY 2012. So along with this, we will vigorously pursue higher CO2 emission reduction, and implement environmental management approach in line with our total quality management system. Our activities are driven by our company's constant quest to continually improve our business performance and sustainability. We will pursue new approaches in business operation, which is suitable for an eco model factory in support of Panasonic Group's vision to "create space where people around the world can live comfortably, while reducing the impact on the environment."

With the many challenges ahead of us in FY 2011 and onwards, we will continuously put our strengths together for the survival and success of our company. We shall continue to strive to realize our vision to be of service to society and in improving peoples' lives.

On that note, we express our gratitude to our stockholders for the continued trust and confidence accorded us. Our stockholders' support and understanding shall be our continuing guide and strength in achieving our company's growth and success.

**NAOYA NISHIWAKI**
President

*SGVMC116181*

# Review of PMPC Operation for FY 2010

## *Uniting efforts and driving eco innovations in overcome challenges…*

Panasonic Manufacturing Philippines Corporation (PMPC) had to overcome the many difficulties that took place off and on in FY 2010. But encouraged by its triumph over the bigger challenges in FY2009, the Company exerted its best effort to promote positive environment carrying out various corporate activities along with its commitment to serve society. PMPC adheres to the philosophy of Panasonic Corporation (PC) founder Konosuke Matsushita that success is a frame of mind, and "we should conduct our business--sure in the knowledge--that before us rests the road to success, and to the extent we must believe that we will get results."

### Uniting efforts – driving eco innovation toward a new and vigorous business horizon

In May, PMPC held its first ever General Morning Meeting via video conferencing for Sta. Rosa Plant. PMPC President Naoya Nishiwaki led the employees in reciting the Panasonic Basic Management Objective and Company Creed. He also presented the Company's Business Performance for the PMPC members to have unity in spirit.

The PGCP Cost Busters (CB) World Cup 2010 was held also in August, and was graced by Mr. Nishiwaki, who spiced the event with his message centered on the importance of cost busters, its contribution to the company and the ultimate goal of instilling to Panasonic employees around the globe the wisdom of cost consciousness.

During the Company's 43rd anniversary celebration in September, employees were reminded of the humble beginnings of PMPC. Mr. Nishiwaki recalled that way back in August 1940, Panasonic Corporation pledged that there is only one way for manufacturers to gain customers' trust: "We must make it a principle not to manufacture or sell a single item that doesn't completely meet customers' wants and serve their needs in every respect, and strictly stick to this principle.'' He added that only when we go as far as keeping track of customers to make sure they are not disappointed with insincere services, can we say that we are doing the job perfectly. Thus, the celebration of PMPC's anniversary serves also the employees well to remember that public confidence has not always been something that might too easily be taken for granted.


In October, the signing of the new Collective Bargaining Agreement (CBA) between PMPC Workers Union and PMPC Management was held to reconfirm the parties' commitment to industrial peace.

In November. Panasonic Asia Pacific Pte. Ltd. (PA)-Singapore IT Group and Mr. Shimada, director of CCSG-PA presented to PMPC management the SMAP (System Management Asia Pacific) service, which is a new system to be used by the Company's Customer Service Department.

PMPC held its annual sportsfest last March, which kicked off successfully and culminated with championship games in the spirit of camaraderie and fair play. Employees engaged one another in healthy competition and sportsmanship, imbuing the value of team spirit to everyone. In the same note, the activity once again helped develop the employees' competitive character and determination to excel.

## Uniting efforts – driving eco innovation with business partners

Panasonic wowed the Philippine media and its valued dealers through the magic of the company's very own Inverter technology plus the latest visual treat that has become the global talk-of-the-town topic—3D during the 2010 Dealers Convention. It was quite a while when local journalists from the business, lifestyle and technology sections last attended a Panasonic event and, naturally, they all frantically anticipated the Japanese company's announcements. They came in droves to make it a truly unprecedented and SRO media event. They interviewed Panasonic officers, both local and Japanese, and took turns in gathering information about the latest Panasonic products like washing machines, air-conditioners and refrigerators featuring the popular Inverter technology and its promise of huge electricity savings and environment-friendly features that would rock our senses to the core. The highlight, however, was when they were invited to "Step Into the 3D World" of Panasonic and experience "A New Dimension of Depth and Texture."

Over 150 stockholders, representatives, PMPC members of the board, and partners from SGV & Co. attended the Annual PMPC Stockholders Meeting for FY 2010, which was held also in June. Mr. Nishiwaki, who presided the meeting, presented the results of the Company's operations for FY 2009, as well as the targets and plans for FY 2010. He emphasized that despite the economic uncertainties, the Company remains committed to sustain its operations and to improve its profitability. He added that there was also a substantial investment in equipment and facilities to prepare the Company in boosting its performance

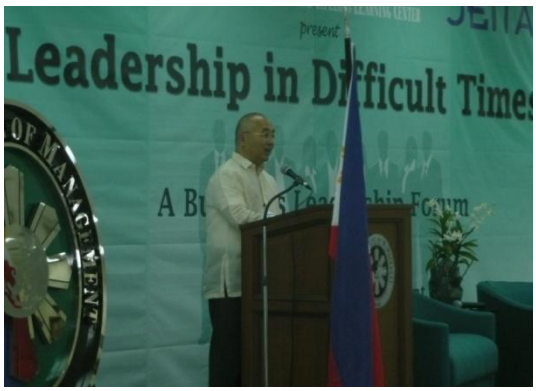
To enhance the skills and knowledge of Panasonic Authorized Service Center (PASC) and PPh Service personnel, CSD-Market Support Section conducted a service seminar for office automation products and inverter split type models. The April (Isabela) and June (GMA) seminars were facilitated by engineers Robert Tarriela and Ronnie Gonzales. CSD also provided orientation to Henry's Electronics (located in Mecauyan, Bulacan) on the different policies and procedures of servicing Panasonic products after passing the accreditation requirements as PASC last January.

Moreover, CSD organized a seminar for MKQ service for split type air conditioners with the assistance of Mr. Dzaiful of Panasonic HA Air-Conditioning (M) Sdn Bhd (PHAAM).

Training on SMAP, which is CSD's new service system was conducted last February for all key users. The training was participated in by service in-charge from Luzon, Visayas, and Mindanao. SMAP training for nationwide PASC key users started last March, which evolved on the different modules for CRM (HQ), PORTAL (PASC) & AX (parts).

## Uniting efforts – driving eco innovation in developing human resources

In July, HRD-Training and Development organized and implemented several training programs, which include the “2010 Basic Supervisory” and “Advance Supervisory” seminars, and “Technical Regulations.” The “Rate Calculation” workshop was also offered and was facilitated by Mr. Masafumi Kawabata, a certified logistics senior master from the Corporate Procurement Division of Panasonic Corporation-Japan. Consequently, the “Plastic Injection Cost Estimation” workshop was conducted in August, and the “Product Safety Design” in September.




The business forum entitled “Leadership Challenges in Difficult Times,” which was participated in by CEOs, company executives, business leaders, managers and entrepreneurs, was successfully held in September at the Asian Institute of Management (AIM) Campus, Makati City. The forum was sponsored by Japan Electronics and Information Technology Industries Association (JEITA), and promoted through the joint efforts of PMPC’s HRD-Training & Development, Panasonic Regional Training Center- Panasonic Asia Pacific Pte. Ltd.(Singapore), and AIM. 2008 Ramon Magsaysay awardee Dr. Jaime Aristotle Alip and founding president and chair of Center for Agriculture and Rural Developing (CARD) and Mutually Reinforcing Institutions (MRI); 2010 Ramon Magsaysay awardees and spouses Dr. Christopher and Dr. Ma. Victoria Bernido, president and principal of Central Visayan Institute Foundation, graced the occasion.

In October, a two-day JEITA-sponsored workshop on “Building Effective Supervisory Skills” was held with 33 public participants from 18 companies, well-satisfied with the new ideas and experiences they acquired.

Moreover, public participants (mostly executives) persisted with enthusiasm the two-day “Building a Winning Sales Team” JEITA-sponsored workshop held in November at PMPC’s HDC Building. The program witnessed the powerful tandem of resource persons, who shared their winning experiences in sales.

Last January, another two-day JEITA-sponsored workshop on “Effective Negotiating & Influencing Skills” was held and was facilitated by writer, columnist, motivational speaker, business & life consultant Cito Beltran.

Likewise, the other series of the 4-part programs on procurement offered by Mr. Kawabata were successfully conducted last January (Metal Press Cost Estimation), and March (Carton Box Cost Estimation).

The Value Engineering (VE) Job Plan Workshop was also hosted by PMPC last March with PA Global Sourcing Center General Manager Tay Hui Hong and Procurement Executive Chong

Chee Fong as facilitators for the said workshop. Along with the aim of enhancing and promoting VE activities in the region, PA has been providing similar workshops since FY 2006.

## Uniting efforts – driving eco innovation in realizing a green factory

In support of the global Earth Day celebration every April of the year, the City of Sta. Rosa held a weeklong celebration in April promoting the care for Mother Earth. Spearheaded by individuals and groups from the private and public sectors, the event saw the participation of PMPC in the "SILAKBO 2010" (cycling, running and walking) and in the lakeshore cleanup at Barangay Sinalhan, Sta.Rosa, Laguna.

PMPC employees also, participated in the Walk for Peace and Harmony with Environment program organized by the Diocese of Antipolo.

In July, PMPC brought the schoolchildren of Simona Elementary School to Lamesa Eco Park in Quezon City to highlight the purpose of Panasonic Eco-Relay activities. The Lamesa Eco-Park facilitators, on the other hand, discussed the importance of the Lamesa site in the preservation of the environment. The children were taught the proper way of nurturing and planting trees together with PMPC staff and top management. The children also learned how to compost biodegradable wastes through vermi composting (introduction of African night crawlers worms), and enjoyed the environment-related amazing race game.

In observance of the Panasonic Eco Lunch Hour in October, PMPC management and staff indulged in "kamayan" (use of hand) style of eating, using banana leaves to lunch on. Rice was cooked in clay pots using charcoal. Viands were a combination of steamed vegetables like egg plant, hayfork, and camote tops with anchovies on the side. Foods were cooked without using LPG, and with minimal water in washing plates and utensils. At the company's garden, the ambiance eased the executives in savoring their food.

Last March, Mr. Masamitsu Fukumoto, Mr.Futoshi Kubota, and Mr. Ichiro Nakamura of Environment Promotion Group CEAD-Japan conducted green factory and HA assessments on PMPC's CO2 emission, waste disposal, reduction priority chemicals, and reduction of water consumption efforts.

PMPC conducted an orientation seminar on new scrap and garbage hauler with focus on environmental health and safety standards. Panasonic is expected to adopt and implement the standards inside the company. The seminar also marked the first cycle of every three months bidding of scrap and garbage hauler, which seek to increase recyclability ratio.

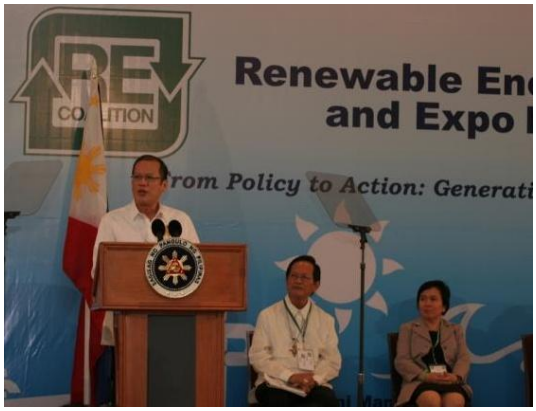
## Uniting efforts – driving eco innovation in carrying out corporate citizenship activities

After eight successful years, the Local Panasonic Scholarship Program officially culminated. Two of the scholars representing the last batch of beneficiaries presented their college diploma to PMPC management during the Company's General Morning Meeting in May. The program was launched during the celebration of PMPC's 35th anniversary to provide promising students – selected across the country – the opportunity to complete college degrees and become dynamic assets in their respective communities.

In its continuing commitment to quality education and nation-building, the

Panasonic Scholarship Co. Ltd. (PS-Japan), together with the Panasonic Group of Companies in the Philippines awarded in September the 2011 Panasonic Scholarship grants to two young Filipino professionals. PS-Japan President Kazuhiro Kawano arrived in the Philippines two days prior to the awarding ceremonies (held for the first time at the auditorium of the Commission on Higher Education (CHED) in Quezon City) to visit some partner-institutions and individuals, who for a decade now have been supportive of the promotion and operation of the Panasonic scholarship program and activities in the country. Mr. Kawano made the most of his one-on-one meeting with the new Commission on Higher Education (CHED) chairperson, Dr. Patricia Benitez-Licuanan. And during the ceremony, CHED executive director IV Atty. Julito D. Vitriolo, Japan Information and Cultural Center of the Embassy of Japan Director Tomoko Dodo, Mr. Kawano, and Mr. Nishiwaki awarded the certificates to the 2011 Panasonic Scholarship recipients Mark Christian C. Manio, a graduate from the University of the Philippines (Diliman), Bachelor of Science in Food Technology; and Jeramee V. Dimapilis, a summa cum laude graduate from the University of Perpetual Help System (Laguna), Bachelor of Science in Civil Engineering.

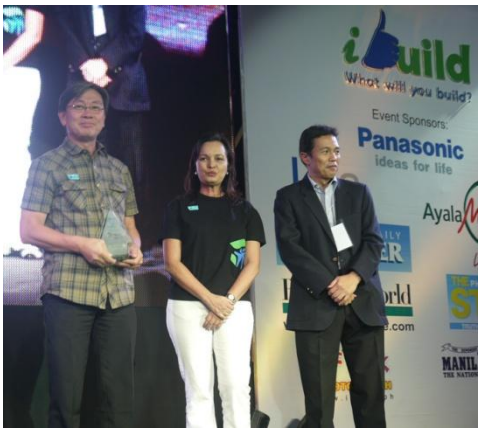
The Volunteers Group to Send Wheelchairs to Overseas Children and its partner NGO in the Philippines, Jesus V. Del Rosario (JVR) Foundation, turned over recently 121 wheelchairs to children with disabilities. The hand-over ceremony was hosted by Panasonic Manufacturing Philippines Corp. (PMPC) at its plant in Taytay, Rizal. The recipients were recommended by the Department of Social Welfare and Development (DSWD).




Panasonic sponsored the Renewable Energy Conference and Expo Manila 2010 (RE-2010) held in December. The conference gathered and facilitated dialogue among at least 300 stakeholders in assessing the gains made and issues faced in the implementation of the RE Law and in exploring available opportunities for business and partnerships in the Philippines' RE sector. The

occasion saw the attendance of company presidents, VPs, CEOs from multinational companies in almost all industry sectors and political leaders. His Excellency Philippine President Benigno S. Aquino III also attended the conference with a message: "I have the fullest confidence in our people and in you that we can be partners for progress, and partners in proving that success comes to those who do the right things for the right reasons."

