

Transparency Report 2011

For year ended 30 June 2011





Ben Punongbayan

Ben R. Punongbayan
Chief Executive Officer

Foreword from the Chief Executive Officer

Continuing our practice for the past few years, we are once again issuing our Transparency Report voluntarily to our many stakeholders in the Philippines. We are doing this in recognition of our responsibility to be open and transparent to the community we serve.

This transparency report is a public statement to clients, audit committees, regulators and the wider public of our commitment to provide quality assurance services to organizations in the Philippines. Our clients rightly expect us to have policies and procedures in place to ensure that the quality and level of service they receive is not only exemplary, but consistent irrespective of their industry or size.

This report explains how the Firm is run and how we ensure that we perform audits of the highest quality. It also describes the expertise, breadth and depth of our Firm and of Grant Thornton International.

This transparency report describes policies and procedures that are effective as of July 1, 2011.

In the fiscal year 2011-2012, we will continue to focus on quality and build on our reputation for distinctive and responsive client service. We are strongly committed to making a difference for clients, other stakeholders and the Philippine community.





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Statement from the Chief Operating Officer

The last fiscal year 2010-2011 was a truly challenging, as well as fulfilling, year for P&A. Several initiatives were introduced within the organization to ensure that operating performance is sustained and growth objectives are achieved. We are happy to note that these have borne fruit, resulting in very positive developments with regard to the Firm's performance.

P&A's revenue for the year ended June 30, 2011 amounted to P616.9 million, a healthy 8% increase from the last fiscal year. Assurance continues to be our principal professional service line and it showed a 7% increase in revenue, comprising about 49% of our total revenue. Tax grew by 13% and Outsourcing, a higher 14%. Advisory remained flat.

The Firm ran a Client Satisfaction Survey for the first time during the year. We are happy to note and are encouraged by the positive ratings that we received.

On the professional front, the year was marked by some significant changes in financial reporting that required the compliance of both the clients and their auditors.

In 2010, the Philippine Financial Reporting Standards for Small and Medium Enterprises (PFRS for SMEs) was implemented for the first time. The standard was adopted by the Financial Reporting Standards Council (FRSC) in its entirety from the international version issued by the International Accounting Standards Board (IASB).

Earlier in 2009, the Securities and Exchange Commission (SEC) made the PFRS for SMEs a part of its rules and regulations, requiring covered companies to implement the new standards starting with 2010

financial statements to be filed with the SEC. The Firm released the Accounting Alert on PFRS for SMEs to help covered companies understand and transition to the new standards. A copy of the Accounting Alert was also posted in the Firm's website, making it available for the public to access.

Another significant development that happened before the close of the year was the Philippine Bureau of Internal Revenue's issuance of Revenue Regulation No. 15-2010. This regulation requires taxpayers to include in the notes to their financial statements information on taxes, duties and license fees paid or accrued during the taxable year, on top of the disclosures required under the Philippine Financial Reporting Standards (PFRS).

The Firm immediately sent a communication to its clients about the consequent effects resulting from the issuance of this revenue regulation and worked with them in order to ensure compliance. Together with other