The 2010 "Munting Handog Laking Tuwa ang Dulot" project took off despite the decrease in donations collected in December. But nothing can stand in the way of the members of the PMPC Family's spirit of volunteerism. Individuals and groups, who made the project a success, donated assorted toys, clothes, canned goods, slippers, and school supplies for the recipients in Barangay Don Jose, Sta. Rosa City, Laguna and Taytay Bukas Buhay, Rizal.




PMPC was invited by Habitat for Humanity Philippines (HFHP) to serve as one of its partner institutions in creating a community building and development model by providing innovative and sustainable solutions to address poverty housing that can be replicated nationwide under HFHP's four-year "I Build" campaign. As partner institution, PMPC donated Plasma TV units to HFHP, which will be utilized as monitors in the latter's exhibit caravans in various malls and schools in the National Capital Region and nearby provinces. Chaired by Fernando Zobel de Ayala, "I Build" is a four-year initiative of HFHP that will celebrate 25 years of providing decent shelter for families in need. HFHP is an international non-profit organization working to help build responsible and self-reliant communities by enabling families in need to acquire affordable, decent, and durable homes.

**Uniting efforts – driving eco innovation building marks of excellence**

Panasonic Manufacturing Philippines Corporation (PMPC) received the Silver Award from the Institute of Corporate Directors (ICD) after garnering a 90% to 94% score in the 2009 Corporate Governance Scorecard. The ICD, which advocates the global principles of modern corporate governance, created the project not only to encourage the adoption of recognized best practices in corporate governance but also to raise the standards beyond mere compliance to the minimum regulatory requirements. The Corporate Governance Scorecard is a joint project of ICD with the Securities and Exchange Commission, Philippine Stock Exchange, Institute of Internal Auditors of the Philippines, Ateneo Law School, and Center for International Private Enterprise.

Annual audit of PMPC's unified management system on Environmental Management System ISO14001: 2004, Safety & Health Management System OHSAS18001: 2007 and Quality Management System ISO9001: 2008 was conducted by SGS Philippines' external auditor on July 7 and 8, 2010. PMPC passed the surveillance audit.

"Generally, PMPC is ISM-compliant." Thus, declared PA-Singapore ISM Audit Team led by PA Facilities and Office Service Manager Ernest Foo, and PA IT Planning Group Internal IT Auditor Hazel Sing in their closing remarks. In the two-day audit in September, the auditors took samples from PPh, CSD, PDC, ISD, and HRD in the form of documents, workplace observations, and interviews of selected top management members and employees from the auditee departments mentioned.

Laguna Lake Development Authority (LLDA) conferred the LAKAN NG LAWA AWARD to PMPC for the Company's attainment of a BLUE rating for the 5th Cycle of the Laguna Lake Region Public Disclosure Program. PMPC likewise earned the accolade for its good environmental performance in 2009, complying with effluent standards and with the regulatory requirements of LLDA. The recognition is part of LLDA's continuing efforts under the Public Disclosure Program for the Laguna de Bay Region to complement environment regulation with application of the market-based instruments to reduce the pollution in the lake.

In November, PMPC passed the emission testing conducted by Ostrea Mineral Laboratories (DENR Accredited Testing Laboratory) on PMPC's LPG fired boiler at Sta.Rosa Laguna.


GfK Philippines recognized Panasonic as the 2010's best selling brands for refrigerators. In the 7th GfK No. 1 Award, the research company honored the best selling brands for 13 major Consumers Electronics, Home Appliances, IT, Photo and Mobile Phone products. The winning brands were determined according to GfK's retail audit data, and a brand's performance is judged by their unit sales in their specific category for the period January to December 2010. The GfK No.1 Award is also held and recognized in other Asian countries including Singapore, Malaysia, Thailand, Hong Kong, Taiwan, Korea, Indonesia, and Vietnam.

PMPC will continue to work toward the direction of serving society and members of the PMPC Family are encouraged to approach persisting difficulties as well as the accompanying opportunities with the same spirit of enthusiasm and cooperation coupled with passion and perseverance. PMPC… uniting efforts and driving eco innovations in overcoming challenges….

**Panasonic**

Panasonic Manufacturing Philippines Corporation
Ortigas Avenue Extension, Taytay, Rizal, 1920 Philippines

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Panasonic Manufacturing Philippines Corporation is responsible for all information and representations contained in the financial statements for the years ended March 31, 2011, 2010 and 2009. The financial statements have been prepared in conformity with the Philippine Financial Reporting Standard and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with the Philippine Financial Reporting Standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

| | | |
|---|---|---|
| MASARU MARUO<br>Chairman of the Board | NAOYA NISHIWAKI<br>President | HIROYOSHI FUKUTOMI<br>Treasurer |

SUBSCRIBED AND SWORN to before me this MAY 09 2011, 2011, affiants exhibiting to me their passport numbers as follows:

| NAMES | PASSPORT NO. | DATE ISSUED | PLACE ISSUED |
|---|---|---|---|
| Masaru Maruo | TH3986265 | July 27, 2007 | Japan |
| Naoya Nishiwaki | TZ0689198 | February 3, 2010 | Malaysia |
| Hiroyoshi Fukutomi | TK1491375 | April 6, 2010 | Japan |

Doc. No. 011
Page No. 003
Book No. XLVIII
Series of 2011

RAFAEL B. HILAO, JR.
NOTARY PUBLIC
UNTIL DEC. 31, 2012
ROLL NO. 27255
IBP LIFETIME MEMBER NO. 00464
PTR NO. MAL - 0000073

*SGVMC116181*

# COVER SHEET

## ANNEX "B"

2 3 0 2 2

SEC Registration Number

PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY

(Company's Full Name)

Ortigas Avenue Extension, Taytay, Rizal

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

**Mr. Marlon M. Molano**

(Contact Person)

**635-2260 to 65**

(Company Telephone Number)

| 0 | 3 | 3 | 1 |
|---|---|---|---|

*Month* *Day*

(Fiscal Year)

| A | A | F | S |
|---|---|---|---|

(Form Type)

*Month* *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

*SGVMC116181*

SGV&Co
ERNST & YOUNG

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

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

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
Panasonic Manufacturing Philippines Corporation
Ortigas Avenue Extension
Taytay, Rizal

We have audited the accompanying consolidated financial statements of Panasonic Manufacturing Philippines Corporation and its Subsidiary, which comprise the consolidated statements of financial position as at March 31, 2011 and 2010, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended March 31, 2011, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditors' Responsibility***

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

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

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

*SGVMC116181*

SGV & Co
ERNST & YOUNG



***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Panasonic Manufacturing Philippines Corporation and its Subsidiary as at March 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended March 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-A
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-62-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641502, January 3, 2011, Makati City

May 6, 2011

**PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | March 31 | |
|---|---|---|
| | **2011** | 2010 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 5 and 33) | **₱2,548,263,130** | ₱2,310,847,232 |
| Receivables (Notes 3, 6, 11, 14 and 33) | **831,129,337** | 677,704,022 |
| Inventories (Notes 3, 7 and 14) | **629,708,809** | 812,553,928 |
| Other current assets | **46,996,213** | 55,277,770 |
| Total Current Assets | **4,056,097,489** | 3,856,382,952 |
| **Noncurrent Assets** | | |
| Available-for-sale investments (Notes 8 and 33) | **2,340,861** | 2,597,130 |
| Property, plant and equipment (Notes 3 and 9) | **572,106,527** | 529,321,385 |
| Investment properties (Notes 3 and 10) | **75,986,175** | 92,171,166 |
| Deferred tax assets - net (Notes 3 and 18) | **115,003,568** | 115,003,568 |
| Other assets (Notes 11, 12 and 33) | **35,223,005** | 20,022,947 |
| Total Noncurrent Assets | **800,660,136** | 759,116,196 |
| | **₱4,856,757,625** | ₱4,615,499,148 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Notes 13, 14 and 33) | **₱954,336,989** | ₱751,240,964 |
| Provisions for estimated liabilities (Notes 3 and 15) | **172,556,800** | 140,403,300 |
| Technical assistance fees payable (Notes 14 and 33) | **48,677,824** | 40,380,450 |
| Income tax payable | **1,833,004** | 4,129,573 |
| Current portion of finance lease liability (Note 19) | **1,780,825** | 2,368,387 |
| Total Current Liabilities | **1,179,185,442** | 938,522,674 |
| **Noncurrent Liability** | | |
| Finance lease liability (Note 19) | **3,660,643** | 6,243,625 |
| Total Liabilities | **1,182,846,085** | 944,766,299 |
| **Equity** | | |
| Equity attributable to equity holders of the Parent Company | | |
| Capital stock - ₱1 par value (Note 16) | **422,718,020** | 422,718,020 |
| Additional paid-in capital | **4,779,762** | 4,779,762 |
| Net unrealized gains on available-for-sale investments | **1,380,371** | 1,376,640 |
| Retained earnings (Note 17): | | |
| Appropriated | **2,767,400,000** | 2,842,400,000 |
| Unappropriated | **400,751,618** | 322,711,468 |
| | **3,597,029,771** | 3,593,985,890 |
| Noncontrolling interest | **76,881,769** | 76,746,959 |
| Total Equity | **3,673,911,540** | 3,670,732,849 |
| | **₱4,856,757,625** | ₱4,615,499,148 |

*See accompanying Notes to Consolidated Financial Statements*

## PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended March 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CONTINUING OPERATIONS** | | | |
| **NET SALES** (Notes 14 and 32) | **₱7,107,157,596** | ₱6,460,461,087 | ₱6,017,274,593 |
| **COST OF GOODS SOLD** (Notes 14, 20, 24, 25, 26, 27 and 32) | **5,068,383,398** | 4,585,440,258 | 4,471,660,971 |
| **GROSS PROFIT** | **2,038,774,198** | 1,875,020,829 | 1,545,613,622 |
| **SELLING EXPENSES** (Notes 14, 21 and 32) | **(1,498,598,324)** | (1,308,630,071) | (963,336,193) |
| **GENERAL AND ADMINISTRATIVE EXPENSES** (Notes 9, 14, 22, 24, 25, 26, 27 and 32) | **(554,521,388)** | (539,338,383) | (607,285,471) |
| **OTHER INCOME** - net (Notes 23, 28 and 32) | **77,337,434** | 81,360,553 | 142,472,817 |
| INCOME BEFORE INCOME TAX | **62,991,920** | 108,412,928 | 117,464,775 |
| **PROVISION FOR INCOME TAX** (Notes 18 and 29) | **17,545,158** | 103,251,511 | 35,747,331 |
| **INCOME FROM CONTINUING OPERATIONS** | **45,446,762** | 5,161,417 | 81,717,444 |
| **DISCONTINUED OPERATIONS** (Note 4) | | | |
| Net loss from discontinued operations | **–** | – | (63,981,569) |
| **NET INCOME** | **45,446,762** | 5,161,417 | 17,735,875 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Net unrealized gains on available-for-sale investments (Note 8) | **3,731** | 3,731 | – |
| **TOTAL COMPREHENSIVE INCOME** | **₱45,450,493** | ₱5,165,148 | ₱17,735,875 |
| **Net income attributable to:** | | | |
| Equity holders of the Parent Company (Note 31) | **₱45,311,952** | ₱4,894,780 | ₱17,344,365 |
| Noncontrolling interest | **134,810** | 266,637 | 391,510 |
| | **₱45,446,762** | ₱5,161,417 | ₱17,735,875 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Parent Company | **₱45,315,683** | ₱4,898,511 | ₱17,344,365 |
| Noncontrolling interest | **134,810** | 266,637 | 391,510 |
| | **₱45,450,493** | ₱5,165,148 | ₱17,735,875 |
| **Basic/Diluted Earnings Per Share** (Note 31) | | | |
| Income attributable to equity holders of the Parent Company | **₱0.11** | ₱0.01 | ₱0.04 |
| Income from continuing operations attributable to equity holders of the Parent Company | **₱0.11** | ₱0.01 | ₱0.19 |

*See accompanying Notes to Consolidated Financial Statements.*

## PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** (Note 16) | **Additional Paid-in Capital** | **Net Unrealized Gains on AFS Investments** | **Appropriated Retained Earnings** (Note 17) | **Unappropriated Retained Earnings** (Note 17) | **Total** | **Noncontrolling Interest** | **Total** |
| **Balances as of April 1, 2010** | **₱422,718,020** | **₱4,779,762** | **₱1,376,640** | **₱2,842,400,000** | **₱322,711,468** | **₱3,593,985,890** | **₱76,746,959** | **₱3,670,732,849** |
| Net income | **–** | **–** | **–** | **–** | **45,311,952** | **45,311,952** | **134,810** | **45,446,762** |
| Other comprehensive income | **–** | **–** | **3,731** | **–** | **–** | **3,731** | **–** | **3,731** |
| Total comprehensive income | **–** | **–** | **3,731** | **–** | **45,311,952** | **45,315,683** | **134,810** | **45,450,493** |
| Cash dividends (Note 17) | **–** | **–** | **–** | **–** | **(42,271,802)** | **(42,271,802)** | **–** | **(42,271,802)** |
| Reversal of appropriations (Note 17) | **–** | **–** | **–** | **(75,000,000)** | **75,000,000** | **–** | **–** | **–** |
| **Balances as of March 31, 2011** | **₱422,718,020** | **₱4,779,762** | **₱1,380,371** | **₱2,767,400,000** | **₱400,751,618** | **₱3,597,029,771** | **₱76,881,769** | **₱3,673,911,540** |
| | | | | | | | | |
| **Balances as of April 1, 2009** | ₱422,718,020 | ₱4,779,762 | ₱1,372,909 | ₱2,842,400,000 | ₱360,088,490 | ₱3,631,359,181 | ₱76,480,322 | ₱3,707,839,503 |
| Net income | – | – | – | – | 4,894,780 | 4,894,780 | 266,637 | 5,161,417 |
| Other comprehensive income | – | – | 3,731 | – | – | 3,731 | – | 3,731 |
| Total comprehensive income | – | – | 3,731 | – | 4,894,780 | 4,898,511 | 266,637 | 5,165,148 |
| Cash dividends (Note 17) | – | – | – | – | (42,271,802) | (42,271,802) | – | (42,271,802) |
| **Balances as of March 31, 2010** | ₱422,718,020 | ₱4,779,762 | ₱1,376,640 | ₱2,842,400,000 | ₱322,711,468 | ₱3,593,985,890 | ₱76,746,959 | ₱3,670,732,849 |

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| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 16) | Additional Paid-in Capital | Net Unrealized Gains on AFS Investments | Appropriated Retained Earnings (Note 17) | Unappropriated Retained Earnings (Note 17) | Total | Noncontrolling interest | Total |
| **Balances as of April 1, 2008** | ₱422,718,020 | ₱4,779,762 | ₱1,372,909 | ₱2,842,400,000 | ₱363,880,026 | ₱3,635,150,717 | ₱76,088,812 | ₱3,711,239,529 |
| Net income | – | – | – | – | 17,344,365 | 17,344,365 | 391,510 | 17,735,875 |
| Other comprehensive income | – | – | – | – | – | – | – | – |
| Total comprehensive income | – | – | – | – | 17,344,365 | 17,344,365 | 391,510 | 17,735,875 |
| Cash dividends (Note 17) | – | – | – | – | (21,135,901) | (21,135,901) | – | (21,135,901) |
| **Balances as of March 31, 2009** | ₱422,718,020 | ₱4,779,762 | ₱1,372,909 | ₱2,842,400,000 | ₱360,088,490 | ₱3,631,359,181 | ₱76,480,322 | ₱3,707,839,503 |

*See accompanying Notes to Consolidated Financial Statements.*

# PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended March 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax from continuing operations | **₱62,991,920** | ₱108,412,928 | ₱117,464,775 |
| Loss before income tax from discontinued operations | **–** | – | (63,053,148) |
| Income before income tax | **62,991,920** | 108,412,928 | 54,411,627 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 9, 10, 12, 25 and 32) | **135,635,790** | 149,799,913 | 145,738,076 |
| Net provision for estimated liabilities | **32,153,500** | (32,400,666) | 38,497,764 |
| Unrealized foreign currency exchange loss (gain) | **827,951** | 2,521,101 | (1,265,412) |
| Impairment loss on of available-for-sale investments (Note 8) | **260,000** | – | – |
| Interest income (Notes 5 and 28) | **(51,733,196)** | (53,930,787) | (75,691,506) |
| Gain on sale of property, plant and equipment (Notes 4 and 28) | **(1,360,000)** | – | (11,729,536) |
| Dividend income (Notes 23 and 28) | **(670)** | (17,484) | (13,027,546) |
| Movement in pension balance | **–** | (57,356,734) | 70,525,204 |
| Operating income before working capital changes | **178,775,295** | 117,028,271 | 207,458,671 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables | **(154,355,931)** | 49,772,963 | (75,317,329) |
| Inventories | **182,845,119** | (169,177,758) | 128,908,195 |
| Other current assets | **9,976,521** | 157,474 | 2,654,916 |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | **204,082,922** | 165,257,989 | (114,545,959) |
| Technical assistance fees payable | **8,297,374** | (86,827) | 5,037,005 |
| Net cash generated from operations | **429,621,300** | 162,952,112 | 154,195,499 |
| Income taxes paid | **(19,841,727)** | (42,873,998) | (37,932,048) |
| Net cash provided by operating activities | **409,779,573** | 120,078,114 | 116,263,451 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received from bank deposits | **50,038,232** | 53,032,165 | 74,991,006 |
| Proceeds from sale of property, plant and equipment | **25,052,234** | 2,098,848 | 25,815,703 |
| Dividends received (Note 23) | **670** | 17,484 | 13,027,546 |
| Acquisitions of property, plant and equipment (Note 9) | **(183,898,105)** | (41,884,422) | (212,175,676) |
| Decrease (increase) in other assets | **(16,050,787)** | 4,911,393 | 4,426,331 |
| Proceeds from return of available-for-sale investments | **–** | – | 50,253,695 |
| Net cash provided by (used in) investing activities | **(124,857,756)** | 18,175,468 | (43,661,395) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash dividends paid (Note 17) | **(42,271,802)** | (42,271,802) | (105,679,505) |
| Finance lease liabilities paid (Note 19) | **(3,961,987)** | (3,078,264) | (2,226,811) |
| Cash used in financing activities | **(46,233,789)** | (45,350,066) | (107,906,316) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(1,272,130)** | (2,643,374) | (1,345,433) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **237,415,898** | 90,260,142 | (36,649,693) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | **2,310,847,232** | 2,220,587,090 | 2,257,236,783 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱2,548,263,130** | ₱2,310,847,232 | ₱2,220,587,090 |

*See accompanying Notes to Consolidated Financial Statements.*

# PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

Panasonic Manufacturing Philippines Corporation (the Parent Company) was incorporated in the Philippines on May 14, 1963 and is a subsidiary of Panasonic Corporation (the Ultimate Parent Company). The Parent Company holds 40.0% interest in Precision Electronics Realty Corporation (PERC) (the Subsidiary), over which the Parent Company has the ability to govern the financial and operating policies and whose activities primarily benefits the Parent Company.

The Parent Company is a manufacturer, importer and distributor of electronic, electrical, mechanical, electro-mechanical appliances, other types of machinery, parts and components, battery and other related products bearing the "Panasonic" brand. PERC is in the business of realty brokerage and leases out the land in which the Parent Company's manufacturing facilities are located (see Note 9).

The Parent Company's registered address is Ortigas Avenue Extension, Taytay, Rizal.

The accompanying consolidated financial statements were approved and authorized for issue by the Parent Company's Board of Directors (BOD) on May 6, 2011.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Parent Company and PERC (collectively referred to as the "Group") have been prepared on a historical cost basis, except for available-for-sale (AFS) investments which are measured at fair value. The accompanying consolidated financial statements are presented in Philippine Peso (₱), which is also the Group's functional currency.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiary over which the Parent Company has the ability to govern the financial and operating policies to obtain benefits from its activities. The financial statements of PERC are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

All intercompany balances, income and expenses are eliminated in full. Noncontrolling interest represents the interest in PERC not held by the Parent Company.

Changes in Accounting Policies and Disclosures

The Group's accounting policies adopted are consistent with those of the previous financial year except for the following new and amended standards, interpretations and improvements to PFRS which were adopted as of April 1, 2010. These new and amended standards, interpretations and improvements to PFRS did not have any impact on the accounting policies, financial position or performance of the Group.

*New and Amended Standards and Interpretations*

- PFRS 2, *Share-based Payment* (Amendment) - *Group Cash-settled Share-based Payment Transactions*
- PFRS 3 (Revised), *Business Combinations*
- Philippine Accounting Standards (PAS) 27 (Amended), *Consolidated and Separate Financial Statements*
- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*
- PAS 39, *Financial Instruments: Recognition and Measurement* (Amendment) - *Eligible Hedged Items*
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

*Improvement to PFRS in 2008*

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

*Improvements to PFRS in 2009*

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This is a listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on its consolidated financial statements.

PAS 24 (Amended), *Related Party Disclosures*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

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

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the second quarter of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after 1 January 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on state of completion.

Philippine Interpretation IFRIC 14 (Amendment) - *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

*Improvements to PFRSs in 2010*
The amendments listed below have not yet been adopted as these will become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Group expects the adoption of these improvements to have no significant impact on the consolidated financial statements.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

**Summary of Significant Accounting Policies**

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received net of discounts, sales taxes and duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of goods*
Revenue from sale of goods is recognized when significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of goods.

*Interest income*
Interest income is recognized as interest accrues, taking into account the effective yield on the assets.

*Dividend income*
Dividend income is recognized when the Group's right to receive the payment is established.

*Rental income*
Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

Costs and Expenses
Costs and expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. The following specific recognition criteria must be met before costs and expenses are recognized:

*Cost of goods sold*
Cost of goods sold includes all expenses associated with the specific sale of goods. Cost of goods sold include all materials and supplies used, direct labor, occupancy cost, depreciation

of production equipment and other expenses related to production. Such costs are recognized when the related sales have been recognized.

*Selling expenses*
Selling expenses constitute costs which are directly related to selling, advertising and delivery of goods to customers. These include sales commissions and marketing expenses. Selling expenses are recognized when incurred.

*General and administrative expenses*
General and administrative expenses constitute costs of administering the business and are recognized when incurred.

Cash and cash equivalents
Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand and in banks and time deposits with original maturities of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and time deposits as defined above.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the selling price in the ordinary course of business, less costs of completion, marketing and distribution. Cost is determined primarily using the first-in, first-out method, except for spare parts and supplies, which are determined on a weighted average method. For manufactured inventories, cost includes the applicable allocation of fixed and variable overhead costs.

Financial Instruments
*Date of recognition*
The Group recognizes financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

*Initial recognition and classification of financial instruments*
All financial instruments are initially measured at fair value. Except for financial instruments valued at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets and liabilities at FVPL and HTM investments as of March 31, 2011 and 2010.

*Subsequent Measurement*
The subsequent measurement of financial assets depends on their classification as follows:

*AFS Investments*
AFS investments are non-derivative financial assets that are designated as such or do not qualify to be classified as designated as at FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments also include investments in unquoted equity instruments, where the Group's ownership interest is less than 20.0% or where control is likely to be temporary, which are initially recorded at cost being the fair value of the investment at the time of acquisition, inclusive of direct acquisition charges associated with the investment.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are recognized as other comprehensive income. For AFS investments not traded in the active market, the fair value is determined using valuation techniques (refer to 'Determination of Fair Value'). However, when no reliable fair value can be derived, the Group subsequently carries its unquoted investments at cost, less any impairment loss.

When an AFS investment is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is recognized in current operations. The losses arising from impairment of such investments are recognized as 'Provision for impairment losses' in profit or loss.

AFS investments are classified as current assets when it is expected to be sold or realized within twelve months after the reporting date or within the normal operating cycle, whichever is longer.

The Group's AFS investments include investments in quoted equity shares (see Notes 8 and 33).

*Loans and Receivables*
Loans and receivables include non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and for which the Group has no intention of trading. After initial recognition, loans and receivables are subsequently stated at their amortized cost, reduced by accumulated impairment loss, if any. Amortization is determined using the effective interest method.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as other assets included in noncurrent assets.

Classified as loans and receivables are the Group's cash in banks and cash equivalents and trade and other receivables. Other receivables include receivable from related parties, Meralco refund and advances to officers and employees (see Notes 6 and 33).

*Other Financial Liabilities*
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve months from the reporting date or the Group does not have an unconditional right to defer settlement for at least twelve months from reporting date.

Included in this category are the Group's accounts payable and accrued expenses, technical assistance fees payable, and finance lease liability.

Determination of Fair Value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques, which includes discounted cash flow techniques and comparison to similar instruments for which observable market prices exist.

*'Day 1' Profit*

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

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets are impaired. A financial asset or a group of financial asset is deemed to be impaired if, and only if, there is objective criteria of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization.

*Loans and Receivables*

The Group 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 there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account.

If a future write-off is later recovered, the recovery is recognized in profit or loss under "Other income" account. Any subsequent reversal of an impairment loss is recognized in profit or loss as reversal of allowance for doubtful accounts", to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

*AFS Investments*

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

In case of equity instruments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized under profit or loss, is transferred from other comprehensive income to profit or loss. Impairment losses on equity investments are not reversed through current operations. Increases in fair value after impairment are recognized as other comprehensive income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Derecognition of Financial Assets and Financial Liabilities
*Financial Asset*
A financial asset or, where applicable, a part of a financial asset or a part of a group of similar financial assets is derecognized when:

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

Where the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial Liability*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Property, Plant and Equipment
Property, plant and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value except land which is carried at cost less any impairment in value. The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Significant renewals and improvements are capitalized.

Expenditures incurred after the properties have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of

performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation and amortization is computed using the straight-line method on land improvements and buildings and improvements over their estimated useful lives and the declining balance method on other property, plant and equipment.

The estimated useful lives of property, plant and equipment are as follows:

| | Years |
|---|---|
| Land improvements | 10 |
| Factory machinery, equipment and tools | 2-7 |
| Buildings and improvements | 5-25 |
| Office furniture, fixtures and equipment | 2-5 |
| Transportation equipment | 4 |

The useful life and depreciation and amortization methods are reviewed at each reporting date to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any accumulated impairment losses are eliminated from the accounts and any gain or loss resulting from their disposal is included in profit or loss.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and amortization and any impairment in value.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to operations in the period in which the costs are incurred.

Depreciation and amortization is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed:

| | Years |
|---|---|
| Building | 25 |
| Building improvements | 5-10 |

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Software

Software acquired separately is measured on initial recognition at cost. Following initial recognition, software is carried at cost less any accumulated amortization and any accumulated impairment losses.

Amortization of software is computed using the declining balance method over its estimated useful life of 2 to 5 years. The estimated useful life and amortization method for software are reviewed at least at each financial year end to ensure that the period and method of amortization are consistent with the expected pattern of economic benefits from these assets.

The amortization expense on software is recognized in profit or loss under general and administrative expenses. Software is assessed for impairment whenever there is an indication that this asset may be impaired.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its property, plant and equipment, investment properties and software may be impaired.

Where there is impairment, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

A reassessment is made only after inception of the lease if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss.

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as income in profit or loss on a straight-line basis over the lease term.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against the retained earnings.

When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Retained earnings represent accumulated earnings of the Group.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to ordinary equity holders of the parent by the weighted average number of common shares issued and outstanding during the year, after giving retroactive adjustment to any stock dividend declared or stock split made during the year.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive convertible common shares.

Retirement Cost

The Group's retirement expense is actuarially determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. Actuarial gains and losses on the excess of the net cumulative unrecognized actuarial gains

and losses of the plan at the end of the previous reporting year in excess of 10.0% of the higher of the defined benefit obligation and the fair value of plan assets at that date are recognized as income or expense. These actuarial gains and losses are recognized over the expected average remaining working life of the employees participating in the plan.

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

Past service cost, if any, is recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service cost is amortized on a straight-line basis over the vesting period.

Income Tax

*Current tax*

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

*Deferred tax*

Deferred tax is provided 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, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating losses carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from excess credits and unexpired NOLCO can be utilized.

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

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

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

Foreign Currency-denominated Transactions and Translation
Foreign currency-denominated transactions are recorded using the exchange rate at the date of transaction. Foreign currency-denominated monetary assets and liabilities are translated using the prevailing closing exchange rate at reporting date. Exchange gains or losses from foreign currency-denominated transactions and translation are credited or charged to profit or loss.

Operating Segment
Operating segments for management reporting purposes are organized into three major segments according to the nature of the products. Common income and expenses are allocated among business segments based on sales or other appropriate bases. Segment assets include operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment net of allowances, provisions and depreciation and amortization. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued liabilities. Information on business segments is presented in Note 32.

Discontinued Operations
Income and expenses from discontinued operations are reported separately from income and expenses from continuing operations. The resulting profit or loss after tax is reported separately in the consolidated statement of comprehensive income.

Provisions
Provisions are recognized when the following conditions are present: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

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

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

## 3. Significant Accounting Judgments, Assumptions and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, assumptions 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 Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

*Determination of Functional Currency*

The Parent Company determines the functional currency based on the economic substance of underlying circumstances relevant to the Parent Company. The functional currency has been determined to be the Philippine Peso since its revenues and expenses are substantially denominated in Philippine Peso.

*Classification of Leases*

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to or by the Group. Lease contracts, which transfers substantially all the significant risks and rewards incidental to ownership of the leased items, are classified as finance leases. Otherwise, they are considered as operating leases.

*Finance Lease - The Group as Lessee*

The Group has certain lease agreements covering certain vehicles where the lease terms approximate the estimated useful lives of the assets, and provide for an option to purchase or transfer ownership of assets at the end of the lease. These leases are classified by the Group as finance leases (see Note 19).

*Operating Lease - The Group as Lessor*

The Group has entered into commercial property leases on its investment property portfolio. Based on the evaluation of the terms and conditions of the agreement, the Group has determined that it retains all the significant risks and rewards of ownership of the related properties and so accounts for the contracts as operating leases (see Notes 14 and 19).

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty 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, are discussed below.

*Impairment of Inventory*
The Group maintains an allowance for inventory obsolescence at a level considered adequate for the excess of cost of inventories over their NRV. NRV of inventories are assessed regularly based on the prevailing selling prices of inventories less the estimated costs necessary to sell. Any increase in NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs. The carrying value of inventories as of March 31, 2011 and 2010 amounted to ₱629.7 million and ₱812.6 million, respectively (see Note 7).

*Useful Lives of Property, Plant and Equipment, Investment Properties and Software*
The Group's management determines the estimated useful lives and related depreciation and amortization charges for its property, plant and equipment, investment properties and software. These estimates are based on the expected future economic benefit of the assets of the Group. Management will increase the depreciation and amortization charges where useful lives are less than previously estimated, or it will write off or write down technically obsolete assets that have been abandoned or sold.

The carrying value of property, plant and equipment as of March 31, 2011 and 2010 amounted to ₱572.1 million and ₱529.3 million, respectively (see Note 9); while the carrying value of investment properties as of March 31, 2011 and 2010 amounted to ₱76.0 million and
₱92.2 million, respectively (see Note 10). The carrying value of software as of March 31, 2011 and 2010 amounted to ₱18.5 million and ₱2.0 million, respectively (see Note 12).

*Impairment of Property, Plant and Equipment, Investment Properties and Software*
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant or prolonged decline in the fair value of the asset;
- Increase in market interest rates or other market rates of return on investments during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

There were no indicators of impairment, thus, no impairment losses were recognized in 2011, 2010 and 2009.

The carrying value of property, plant and equipment of the Group amounted to ₱572.1 million and ₱529.3 million as of March 31, 2011 and 2010, respectively (see Note 9). The carrying value of investment properties amounted to ₱76.0 million and ₱92.2 million as of March 31, 2011 and 2010, respectively (see Note 10). The carrying value of software amounted to ₱18.5 million and
₱2.0 million as of March 31, 2011 and 2010, respectively (see Note 12).

*Impairment of Receivables*
The Group reviews its receivable portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the customer's payment behavior and known market factors.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties (e.g., debt restructuring and declaration of bankruptcy). The Group assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department and nonmoving accounts receivable.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence yet of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility.

The carrying value of receivables amounted to ₱831.1 million and ₱677.7 million as of March 31, 2011 and 2010, respectively (see Note 6).

*Retirement Cost*
The determination of cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the Group's assumptions, subject to the 10.0% corridor test are accumulated and amortized over future periods and therefore, generally affect the recognized expense.

The Group's net pension liability amounted to nil as of March 31, 2011 and 2010 (see Note 27).

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the Group's pension asset and annual retirement cost.

*Provisions for Estimated Liabilities*
Provision for warranty is recognized for expected warranty claims on products sold, based on certain percentages of sales which range from 0.5% to 2.0%. The Group calculates these percentages based on past experience of the level of repairs and returns.

Other provisions for estimated liabilities include provisions for special retirement, provisions for installment rebates and prompt payment rebates. Provisions for special retirement represent liabilities to the employees related to the voluntary redundancy program offered by the Group. Provisions for rebates and prompt payments are recognized based on a certain percentage of sales considering the Group's past experience.

Provisions for estimated liabilities amounted to ₱172.6 million and ₱140.4 million as of March 31, 2011 and 2010, respectively (see Note 15).

*Deferred Tax Assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces them 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. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, particularly the deferred tax assets on NOLCO and MCIT that have three years expiration from the date incurred, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Net deferred tax assets amounted to ₱115.0 million as of March 31, 2011 and 2010 (see Note 18).

## 4. Discontinued Operations

Battery Division
On January 16, 2009, the BOD authorized the cessation of the operation of the Battery Division which manufactures batteries and flashlights effective end of March 2009.

The results of operation of the Battery Division for the year ended March 31, 2009 are as follows:

| | |
|---|---|
| Net sales | ₱185,405,496 |
| Cost of goods sold | (139,043,223) |
| Gross profit | 46,362,273 |
| Selling expenses | (53,525,039) |
| General and administrative expenses | (43,774,447) |
| Other income (loss) - net | (12,115,935) |
| Loss before income tax | (63,053,148) |
| Provision for income tax (Note 18) | 928,421 |
| Net loss | (₱63,981,569) |
| Basic/diluted loss per share | (₱0.15) |

Gain on disposal of property, plant and equipment included under "Other income (loss) - net" amounted to ₱0.1 million in 2009.

The net cash flows used in the Battery Division are as follows:

| | |
|---|---|
| Net cash provided by (used in): | |
| Operating activities | (₱16,553,482) |
| Investing activities | 1,590,478 |
| Financing activities | (16,290,211) |

| | |
|---|---|
| | (₱31,253,215) |

There were no discontinued operations for the years ended March 31, 2011 and 2010.

## 5. Cash and Cash Equivalents

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Cash on hand | **₱25,484,889** | ₱13,382,442 | ₱31,719,866 |
| Cash in banks | **230,908,241** | 201,322,790 | 172,977,224 |
| Time deposits | **2,291,870,000** | 2,096,142,000 | 2,015,890,000 |
| | **₱2,548,263,130** | ₱2,310,847,232 | ₱2,220,587,090 |

Cash in banks earned annual interest ranging from 0.5% to 1.0% in 2011 and 2010. Time deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earned interest ranging from 1.5% to 4.5% in 2011 and 2010. Interest income from cash in banks and time deposits amounted to ₱51.7 million, ₱53.9 million and ₱75.7 million in 2011, 2010 and 2009, respectively (see Note 28).

## 6. Receivables

| | **2011** | 2010 |
|---|---|---|
| Trade | | |
| Domestic | **₱562,202,019** | ₱498,408,880 |
| Export (Note 14) | **138,085,362** | 83,184,382 |
| Others (Notes 11 and 14) | **165,332,456** | 122,515,260 |
| | **865,619,837** | 704,108,522 |
| Less allowance for doubtful accounts | **34,490,500** | 26,404,500 |
| | **₱831,129,337** | ₱677,704,022 |

Trade receivables are non-interest-bearing and are generally on 30- to 60- day terms. Receivables classified as "domestic" are those claims against local customers. Others include receivable from related parties amounting to ₱34.2 million and ₱32.6 million in 2011 and 2010, respectively
(see Note 14). Others also include Meralco refund, advances to officers and employees and other receivables.

The changes in allowance for doubtful accounts in 2011 and 2010 follow:

| | **2011** | | |
|---|---|---|---|
| | **Domestic** | **Other receivables** | **Total** |
| Balances at beginning of year | **₱20,011,900** | **₱6,392,600** | **₱26,404,500** |
| Provisions (Note 22) | **8,121,559** | **–** | **8,121,559** |
| Reversals (Note 22) | **–** | **(35,559)** | **(35,559)** |
| Balances at end of year | **₱28,133,459** | **₱6,357,041** | **₱34,490,500** |

| | 2010 | | |
|---|---|---|---|
| | Domestic | Other receivables | Total |
| Balances at beginning of year | ₱19,708,900 | ₱5,685,600 | ₱25,394,500 |
| Provisions (Note 22) | – | 707,000 | 707,000 |
| Reversals (Note 22) | (1,694,025) | – | (1,694,025) |
| Recovery | 1,997,025 | – | 1,997,025 |
| Balances at end of year | ₱20,011,900 | ₱6,392,600 | ₱26,404,500 |

As of March 31, 2011 and 2010, the aging analysis of trade receivables and other receivables follows:

| | **2011** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Past Due but not Impaired** | | | | |
| | | **1-30 days** | **Over 30 days** | **Over 60 days** | **Impaired** | **Total** |
| Trade | | | | | | |
| Domestic | **₱485,791,928** | **₱44,072,660** | **₱2,442,072** | **₱1,761,900** | **₱28,133,459** | **₱562,202,019** |
| Export | **134,545,992** | **3,534,038** | **5,332** | **–** | **–** | **138,085,362** |
| Others | **142,429,349** | **16,126,091** | **419,975** | **–** | **6,357,041** | **165,332,456** |
| Total | **₱762,767,269** | **₱63,732,789** | **₱2,867,379** | **₱1,761,900** | **₱34,490,500** | **₱865,619,837** |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | | |
| | | 1-30 days | Over 30 days | Over 60 days | Impaired | Total |
| Trade | | | | | | |
| Domestic | ₱429,730,555 | ₱38,099,262 | ₱9,977,302 | ₱589,861 | ₱20,011,900 | ₱498,408,880 |
| Export | 83,098,502 | 85,880 | – | – | – | 83,184,382 |
| Others | 112,179,053 | 3,943,607 | – | – | 6,392,600 | 122,515,260 |
| Total | ₱625,008,110 | ₱42,128,749 | ₱9,977,302 | ₱589,861 | ₱26,404,500 | ₱704,108,522 |

## 7. Inventories

| | **2011** | 2010 |
|---|---|---|
| At NRV: | | |
| Finished goods and merchandise | ₱142,556,944 | **₱250,520,108** |
| Raw materials | **177,196,256** | 192,072,797 |
| Spare parts and supplies | **7,108,381** | 8,930,731 |
| Goods in process | **10,381,416** | 9,592,365 |
| At cost: | | |
| Finished goods and merchandise | **161,464,600** | 209,443,189 |
| Goods in transit | **131,001,212** | 141,994,738 |
| | ₱629,708,809 | **₱812,553,928** |

The related cost of inventories recorded at NRV amounted to ₱403.4 million and ₱500.0 million as of March 31, 2011 and 2010, respectively. The amount of write-down of inventories recognized as expense and included under cost of goods sold amounted to ₱5.2 million, ₱12.5 million and
₱2.0 million in 2011, 2010 and 2009, respectively.

## 8. Available-for-Sale Investments

AFS investments include quoted equity shares. The carrying value of the AFS investments amounted to ₱2.3 million and ₱2.6 million as of March 31, 2011 and 2010, respectively. The changes in fair value recognized in other comprehensive income amounted to ₱3,731 in 2011 and 2010. In 2010, impairment loss on available-for-sale investments amounted to ₱0.3 million.

In 2005, PC decided to phase out their overseas GSM mobile terminal business due to severe global competition. As a result, on December 7, 2005, the BOD of Panasonic Mobile Communications Co., Ltd. (PMCP) approved a resolution shortening the corporate term of PMCP until March 31, 2006. The Parent Company has 5.0% investments in PMCP classified as AFS investments as of March 31, 2006. In 2008, the Parent Company recognized an impairment loss of ₱2.5 million on its investment in PMCP based on the difference of the amount expected to be recovered from the investment and its carrying amount. In February 2009, the Parent Company received the final liquidating dividend for its investment in PMCP. The difference between the total amount received and the carrying amount of the investment amounting to ₱13.0 million was included under dividend income in 2009 (see Note 28).

## 9. Property, Plant and Equipment

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Land and Land Improvements** | **Factory Machinery, Equipment and Tools** | **Buildings and Improvements** | **Office Furniture, Fixtures and Equipment** | **Transportation Equipment** | **Total** |
| **Cost** | | | | | | |
| Balances at beginning of year | ₱236,029,163 | ₱1,316,013,593 | ₱557,393,588 | ₱226,848,857 | ₱67,606,409 | ₱2,403,891,610 |
| Acquisitions | – | 130,771,573 | 26,939,123 | 8,851,216 | 18,127,636 | 184,689,548 |
| Retirements/disposals | – | (74,197,278) | (27,498,933) | (16,505,666) | (10,670,164) | (128,872,041) |
| Balances at end of year | 236,029,163 | 1,372,587,888 | 556,833,778 | 219,194,407 | 75,063,881 | 2,459,709,117 |
| **Accumulated depreciation and amortization** | | | | | | |
| Balances at beginning of year | 1,995,910 | 1,270,089,936 | 333,668,944 | 206,249,725 | 62,565,710 | 1,874,570,225 |
| Depreciation and amortization (Notes 20, 22, 25 and 32) | 285,130 | 75,413,104 | 26,254,417 | 11,349,641 | 4,909,880 | 118,212,172 |
| Retirements/disposals | – | (66,976,950) | (15,336,795) | (15,619,012) | (7,247,050) | (105,179,807) |
| Balances at end of year | 2,281,040 | 1,278,526,090 | 344,586,566 | 201,980,354 | 60,228,540 | 1,887,602,590 |
| **Net book value** | ₱233,748,123 | ₱94,061,798 | ₱212,247,212 | ₱17,214,053 | ₱14,835,341 | ₱572,106,527 |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Land Improvements | Factory Machinery, Equipment and Tools | Buildings and Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | Total |
| **Cost** | | | | | | |
| Balances at beginning of year | **₱236,029,163** | **₱1,412,027,690** | **₱550,486,947** | **₱234,382,630** | **₱70,622,335** | **₱2,503,548,765** |
| Acquisitions | – | **25,398,398** | 9,371,400 | **7,114,624** | 3,949,337 | **45,833,759** |
| Retirements/disposals | **–** | **(121,412,495)** | (2,464,759) | **(14,648,397)** | (6,965,263) | **(145,490,914)** |
| Balances at end of year | **236,029,163** | **1,316,013,593** | **557,393,588** | **226,848,857** | **67,606,409** | **2,403,891,610** |
| **Accumulated depreciation and amortization** | | | | | | |
| Balances at beginning of year | **1,710,780** | **1,296,573,898** | **310,109,272** | **211,100,590** | **66,059,533** | **1,885,554,073** |
| Depreciation and amortization (Notes 20, 22, 25 and 32) | **285,130** | **93,234,187** | 26,024,431 | **9,393,030** | 3,471,440 | **132,408,218** |
| Retirements/disposals | **–** | **(119,718,149)** | (2,464,759) | **(14,243,895)** | (6,965,263) | **(143,392,066)** |
| Balances at end of year | **1,995,910** | **1,270,089,936** | **333,668,944** | **206,249,725** | **62,565,710** | **1,874,570,225** |
| **Net book value** | **₱234,033,253** | **₱45,923,657** | **₱223,724,644** | **₱20,599,132** | **₱5,040,699** | **₱529,321,385** |

The land owned by PERC on which the manufacturing facilities are located is leased by the Parent Company under a twenty-five year lease agreement. Lease rentals were eliminated in the consolidated financial statements. Upon expiration of the lease, title to the land will not be transferred to the Parent Company.

The Parent Company entered into a finance lease agreement with Build Operate and Transfer (BOT) Lease and Finance Philippines, Inc. for the vehicles of its executives. The carrying value of those leased vehicles, included under transportation equipment, amounted to ₱8.9 million and
₱5.0 million as of March 31, 2011 and 2010, respectively (see Note 19).

## 10. Investment Properties

| | 2011 | | |
|---|---|---|---|
| | **Building** | **Building Improvements** | **Total** |
| **Cost** | | | |
| Balances at beginning and end of year | **₱115,251,594** | **₱115,622,923** | **₱230,874,517** |
| **Accumulated depreciation and amortization** | | | |
| Balances at beginning of year | **39,070,716** | **99,632,635** | **138,703,351** |
| Depreciation and amortization (Notes 22, 25 and 32) | **4,610,060** | **11,574,931** | **16,184,991** |
| Balances at end of year | **43,680,776** | **111,207,566** | **154,888,342** |
| **Net book value** | **₱71,570,818** | **₱4,415,357** | **₱75,986,175** |

| | 2010 | | |
|---|---|---|---|
| | Building | Building Improvements | Total |
| **Cost** | | | |
| Balances at beginning and end of year | ₱115,251,594 | ₱115,622,923 | ₱230,874,517 |
| **Accumulated depreciation and amortization** | | | |
| Balances at beginning of year | 34,460,652 | 88,014,648 | 122,475,300 |
| Depreciation and amortization (Notes 22, 25 and 32) | 4,610,064 | 11,617,987 | 16,228,051 |
| Balances at end of year | 39,070,716 | 99,632,635 | 138,703,351 |
| **Net book value** | ₱76,180,878 | ₱15,990,288 | ₱92,171,166 |

The aggregate fair value of the investment properties amounted to ₱114.0 million and 112.3 million as of March 31, 2011 and 2010, respectively. The fair value of the investment properties has been determined by an independent appraiser using the market data approach.

Rent income recognized under other income - net amounted to ₱28.8 million, ₱30.7 million and ₱23.9 million in 2011, 2010 and 2009, respectively (see Notes 14 and 28).

## 11. Meralco Refund

As a customer of the Manila Electric Company (Meralco), the Parent Company expects to receive a refund for some of Meralco's previous billings under Phase IV of its refund scheme. Subsequent developments in 2005, principally the approval of Meralco's amended refund scheme by the Energy Regulatory Commission, indicate that the amount and timing of the receipt of the refund is now certain.

Under the Meralco refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Parent Company intends to recover the refund through postdated checks, starting June 30, 2006 up to June 30, 2012. As of March 31, 2011 and 2010, about ₱1.1 million and ₱3.3 million, respectively, expected to be recovered within one year, net of unearned interest income of ₱0.2 million and ₱1.1 million, respectively, are included in "Receivables - others" account (see Notes 6 and 33). As of March 31, 2011 and

2010, nil and
₱1.1 million, respectively, of the receivables are expected to be recovered beyond one year, net of unearned interest income of nil and ₱0.2 million, respectively, which are included under
"Other assets" in the consolidated statements of financial position (see Notes 6 and 33).

The related interest income from the refund is included under "Miscellaneous income - net" account in profit or loss. Interest income recognized amounted to ₱0.2 million, ₱0.6 million and
₱0.7 million in 2011, 2010 and 2009, respectively (see Note 28).

## 12. Software

| | **2011** | 2010 |
|---|---|---|
| **Cost** | | |
| Balances at beginning of year | **₱98,356,037** | ₱98,625,810 |
| Additions | **17,664,567** | 2,207,149 |
| Retirement | (2,203,210) | **(2,476,922)** |
| Balances at end of year | 113,817,394 | **98,356,037** |
| **Accumulated amortization** | | |
| Balances at beginning of year | 96,327,170 | **96,691,971** |
| Amortization (Notes 22, 25 and 32) | 1,238,627 | **1,163,644** |
| Retirement | (2,203,210) | **(1,528,445)** |
| Balances at end of year | 95,362,587 | **96,327,170** |
| **Net book value** | ₱18,454,807 | **₱2,028,867** |

Software is recognized under "Other assets" account in the consolidated statements of financial position. Amortization of software cost is included as part of "Depreciation and amortization" account under general and administrative expenses in profit or loss.

## 13. Accounts Payable and Accrued Expenses

| | **2011** | 2010 |
|---|---|---|
| Trade accounts payable (Note 14) | ₱384,758,471 | **₱364,479,924** |
| Accrued advertising expenses | **270,406,000** | 132,500,000 |
| Advances from customers | **39,964,092** | 61,774,960 |
| Accrued releasing expenses | **21,658,758** | 15,517,844 |
| Output VAT | **19,219,665** | 13,006,910 |
| Brand license fee payable (Note 14) | **14,866,838** | 12,992,505 |
| Other accrued expenses (Note 14) | **203,463,165** | 150,968,821 |
| | ₱954,336,989 | **₱751,240,964** |

Trade accounts payable are non-interest-bearing and are generally on 30- to 60- day terms. Accrued expenses and others include withholding and output taxes, salaries and employee benefits, advertising, utilities, freight, handling and releasing charges and brand license fee.

## 14. Related Party Transactions

The Parent Company has entered into various transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other

party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions with related parties are based on terms agreed to by the parties.

The companies under common control of Panasonic Corporation (PC) (referred to as affiliates) that the Parent Company has transactions are as follows:

- P.T. Panasonic Manufacturing Indonesia
- Panasonic Corporate Overseas Management Division
- Panasonic Ecology Systems Co., Ltd.
- Panasonic Ecology Systems Hong Kong Co., Ltd.
- Panasonic Ecology Systems Thailand Co., Ltd.
- Panasonic Electric Works Sales Philippines Corporation
- Panasonic Energy Thailand Co. Ltd.
- Panasonic HA Air-Conditioning R&D Center (M) Sdn. Bhd.
- Panasonic Industrial Asia Pte. Ltd. (PIAP)
- Panasonic Industrial Group
- Panasonic Logistics Hong Kong Co., Ltd.
- Panasonic Systems Network Philippines (PSNP)
- Panasonic Trading Malaysia Pte. Ltd. (PTM)
- Panasonic Trading Singapore Pte. Ltd. (PTS)

Significant transactions with related parties are as follows:

a. The Parent Company imports substantially all of its raw material requirements, merchandise, machinery and equipment, and other spare parts and supplies from PC and affiliates. Purchases from PC amounted to ₱246.2 million, ₱93.0 million and ₱260.7 million in 2011, 2010 and 2009, respectively. Purchases made from affiliates amounted to ₱2.5 billion,
₱2.5 billion and ₱2.0 billion in 2011, 2010 and 2009, respectively (see Note 20).

b. The Parent Company sells certain products abroad mostly to related parties. Sales to affiliates amounted to ₱1.1 billion, ₱818.2 million and ₱991.8 million in 2011, 2010 and 2009, respectively. Major customers include PTS, PTM and PSNP for which the related receivable balances amounted to ₱137.8 million, ₱194.9 million and ₱121.2 million, and ₱132.4 million ₱53.1 million and ₱188.1 million as of March 31, 2011 and 2010, respectively.

c. The Parent Company has several Technical Assistance Agreements with PC. Under the terms of the agreements, the Parent Company pays semi-annual technical assistance fees equivalent to a certain percentage of sales of selected products ranging from 3.0% to 3.5%. Technical assistance fees charged by the Parent Company amounted to ₱102.1 million, ₱100.0 million and ₱104.3 million in 2011, 2010 and 2009, respectively (see Note 22). Out of these amounts, ₱3.8 million pertains to discontinued operations in 2009.

d. The Parent Company has existing agreements with PC and whereby the Parent Company reimburses PC based on a certain percentage of sales and allocated costs attributable to the services rendered by PC. Allocated costs charged to operations amounted to ₱14.3 million,
₱13.4 million and ₱14.5 million in 2011, 2010 and 2009, respectively (see Note 22).

e. The Parent Company has existing trademark license agreements with PC and affiliates. Under the terms of the agreements, the Parent Company is granted a non-exclusive license to use the trademark "KDK" and "Panasonic" on or in relation to its products starting April 2004. The Parent Company pays royalty equivalent to 1.0% of the sales price of the products bearing the brands. Brand license fees charged by the Parent Company amounted to ₱29.2 million, ₱30.0 million and ₱31.6 million in 2011, 2010, and 2009, respectively, while brand license fees charged by the affiliates amounted to ₱1.6 million, ₱1.4 million and ₱0.7 million in 2011, 2010 and 2009, respectively (see Note 22). Out of these amounts, ₱1.1 million pertains to discontinued operations in 2009.

f. The Parent Company has existing Commission Agreements with PC and affiliates, usually renewable on an annual basis, wherein the Parent Company pays commissions to such affiliates. The commission expense covers various export products and are computed based on a certain percentage of the invoice amount or on a fixed amount per unit sold. Commission expense charged to selling expenses amounted to ₱9.9 million, ₱ 9.8 million and
₱19.8 million in 2011, 2010 and 2009, respectively (see Note 21).

g. The Parent Company has a Memorandum Agreement with PIAP. Under the terms of the agreement, the Parent Company will render services in the form of general advice and assistance to PIAP. Assistance fee reflected under miscellaneous income amounted to ₱0.7 million, ₱0.9 million and ₱1.9 million in 2011, 2010 and 2009, respectively (see Note 28).

h. The Group's key management personnel include the president and directors. The compensation of key management personnel consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Short-term employee benefits | **₱49,085,582** | ₱34,399,665 | ₱35,840,923 |
| Post-employment benefits | **4,043,326** | 2,600,075 | 5,129,163 |
| | **₱53,128,908** | ₱36,999,740 | ₱40,970,086 |

There are no agreements between the Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plan.

i. On March 1, 2008, the Parent Company entered into a contract of lease with PSNP for the rent of its building with some covered areas or improvements, comprising approximately 15,072.6 square meters more or less, located at Brgy. Don Jose, Laguna Technopark, Sta. Rosa City, Laguna. The leased properties are accounted for by the Parent Company as "Investment properties" (see Note 10). The lease is for a period of two (2) years commencing on
March 1, 2008 to February 28, 2010. The lease agreement was renewed in the current year which became effective on March 1, 2010 to February 28, 2012 covering the same terms and conditions. Rent income recognized under miscellaneous income amounted to ₱28.8 million, ₱30.7 million and ₱23.9 million in 2011, 2010 and 2009, respectively (see Notes 19 and 28).

As a result of the related party transactions, the Parent Company has outstanding balances with related parties as follows. Amounts due from and due to related parties are non interest bearing and are normally settled within one year.

| | **2011** | 2010 |
|---|---|---|
| **Receivable from related parties** | | |
| Trade receivables from affiliates | **₱138,085,362** | ₱83,184,382 |
| Other receivables: | | |
| PC | **20,220,747** | 579,572 |
| Affiliates | **13,940,861** | 32,008,521 |
| Loans to officers and employees | **786,348** | 7,331,570 |
| | ₱173,033,318 | **₱123,104,045** |
| **Payable to related parties** | | |
| Trade payables: | | |
| PC | **₱15,954,128** | ₱9,009,797 |
| Affiliates | **193,177,279** | 208,116,861 |
| Accrued expenses: | | |
| PC | 8,601,370 | **3,454,592** |
| Affiliates | **57,842,863** | 46,302,563 |
| Technical assistance fees payable | 48,677,824 | **40,380,450** |
| | ₱324,253,464 | **₱307,264,263** |

## 15. Provisions for Estimated Liabilities

| | 2011 | | |
|---|---|---|---|
| | **Warranty Claims** | ProvisionsforOther Estimated Liabilities | Total |
| Balances at beginning of year | ₱38,948,000 | ₱101,455,300 | ₱140,403,300 |
| Provisions (Notes 21, 22 and 28) | 41,985,176 | 117,410,800 | 159,395,976 |
| Usage | (41,887,176) | (85,355,300) | (127,242,476) |
| Balances at end of year | ₱39,046,000 | ₱133,510,800 | ₱172,556,800 |

| | **2010** | | |
|---|---|---|---|
| | Warranty Claims | **Provisions forOtherEstimated Liabilities** | **Total** |
| Balances at beginning of year | **₱30,395,000** | **₱142,408,966** | **₱172,803,966** |
| Provisions (Notes 21, 22 and 28) | **47,127,554** | **19,624,000** | **66,751,554** |
| Usage | **(38,574,554)** | **(60,577,666)** | **(99,152,220)** |
| Balances at end of year | **₱38,948,000** | **₱101,455,300** | **₱140,403,300** |

Provisions for warranty claims are recognized for expected warranty claims on products sold, based on past experience of the level of repairs and returns.

Provisions for other estimated liabilities include provisions for special retirement, provisions for installment rebates and prompt payment rebates. Provisions for special retirement represent liabilities to the employees related to the voluntary redundancy program offered by the Group. Provisions for rebates and prompt payments are recognized based on a certain percentage of sales considering the Group's past experience.

The other information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it may negatively affect the operations of the Group and prejudice the outcome of the litigations and assessments.

## 16. Capital Stock

Authorized capital stock consists of 169.4 million Class A shares amounting to ₱169.4 million and 677.6 million Class B shares amounting to ₱677.6 million. Issued and outstanding capital stock consists of:

| | Par Value | Number of Shares | Amount |
|---|---|---|---|
| Class A | ₱1 | 84,723,432 | ₱84,723,432 |
| Class B | 1 | 337,994,588 | 337,994,588 |
| | | 422,718,020 | ₱422,718,020 |

The Class A shares of stock can be issued to Philippine nationals only, while the Class B shares of stock can be issued to either Philippine or foreign nationals. The Group's Class A shares of stock are listed in the Philippine Stock Exchange.

## 17. Retained Earnings

a. On September 18, 1990, the Parent Company entered into a Merger Agreement with National Panasonic (Phils.) Inc. (NPPI), a related party and the exclusive distributor of the "National" brand of electronic products. The terms and conditions of the merger, as set forth in the Articles of Merger which was approved by the SEC on October 29, 1990, include, among others, the transfer by NPPI to the Parent Company, being the surviving corporation, of all its assets, liabilities and business on the same date. The transaction was accounted for using the pooling of interests method.

   The retained earnings inherited from NPPI before the effectivity of the merger amounting to
   ₱64.7 million are included in the statement of financial position under "unappropriated retained earnings". Such is not available for distribution to stockholders in the form of cash or property dividends.

b. The appropriated retained earnings pertain to the appropriation for plant expansion and modernization and upgrade of factory facilities and equipment of the Parent Company and for purchase of industrial land for future business expansion of PERC. Upon completion of the projects, the appropriations will be reverted to unappropriated retained earnings.

On March 31, 2011, the Parent Company's BOD approved the reversal of prior years' appropriations in retained earnings amounting to ₱75.0 million.

c. The Parent Company's BOD declared cash dividends as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| January 12, 2011, 5.0% cash dividends to stockholders of record as of January 26, 2011 payable on February 4, 2011 | **₱21,135,901** | ₱– | ₱– |
| April 2, 2010, 5.0% cash dividends to stockholders of record as of April 26, 2010 payable on May 20, 2010 | **21,135,901** | – | – |
| December 16, 2009, 5.0% cash dividends to stockholders of record as of January 7, 2010 payable on January 21, 2010 | **–** | 21,135,901 | – |
| May 29, 2009, 5.0% cash dividends to stockholders of record as of June 19, 2009 payable on June 30, 2009 | **–** | 21,135,901 | – |
| February 5, 2009, 5.0% cash dividends to stockholders of record as of February 20, 2009 payable on March 5, 2009 | **–** | – | 21,135,901 |
| | ₱42,271,802 | **₱42,271,802** | **₱21,135,901** |

## 18. Income Taxes

Republic Act (RA) No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005, includes the decrease in the RCIT from 35.0% to 30.0% beginning January 1, 2009.

The provision for income tax consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Current | **₱17,545,158** | ₱44,457,249 | ₱37,925,447 |
| Deferred | **–** | 58,794,262 | (2,178,116) |
| | **₱17,545,158** | ₱103,251,511 | ₱35,747,331 |

The reconciliation of income before income tax computed at the statutory tax rate to provision for income tax as shown in the consolidated statements of comprehensive income follows:

| | 2011 | **2010** | **2009** |
|---|---|---|---|
| Income tax at statutory income tax rate | ₱18,897,576 | **₱32,523,878** | **₱18,363,925** |
| Additions to (reductions in) income taxes resulting from: | | | |
| Movement in unrecognized deferred tax assets | **19,299,000** | 44,353,621 | – |
| Expired MCIT | **–** | 34,591,267 | 26,518,259 |
| Expired NOLCO | **–** | 15,179,088 | 251,153 |
| Change in tax rate | **–** | – | 17,535,764 |
| Income from PEZA registered activities | **(9,870,500)** | (9,193,482) | (4,359,414) |
| Income subjected to final tax and dividend income exempt from tax | **(15,478,942)** | (15,914,894) | (25,314,083) |
| Others | **4,698,024** | 1,712,033 | 3,680,148 |
| Provision for income tax | ₱17,545,158 | **₱103,251,511** | **₱36,675,752** |
| | 2011 | **2010** | **2009** |

| | | | |
|---|---|---|---|
| Income tax attributable to continuing operations | ₱17,545,158 | **₱103,251,511** | **₱35,747,331** |
| Income tax attributable to discontinued operations | – | **–** | **928,421** |
| | ₱17,545,158 | **₱103,251,511** | **₱36,675,752** |

The components of the Group's net deferred tax assets are as follows:

| | 2011 | **2010** |
|---|---|---|
| Deferred tax assets: | | |
| Provisions for estimated liabilities and other accruals | ₱74,094,000 | **₱81,870,990** |
| Unamortized pension fund contribution | **19,927,548** | 25,789,245 |
| Allowance for inventory losses | **19,852,500** | 11,558,700 |
| Allowance for doubtful accounts | **10,347,150** | 7,921,350 |
| Unrealized foreign currency exchange loss – net | **248,385** | 777,990 |
| Deferred tax liability: | | |
| Net book value of replacement and burned property, plant and equipment | **(9,466,015)** | (12,914,707) |
| | **₱115,003,568** | ₱115,003,568 |

As of March 31, 2011 and 2010, the Group has the following unrecognized deferred tax assets:

| | **2011** | 2010 |
|---|---|---|
| MCIT | **₱60,999,296** | ₱94,326,240 |
| Provisions for estimated liabilities and other accruals | **46,231,868** | – |
| | **₱107,231,164** | ₱94,326,240 |

In addition, the Group did not recognize deferred tax assets from Philippine Economic Zone Authority (PEZA) registered activities amounting to ₱6.4 million and ₱2.9 million as of March 31, 2011 and 2010, respectively. The Group assesses that it may not be probable that sufficient taxable income will be available in the foreseeable future against which these tax benefits can be realized.

The Group has MCIT that can be credited against regular corporate income tax. As of March 31, 2011, details the unexpired MCIT for which no DTA was recognized follows:

| Year Incurred | MCIT | Expiry Year |
|---|---|---|
| March 31, 2010 | ₱32,588,141 | March 31, 2013 |
| March 31, 2009 | 28,411,155 | March 31, 2012 |
| | ₱60,999,296 | |

The following are the movements in NOLCO and MCIT:

NOLCO

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of year | **₱–** | ₱65,072,160 |
| Applied | – | (14,475,200) |
| Expired | – | (50,596,960) |

| | | |
|---|---|---|
| Balance at end of year | **₱–** | ₱– |

MCIT

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of year | **₱94,326,240** | ₱96,329,366 |
| Additions | **–** | 32,588,141 |
| Applied | **(33,326,944)** | – |
| Expired | **–** | (34,591,267) |
| Balance at end of year | **₱60,999,296** | ₱94,326,240 |

## 19. Lease Agreements

*Finance Lease*
The Group leases certain motor vehicles with terms of three years at which point title to the property passes to the Group. The Group is required to pay the monthly principal and interest amounts specified in the lease agreements.

Total principal and interest payments amounted to ₱4.0 million and ₱3.1 million in 2011 and 2010, respectively.

The future minimum lease payments as of March 31 under the lease agreements follow:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Minimum payments** | **Present value of payments** | Minimum payments | Present value of payments |
| Within one year | **₱2,280,968** | **₱1,780,825** | ₱3,134,139 | ₱2,368,387 |
| After one year but not more than five years | **3,913,840** | **3,660,643** | 6,839,111 | 6,243,625 |
| Total minimum lease payments | **6,194,808** | **5,441,468** | 9,973,250 | 8,612,012 |
| Less amounts representing finance charges | **(753,340)** | **–** | (1,361,238) | – |
| Present value of minimum lease payments | **₱5,441,468** | **₱5,441,468** | ₱8,612,012 | ₱8,612,012 |

*Operating Lease*
The Group has an operating lease agreement on its building and building improvements with PSNP. The contract is renewable upon mutual agreement with the lessee (see Note 14).

The future minimum lease receivables under this noncancellable operating lease follow:

| | **2011** | 2010 |
|---|---|---|
| Within one year | **₱20,796,523** | ₱28,866,160 |
| After one year but not more than five years | **–** | 21,649,665 |
| | **₱20,796,523** | ₱50,515,825 |

## 20. Cost of Goods Sold

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Direct materials (Note 14) | **₱2,479,483,459** | ₱2,292,626,292 | ₱2,585,242,640 |
| Direct labor (Note 24) | **114,091,183** | 109,309,055 | 139,611,440 |
| Manufacturing overhead: | | | |
| Indirect labor (Note 24) | **145,837,793** | 121,076,050 | 139,951,955 |
| Depreciation and amortization (Note 25) | **103,775,207** | 119,223,660 | 119,190,277 |
| Electricity, gas and water | **48,297,285** | 32,831,012 | 43,376,133 |
| Repairs and maintenance | **28,553,105** | 25,045,435 | 30,302,174 |
| Indirect materials | **21,345,705** | 15,936,649 | 20,011,794 |
| Research and development | **12,191,510** | 19,845,147 | 23,130,954 |
| Travel | **9,950,176** | 8,595,713 | 13,771,478 |
| Insurance | **9,093,197** | 8,917,320 | 9,880,775 |
| Supplies | **8,315,381** | 7,299,797 | 7,263,749 |
| Taxes and dues | **7,479,030** | 7,885,033 | 8,027,683 |
| Provision for decline in value of inventories | **5,150,309** | 12,539,350 | 1,994,653 |
| Others (Note 26) | **4,686,403** | 4,646,431 | 3,989,391 |
| Total manufacturing overhead | **404,675,101** | 383,841,597 | 420,891,016 |
| Total manufacturing costs | **2,998,249,743** | 2,785,776,944 | 3,145,745,096 |
| Goods in process: | | | |
| Beginning of year | **9,592,365** | 10,986,869 | 10,010,453 |
| End of year | **(11,044,416)** | (9,592,365) | (10,986,869) |
| Cost of goods manufactured | **2,996,797,692** | 2,787,171,448 | 3,144,768,680 |
| Finished goods and merchandise: | | | |
| Beginning of year | **459,963,297** | 337,345,179 | 415,737,750 |
| Add purchases (Note 14) | **1,968,525,952** | 1,920,886,928 | 1,248,499,720 |
| End of year | **(356,903,543)** | (459,963,297) | (337,345,179) |
| | **₱5,068,383,398** | ₱4,585,440,258 | ₱4,471,660,971 |

## 21. Selling Expenses

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Sales promotions (Notes 14 and 15) | **₱1,184,792,990** | ₱1,027,555,783 | ₱674,620,618 |
| Freight | **178,764,762** | **193,974,367** | **188,205,483** |
| Advertising | **93,055,396** | **39,972,367** | **70,322,373** |
| Provision for warranty claims (Note 15) | **41,985,176** | 47,127,554 | 30,187,719 |
| | **₱1,498,598,324** | ₱1,308,630,071 | ₱963,336,193 |

## 22. General and Administrative Expenses

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Salaries, wages and employees benefits (Note 24) | **₱216,711,396** | ₱198,467,976 | ₱268,644,318 |
| Technical assistance fees (Note 14) | **102,136,797** | 100,024,742 | 104,337,495 |
| Depreciation and amortization (Note 25) | **31,860,583** | 30,576,253 | 26,547,799 |
| Brand license fees (Note 14) | **30,825,754** | 31,026,058 | 32,223,419 |
| Travel | **26,905,257** | 26,923,482 | 29,988,975 |
| Taxes and dues | **22,227,103** | 21,003,248 | 17,888,163 |
| Repairs and maintenance | **15,430,476** | 13,534,210 | 13,841,579 |
| Communications | **14,662,746** | 17,280,274 | 16,530,934 |
| Allocated costs (Note 14) | **14,291,651** | 13,366,613 | 14,474,965 |
| Electricity, gas and water | **12,200,137** | 12,778,825 | 13,750,364 |
| Rent | **8,926,141** | 11,388,322 | 12,658,050 |
| Supplies | **8,588,966** | 9,619,723 | 10,588,272 |
| Insurance | **8,100,028** | 8,152,840 | 7,161,051 |
| Provision (reversal of allowance) for doubtful accounts (Note 6) | **8,086,000** | (987,025) | 4,319,966 |
| Freight and storage | **4,643,044** | 4,454,006 | 5,289,681 |
| Provision (reversal) for other estimated liabilities | **(7,761,000)** | 2,028,714 | 4,968,000 |
| Others (Note 26) | **36,686,309** | 39,700,122 | 24,072,440 |
| | **₱554,521,388** | ₱539,338,383 | ₱607,285,471 |

## 23. Dividend Income

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **PMCP** | **₱–** | ₱– | ₱13,002,885 |
| Others | **670** | 17,484 | 24,661 |
| | **₱670** | ₱17,484 | ₱13,027,546 |

## 24. Personnel Expenses

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **Compensation** | **₱424,440,176** | ₱375,544,807 | ₱415,156,819 |
| Net benefit expense (Note 27) | **15,985,263** | 15,284,220 | 70,525,204 |
| Termination benefits | **–** | – | 19,889,353 |
| Other benefits | **36,214,933** | 38,024,054 | 42,636,337 |
| | **₱476,640,372** | ₱428,853,081 | ₱548,207,713 |

Personnel expenses are shown in the consolidated statements of comprehensive income as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **Cost of goods sold (Note 20)** | **₱259,928,976** | ₱230,385,105 | ₱279,563,395 |
| General and administrative expenses (Note 22) | **216,711,396** | 198,467,976 | 268,644,318 |
| | **₱476,640,372** | ₱428,853,081 | ₱548,207,713 |

The amounts shown above represent personnel expenses of continuing operations.

In 2009, the Group recognized a total of ₱38.7 million of termination benefits arising from voluntary redundancy program offered by the Group, from which ₱18.8 million is included under "General and administrative expenses" in the discontinued operations.

## 25. Depreciation and Amortization

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **Cost of goods sold (Note 20)** | **₱103,775,207** | ₱119,223,660 | ₱119,190,277 |
| General and administrative expenses (Note 22) | **31,860,583** | 30,576,253 | 26,547,799 |
| | **₱135,635,790** | ₱149,799,913 | ₱145,738,076 |

The amounts shown above represent depreciation and amortization of continuing operations.

## 26. Entertainment, Amusement and Recreation (EAR) Expenses

Details of EAR expenses required to be disclosed under Revenue Regulation No. 10-2002 of the Bureau of Internal Revenue, which authorizes the imposition of a ceiling on EAR expenses, follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **Cost of goods sold (Note 20)** | **₱41,744** | ₱67,865 | ₱107,186 |
| General and administrative expenses (Note 22) | **882,331** | 1,127,908 | 1,310,283 |
| | **₱924,075** | ₱1,195,773 | ₱1,417,469 |

## 27. Retirement Plan

The Parent Company has a funded, noncontributory defined benefit retirement plan covering all of its regular employees. The benefits are based on the years of service and percentage of latest monthly salaries.

The principal actuarial assumptions used in determining retirement benefits for the Parent Company's plan are as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Discount rate | | | |
| Beginning | **8.25%** | 9.00% | 7.00% |
| Ending | **7.60%** | 8.25% | 9.00% |
| Salary increase rate | | | |
| Beginning | **5.00%** | 5.00% | 6.00% |
| Ending | **5.00%** | 5.00% | 5.00% |

The expected rate of return on plan assets is 7.0% in 2011, 2010 and 2009.

The net benefit expense recognized in the profit and loss for the years ended March 31, 2011, 2010 and 2009 are as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Current service cost | **₱14,193,919** | ₱12,136,957 | ₱22,860,447 |
| Interest cost | **19,356,514** | 17,692,933 | 25,106,199 |
| Expected return on plan assets | **(17,565,170)** | (12,753,338) | (20,291,653) |
| Net actuarial loss (gain) recognized during the year | **–** | (1,792,332) | 27,893,194 |
| Curtailment cost | **–** | – | 14,957,017 |
| Net benefit expense (Note 24) | **₱15,985,263** | ₱15,284,220 | ₱70,525,204 |

Actual return on plan assets amounted to ₱8.6 million, ₱2.7 million and ₱7.5 million in 2011, 2010 and 2009, respectively.

The net pension liability recognized in the statements of financial position as of March 31, 2011 and 2010 are as follows:

| | **2011** | 2010 |
|---|---|---|
| Fair value of plan assets | **₱267,916,760** | ₱250,930,995 |
| Present value of defined benefit obligation | **(281,523,478)** | (234,624,407) |
| | **(13,606,718)** | 16,306,588 |
| Unrecognized actuarial losses (gains) | **13,606,718** | (16,306,588) |
| Pension liability | **₱–** | ₱– |

The reconciliations of the present value of defined benefit obligation as of March 31, 2011 and 2010 are as follows:

| | **2011** | 2010 |
|---|---|---|
| Beginning of year | **₱234,624,407** | ₱196,588,145 |
| Interest cost | **19,356,514** | 17,692,933 |
| Current service cost | **14,193,919** | 12,136,957 |
| Benefits paid | **(7,556,738)** | (6,595,191) |
| Actuarial loss on obligation | **20,905,376** | 14,801,563 |
| End of year | **₱281,523,478** | ₱234,624,407 |

The reconciliations of the fair value of plan assets as of March 31, 2011 and 2010 are as follows:

| | **2011** | 2010 |
|---|---|---|
| Beginning of year | **₱250,930,995** | ₱182,190,536 |
| Expected return on plan assets | **17,565,170** | 12,753,338 |
| Contributions | **15,985,263** | 72,640,954 |
| Benefits paid | **(7,556,738)** | (6,595,191) |
| Actuarial loss on plan assets | **(9,007,930)** | (10,058,642) |
| End of year | **₱267,916,760** | ₱250,930,995 |

The amounts for the current period and the four previous periods are as follows:

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Fair value of plan assets | **₱267,916,760** | ₱250,930,995 | ₱182,190,536 | ₱289,880,756 | |
| Present value of defined benefit obligation | **(281,523,478)** | (234,624,407) | (196,588,145) | (358,659,983) | (425,861,035) |
| Surplus (deficit) | **(₱13,606,718)** | ₱16,306,588 | (₱14,397,609) | (₱68,779,227) | (₱93,219,982) |
| Experience adjustments on plan obligations | **₱5,098,757** | ₱2,357,848 | ₱19,154,535 | ₱29,645,117 | ₱36,905,729 |
| Experience adjustments on plan assets | **(₱24,493,224)** | ₱10,058,642 | ₱12,802,786 | ₱12,153,730 | ₱14,215,299 |

The distribution of plan assets for the years ended March 31, 2011, 2010 and 2009 are as follows:

| | **2011** | 2010 | 2 |
|---|---|---|---|
| Cash | **5.69%** | 23.52% | – |
| Investments in government securities and other debt instruments | **94.31%** | 62.09% | 99.14% |
| Others | – | 14.39% | 0.86% |
| Total | **100.00%** | 100.00% | 100.00% |

The Group does not expect to contribute to its plan assets in the next 12 months.

## 28. **Other Income (Expense)** - net

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Interest income (Note 5) | **₱51,733,196** | ₱53,930,787 | ₱75,691,506 |
| Rent income (Notes 10, 14 and 19) | **28,811,113** | 30,681,954 | 23,908,789 |
| Income from scrap sales | **3,393,855** | 3,466,559 | 7,854,809 |
| Gain on sale of property and equipment | **1,360,000** | – | 11,729,536 |
| Dividend income (Notes 8 and 23) | **670** | 17,484 | 13,027,546 |
| Foreign currency exchange gain (loss) | **(4,179,458)** | 1,907,214 | 7,993,346 |
| Miscellaneous income (expense) - net (Notes 11 and 14) | **(3,781,942)** | (8,643,445) | 2,267,285 |
| | **₱77,337,434** | ₱81,360,553 | ₱142,472,817 |

## 29. **Registration with the PEZA**

The Parent Company is registered with the PEZA pursuant to the provision of RA No. 7916 (otherwise known as the "Special Economic Development Zone Act of 1995"), for Ecozone Export Enterprise for the manufacture of air conditioners and related service parts. Under the terms and conditions of its registration, the Parent Company is subject to certain requirements primarily related to the monitoring of its registered activities.

As a PEZA registered nonpioneer enterprise, the Parent Company's existing BOI operations, which were transferred to PEZA, are entitled to certain tax benefits and nontax incentives provided for the original project by the aforementioned law, which includes, among others, income tax holiday (ITH) for three years for incremental sales of air-conditioners starting April 1, 2003, 5.0% gross income taxation for air conditioners in lieu of national and local taxes, tax and duty-free importation of capital equipment and raw materials, exemption from realty taxes on machinery for four years from the date of acquisition, employment of foreign nationals and others. Any local sale of its registered products shall be subject to a separate application and prior PEZA approval.

The Parent Company's BOI registration is deemed cancelled upon approval of its PEZA registration.

The Parent Company also agrees that a first lien shall automatically be constituted upon any of its real or personal property found, existing and/or located in its registered operations to answer for any and all outstanding obligations or accounts owing, due and/or payable by the Parent Company to PEZA in the future, if any.

## 30. Contingencies

The Group is contingently liable for lawsuits and tax assessments arising from the ordinary course of business. In the opinion of management and its legal counsels, the ultimate liability for the said lawsuits and tax assessments, if any, would not be material in relation to the Group's financial position and operating results.

## 31. Basic/Diluted Earnings Per Share

Basic earnings per share are calculated by dividing net income attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is the same as the basic earnings per share as there are no potential dilutive shares outstanding.

The following are the income and share data used in the basic and diluted earnings per share computations:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Net income (loss) attributable to the equity holders of the Parent Company: | | | |
| From continuing operations | **₱45,311,952** | ₱4,894,780 | ₱81,325,934 |
| From discontinued operations | **–** | – | (63,981,569) |
| Net income attributable to the equity holders of the Parent Company (a) | **45,311,952** | 4,894,780 | 17,344,365 |
| Weighted average number of common shares (b) | **422,718,020** | 422,718,020 | 422,718,020 |
| Basic/diluted earnings per share (a/b) | **₱0.11** | ₱0.01 | ₱0.04 |

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of the completion of the financial statements.

To calculate the basic and diluted loss per share amounts for the discontinued operations (see Note 4), the weighted average number of common shares for both basic and diluted amounts is as per table above. The loss figure used was ₱63,981,569. The basic/diluted loss per share in 2009 amounted to ₱0.15.

## 32. Reporting Segments

For management purposes, the Group's business segments are grouped in accordance with that of PC's lines of business, which are grouped on a product basis as follows: Audio Visual Communication (AVC) Networks, Home Appliances and Others. Under this structure, each business domain will integrate its research and development, manufacturing and sales, thereby establishing an autonomous structure that expedites business operations to accelerate growth.

Products under each business segment are as follows:

AVC Networks - This segment includes audio, video and communication equipment primarily related to selling products for media and entertainment industry.

Home Appliances - This segment includes home appliances and household equipment primarily related to selling for household consumers.

Others - This segment includes electronic parts mounting machines, industrial and other equipments related to both business and household consumers.

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

The Group's segment information for the fiscal years ended March 31 is as follows:

| | 2011 | | | | |
|---|---|---|---|---|---|
| | **AVC Networks** | **Home Appliances** | **Others** | **Adjustments/ Eliminations** | **Total** |
| | | ***(In thousands)*** | | | |
| Revenues | | | | | |
| External customers | **₱1,059,403** | **₱5,439,133** | **₱608,622** | **₱–** | **₱7,107,158** |
| Results | | | | | |
| Cost of goods sold | **(777,233)** | **(3,836,164)** | **(454,986)** | **–** | **(5,068,383)** |
| Selling expenses | **(361,392)** | **(1,047,983)** | **(89,223)** | **–** | **(1,498,598)** |
| General and administrative expenses | **(46,357)** | **(450,913)** | **(57,251)** | **–** | **(554,521)** |
| Other income (loss) | **1,422** | **19,109** | **56,805** | **–** | **77,336** |
| Income before income tax | **(₱124,157)** | **₱123,182** | **₱63,967** | **₱–** | **₱62,992** |
| Segment assets | **₱1,335,939** | **₱1,384,387** | **₱2,021,429** | **₱115,003** | **₱4,856,758** |
| Segment liabilities | **817,614** | **11,208** | **352,191** | **1,833** | **1,182,846** |
| Other disclosures | | | | | |
| Capital expenditure[3] | **₱6,629** | **₱134,622** | **₱42,647** | **₱–** | **₱183,898** |
| Depreciation expense[4] | **2,326** | **73,237** | **60,073** | **–** | **135,636** |
| Interest expense[5] | **–** | **–** | **–** | **–** | **–** |

1. Segment assets do not include deferred tax assets amounting to ₱115,003.
2. Segment liabilities do not include income tax payable amounting to ₱1,833.
3. Capital expenditures include acquisition of fixed assets and software costs.
4. Depreciation expense is divided between cost of goods sold and general and administrative expenses.
5. Interest expense is included in other income (loss).

| | 2010 | | | | |
|---|---|---|---|---|---|
| | AVC Networks | Home Appliances | Others | Adjustments/ Eliminations | Total |
| | | ***(In thousands)*** | | | |
| Revenues | | | | | |
| External customers | ₱903,840 | ₱4,958,686 | ₱597,935 | ₱– | ₱6,460,461 |
| Results | | | | | |
| Cost of goods sold | (626,124) | (3,472,986) | (486,330) | – | (4,585,440) |
| Selling expenses | (273,264) | (990,595) | (44,771) | – | (1,308,630) |
| General and administrative expenses | (26,943) | (377,649) | (134,746) | – | (539,338) |
| Other income (loss) | 5,364 | 31,247 | 44,749 | – | 81,360 |
| Income before income tax | (₱17,127) | ₱148,703 | (₱23,163) | ₱– | ₱108,413 |
| Segment assets | ₱1,744,913 | ₱1,356,552 | ₱1,399,031 | ₱115,003 | ₱4,615,499 |
| Segment liabilities | 501,864 | 278,824 | 159,948 | 4,130 | 944,766 |
| Other disclosures | | | | | |
| Capital expenditure[3] | ₱6,203 | ₱24,598 | ₱11,083 | ₱– | ₱41,884 |
| Depreciation expense[4] | 6,476 | 91,478 | 51,846 | – | 149,800 |
| Interest expense[5] | 280 | 1,535 | 185 | – | 2,000 |

1. Segment assets do not include deferred tax assets amounting to ₱115,003.
2. Segment liabilities do not include income tax payable amounting to ₱4,130.
3. Capital expenditures include acquisition of fixed assets and software costs.
4. Depreciation expense is divided between cost of goods sold and general and administrative expenses.
5. Interest expense is included in other income (loss).

| | 2009 | | | | |
|---|---|---|---|---|---|
| | AVC Networks | Home Appliances | **Others** | Adjustments/ Eliminations | Total |
| | ***(In thousands)*** | | | | |
| Revenues | | | | | |
| External customers | ₱689,553 | ₱4,946,537 | ₱381,184 | ₱– | ₱6,017,274 |
| Results | | | | | |
| Cost of goods sold | (319,304) | (4,032,517) | (119,840) | – | (4,471,661) |
| Selling expenses | (190,855) | (676,947) | (95,534) | – | (963,336) |
| General and administrative expenses | (50,294) | (501,496) | (55,495) | – | (607,285) |
| Other income (loss) | 7,492 | 13,637 | 121,344 | – | 142,473 |
| Income before income tax | ₱136,592 | (₱250,786) | ₱231,659 | ₱– | ₱117,465 |
| Segment assets | ₱1,269,249 | ₱1,340,473 | ₱1,789,444 | ₱173,798 | ₱4,572,964 |
| Segment liabilities | 248,871 | 302,880 | 310,827 | 2,546 | 865,124 |
| Other disclosures | | | | | |
| Capital expenditure[3] | ₱1,598 | ₱169,794 | ₱40,784 | ₱– | ₱212,176 |
| Depreciation expense[4] | 6,469 | 88,392 | 50,877 | – | 145,738 |
| Interest expense[5] | 69 | 493 | 38 | – | 600 |

1. Segment assets do not include deferred tax assets amounting to ₱173,798.
2. Segment liabilities do not include income tax payable amounting to ₱2,546.
3. Capital expenditures include acquisition of fixed assets and software costs.
4. Depreciation expense is divided between cost of goods sold and general and administrative expenses.
5. Interest expense is included in other income (loss).

Geographic Information

The tables below show the revenue information of the Group based on the location of the customer:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| | | *(In thousands)* | |
| Philippines | **₱6,045,270** | ₱5,643,363 | ₱5,040,752 |
| Hongkong | **867,959** | 726,817 | 679,192 |
| Nigeria | **133,098** | – | – |
| Cambodia | **48,489** | 25,696 | 22,739 |
| Singapore | **9,308** | 19,317 | 24,055 |
| Myanmar | **1,493** | 1,497 | 1,223 |
| Fiji | **946** | 315 | 404 |
| Bangladesh | **471** | 16,404 | 103,020 |
| Thailand | **124** | – | – |
| Africa | **–** | 27,052 | 141,799 |
| Brunei | **–** | – | 4,090 |
| Total revenue | **₱7,107,158** | ₱6,460,461 | ₱6,017,274 |

The Group has no single customer which accounts for 10.0% or more of the Group's total revenue.

## 33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments and Meralco refund. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as receivables, accounts payable and accrued expenses, dividends payable and technical assistance fees payable which arise from normal operations.

The main risks arising from the Group's financial instruments are liquidity risk, market risk and credit risk. The Group also monitors the market price risk arising from all financial instruments.

*Risk management structure*
All policy directions, business strategies and management initiatives emanate from the BOD which strives to provide the most effective leadership for the Company. The BOD endeavors to remain steadfast in its commitment to provide leadership, direction and strategy by regularly reviewing the Group's performance. For this purpose, the BOD convenes in quarterly meetings and in addition, is available to meet in the interim should the need arise.

The Group has adopted internal guidelines setting forth matters that require BOD approval. Under the guidelines, all new investments, any increase in investment in businesses and any divestments require BOD approval.

The normal course of the Group's business expose it to a variety of financial risks such as credit risk, liquidity risk and market risks which includes foreign currency exposure and interest rate risk and equity price risk.

The Group's principal financial liabilities comprise of accounts payable and accrued expenses, technical assistance fees payable and finance lease liability. The main purpose of these financial liabilities is to finance the Group's operations. The Group has various financial assets such as cash and cash equivalents, receivables, and meralco refund, which arise directly from its operations.

The Group's policies on managing the risks arising from the financial instruments follow:

*Liquidity Risk*
The Group's objective is to maintain a balance between continuity of funding and flexibility through collection of receivables and cash management. Liquidity planning is being performed by the Group to ensure availability of funds needed to meet working capital requirements.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt to give financing flexibility while continuously enhancing the Group's business.

The tables below summarize the maturity profile of the financial assets and liabilities, based on the
contractual undiscounted payments as of March 31:

| | 2011 | | | | |
|---|---|---|---|---|---|
| | **Less than30 days** | **2 to 3 months** | **3 to 12 months** | **1 to 5 years** | **Total** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | **₱2,536,563,130** | **₱15,178,567** | **₱–** | **₱–** | **₱2,551,741,697** |
| Receivables | | | | | |
| Trade | | | | | |
| Domestic | **485,791,928** | **44,072,660** | **32,337,431** | **–** | **562,202,019** |
| Export | **134,545,992** | **3,539,370** | **–** | **–** | **138,085,362** |
| Others | **141,480,226** | **16,126,091** | **6,777,017** | **–** | **164,383,334** |
| Meralco Refund (included under other receivables and other assets) | **–** | **–** | **1,260,213** | **–** | **1,260,213** |
| | **3,298,381,276** | **78,916,688** | **40,374,661** | **–** | **3,417,672,625** |
| **Financial Liabilities** | | | | | |
| Accounts payable and accrued expenses* | **666,042,285** | **175,627,064** | **66,444,233** | **27,003,742** | **935,117,324** |
| Technical assistance fees payable | **48,677,824** | **–** | **–** | **–** | **48,677,824** |
| Finance lease liability | **–** | **–** | **2,280,968** | **3,913,840** | **6,194,808** |
| | **714,720,109** | **175,627,064** | **68,725,201** | **30,917,582** | **989,989,956** |
| | **₱2,583,661,167** | **(₱96,710,376)** | **(₱28,350,540)** | **(₱30,917,582)** | **₱2,427,682,669** |

**Excludes statutory liabilities amounting to ₱19,219,665.*

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Less than 30 days | 2 to 3 months | 3 to 12 months | 1 to 5 years | Total |
| **Financial assets** | | | | | |
| Cash and cash equivalents | ₱2,299,147,232 | ₱14,851,590 | ₱– | ₱– | ₱2,313,998,822 |
| Receivables | | | | | |
| Trade | | | | | |
| Domestic | 429,730,555 | 38,099,263 | 30,579,062 | – | 498,408,880 |
| Export | 83,098,502 | 85,880 | – | – | 83,184,382 |
| Others | 108,927,147 | 3,943,607 | 6,392,600 | – | 119,263,354 |
| Meralco Refund (included under other receivables and other assets) | – | – | 3,727,711 | 1,260,213 | 4,987,924 |
| | 2,920,903,436 | 56,980,340 | 40,699,373 | 1,260,213 | 3,019,843,362 |
| **Financial Liabilities** | | | | | |
| Accounts payable and accrued expenses* | 660,458,873 | 60,947,629 | 16,827,552 | – | 738,234,054 |
| Technical assistance fees payable | 40,380,450 | – | – | – | 40,380,450 |
| Finance lease liability | – | – | 3,134,139 | 6,839,111 | 9,973,250 |
| | 700,839,323 | 60,947,629 | 19,961,691 | 6,839,111 | 788,587,754 |
| | ₱2,220,064,113 | (₱3,967,289) | ₱20,737,682 | (₱5,578,898) | ₱2,231,255,608 |

**Excludes statutory liabilities amounting to ₱13,006,910.*

*Market Risk*

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Group manages market risks by focusing on two market risk areas such as foreign currency risk and equity price risk.

*Foreign currency risk*

Exposure to currency risk arises from sales and purchases in currencies other than the Group's functional and presentation currency. Foreign currency risk is monitored and analyzed systematically and is managed by the Group. The Group ensures that the financial assets denominated in foreign currencies are sufficient to cover the financial liabilities denominated in foreign currencies.

As of March 31, 2011 and 2010, the foreign currency-denominated financial assets and financial liabilities in original currencies and their Philippine Peso (PHP) equivalents are as follows:

| | 2011 | | |
|---|---|---|---|
| | **USD** | YEN | Equivalents in PHP |
| **Financial assets** | | | |
| Cash in banks and cash equivalents | US$5,826,665 | JPY21,957,642 | 264,326,995 |
| Receivables - net | 3,291,596 | 47,634,040 | 167,787,338 |
| | USD$9,118,261 | JPY69,591,682 | ₱432,114,333 |
| **Financial liabilities** | | | |
| Accounts payable and accrued expenses | USD$5,919,886 | JPY34,808,569 | ₱275,107,041 |

| | **2010** | | |
|---|---|---|---|
| | USD | **JPY** | **Equivalents in PHP** |
| **Financial assets** | | | |
| Cash in banks and cash equivalents | **US$3,201,658** | **JPY9,794,773** | **₱149,391,885** |
| Receivables - net | **1,776,575** | **5,948,221** | **83,146,461** |
| | **US$4,978,233** | **JPY15,742,994** | **₱232,538,346** |
| **Financial liabilities** | | | |
| Accounts payable and accrued expenses | **US$1,739,319** | **JPY3,253,298** | **₱80,150,371** |

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar (USD) and Japanese yen (JPY) currency rates, with all variables held constant, of the Group's income before tax from continuing operations (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ decrease in USD rate | Effect on income before tax |
|---|---|---|
| **2011** | **+8%** | **₱11,102,197** |
| | **-8%** | **(11,102,197)** |
| 2010 | +10% | ₱14,630,175 |
| | -10% | (14,630,175) |

| | Increase/ decrease in JPY rate | Effect on income before tax |
|---|---|---|
| **2010** | **+7%** | **₱1,276,088** |
| | **-7%** | **(1,276,088)** |
| 2010 | +8% | ₱486,898 |
| | -8% | (486,898) |

The sensitivity analysis has been determined assuming the change in foreign currency exchange rates has occurred at the reporting date and has been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and all other variables, interest rates in particular, remain constant.

The stated changes represent management assessment of reasonable possible changes in foreign exchange rates over the period until the next annual report date.

There is no impact on the Group's equity other than those already affecting profit or loss.

*Equity price risk*

The Group's exposure to equity price pertains to its investments in quoted shares which are classified as AFS investments in the consolidated statements of financial position. Equity price risk arises from the changes in the level of equity indices and the value of individual stocks traded in the stock exchange.

The effect on equity (as a result of a change in fair value of equity instruments held as available-for-sale at March 31, 2011 and 2010) due to a reasonably possible change in equity indices is not material to the consolidated financial position of the Group.

*Credit Risk*

The Group trades only with recognized, creditworthy third parties. It is the Group's practice that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting arrangements or collateral agreements.

| | **2011** | 2010 |
|---|---|---|
| **Financial Assets** | | |
| Cash in banks and cash equivalents | **₱2,522,778,241** | ₱2,297,464,790 |
| Receivables | | |
| Trade | | |
| Domestic | **562,202,019** | 498,408,880 |
| Export | **138,085,362** | 83,184,382 |
| Others | **164,227,788** | 118,158,686 |
| AFS investments | **2,340,861** | 2,597,130 |
| Meralco refund (included in other receivables and other assets) (Note 11) | **1,104,668** | 4,356,574 |
| | **₱3,390,738,939** | ₱3,004,170,442 |

The tables below summarize the credit quality of the Group's financial assets (gross of allowance for credit and impairment losses) as at March 31, 2011 and 2010:

| | **2011** | | | |
|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | **Past Due** | |
| | **High Grade** | **Standard Grade** | **or Impaired** | **Total** |
| Cash in banks and cash equivalents | **₱2,522,778,241** | **₱–** | **₱–** | **₱2,522,778,241** |
| Receivables | | | | |
| Trade | | | | |
| Domestic | **55,791,959** | **429,999,969** | **76,410,091** | **562,202,019** |
| Export | **134,545,992** | **–** | **3,539,370** | **138,085,362** |
| Others | **141,324,681** | **–** | **22,903,107** | **164,227,788** |
| AFS investments | **2,340,861** | **–** | **–** | **2,340,861** |
| Meralco refund | **1,104,668** | **–** | **–** | **1,104,668** |
| Total | **₱2,857,886,402** | **₱429,999,969** | **₱102,852,568** | **₱3,390,738,939** |

| | 2010 | | | |
|---|---|---|---|---|
| | Neither Past Due nor Impaired | | Past Due | |
| | High Grade | Standard Grade | or Impaired | Total |
| Cash in banks and cash equivalents | ₱2,297,464,790 | ₱– | ₱– | ₱2,297,464,790 |
| Receivables | | | | |
| Trade | | | | |
| Domestic | 7,959,545 | 421,771,010 | 68,678,325 | 498,408,880 |
| Export | 83,098,502 | – | 85,880 | 83,184,382 |
| Others | 98,940,600 | – | 10,336,207 | 109,276,807 |
| AFS investments | 2,597,130 | – | – | 2,597,130 |
| Meralco refund | 4,356,574 | – | – | 4,356,574 |
| Total | ₱2,494,417,141 | ₱421,771,010 | ₱79,100,412 | ₱2,995,288,563 |

The credit quality of financial assets was determined as follows:

Cash in banks and cash equivalents - are composed of bank deposits and money market placements made with reputable financial institutions and hence, graded as "high grade".

Receivables - high grade receivables are receivables from related parties and employees while standard grade receivables are receivables from dealers who pay within the Group's normal credit terms.

AFS investments - the quoted investments are graded as "high grade" since these are investments in highly rated companies.

Meralco refund - the Group's Meralco refund is considered as "high grade" since collectibility of the refund is reasonably assured.

*Capital Management*
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group's capital as of March 31, 2011 and 2010 are as follows:

| | **2011** | 2010 |
|---|---|---|
| Capital stock | **₱422,718,020** | ₱422,718,020 |
| Additional paid-in capital | **4,779,762** | 4,779,762 |
| Retained earnings | | |
| Appropriated | **2,767,400,000** | 2,842,400,000 |
| Unappropriated | **400,751,618** | 322,711,468 |
| | **₱3,595,649,400** | ₱3,592,609,250 |

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The Parent Company declared cash dividends amounting to ₱42.3 million in 2011 and 2010 and
₱21.1 million in 2009 (see Note 17).

There were no changes made in the objectives, policies or processes for the years ended March 31, 2011, 2010 and 2009, respectively.

Financial Assets and Financial Liabilities
The following tables set forth the Group's financial assets and financial liabilities recognized as of March 31, 2011 and 2010. There are no unrecognized financial assets and financial liabilities as of March 31, 2011 and 2010.

| | **2011** | |
|---|---|---|
| | **Carrying Value** | **Fair Value** |
| **Financial Assets** | | |
| Cash and cash equivalents | **₱2,548,263,130** | **₱2,548,263,130** |
| Receivables | | |
| Trade | | |
| Domestic | **534,068,560** | **534,068,560** |
| Export | **138,085,361** | **138,085,361** |
| Others | **157,870,747** | **157,870,747** |
| Meralco refund (included in other receivables and other assets) (Note 11) | **1,104,668** | **1,104,668** |
| AFS investments: | | |
| Quoted | **2,340,861** | **2,340,861** |
| | **₱3,381,733,327** | **₱3,381,733,327** |
| **Financial Liabilities** | | |
| Other financial liabilities: | | |
| Accounts payable and accrued expenses | **₱954,336,989** | **₱954,336,989** |
| Technical assistance fees payable | **48,677,824** | **48,677,824** |
| Finance lease liability | **5,441,468** | **5,441,468** |
| | **₱1,008,456,281** | **₱1,008,456,281** |

| | 2010 | |
|---|---|---|
| | Carrying Value | Fair Value |
| **Financial Assets** | | |
| Cash and cash equivalents | ₱2,310,847,232 | ₱2,310,847,232 |
| Loans and receivables: | | |
| Receivables | | |
| Trade | | |
| Domestic | 478,396,980 | 478,396,980 |
| Export | 83,184,382 | 83,184,382 |
| Others | 116,122,660 | 116,122,660 |
| Meralco refund (included in other receivables and other assets) (Note 11) | 4,356,574 | 4,201,029 |
| AFS investments: | | |
| Quoted | 2,597,130 | 2,597,130 |
| | ₱2,995,504,958 | ₱2,995,349,413 |
| **Financial Liabilities** | | |
| Other financial liabilities: | | |
| Accounts payable and accrued expenses | ₱751,240,964 | ₱751,240,964 |
| Technical assistance fees payable | 40,380,450 | 40,380,450 |
| Finance lease liability | 8,612,012 | 8,612,012 |
| | ₱800,233,426 | ₱800,233,426 |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Loans and receivables, except Meralco refund and other financial liabilities* - The carrying amounts approximate fair values due to the short-term nature of these accounts.

*Meralco refund* - Fair values are estimated using the discounted cash flow method using the Parent Company's current incremental lending rates ranging from 4.0% - 8.0% in 2011 and 2010 and
4.0% - 7.0% in 2009 for similar types of instruments.

*Finance lease liability* - The fair value of the finance lease liability is estimated by discounting the future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

*AFS investments* - For quoted equity shares, the fair value is based on quoted market prices The fair value hierarchy of financial instruments recognized at fair value follows:

- Level 1 - Financial instruments based on quoted prices in active markets for identical assets or liabilities.
- Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 - Those inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The only instruments carried at fair value are the AFS investments. These are classified within level 1 of the fair value hierarchy.

As of March 31, 2011, there were no transfers between Level 1 and Level 2 of the fair value hierarchy for AFS investments. Also, there were no financial assets or liabilities included within the Level 3 of the hierarchy.

## 34. Events after Reporting Date

On April 13, 2011, the BOD of the Parent Company declared a 5.0% cash dividend equivalent to
₱0.05 per share or an aggregate amount of ₱21,135,901 to all its stockholders of record as of April 29, 2011 payable on May 20, 2011.

**PANASONIC MANUFACTURING PHILIPPINES CORPORATION**

## SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

**MARCH 31, 2011**

| | |
|---|---|
| **Unappropriated retained earnings, available for dividend declaration, beginning of year, as previously stated** | ₱82,357,879 |
| Adjustment to net income actually earned/realized in 2010 due to decrease in deferred tax assets | 58,794,262 |
| **Unappropriated retained earnings, available for dividend declaration, beginning of year, as adjusted** | 141,152,141 |
| **Add: Net income actually earned/realized during the year:** | |
| Net income per audited financial statements | 45,222,079 |
| Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) | (1,770,873) |
| | 43,451,206 |
| **Unappropriated retained earnings, as adjusted, before dividend declaration, reversal of appropriations** | 184,603,347 |
| Less: Dividends declared during the year | (42,721,802) |
| Add: Reversal of appropriations | 75,000,000 |
| **Unappropriated retained earnings, as adjusted to available for dividend declaration, end of year** | ₱216,881,545 |

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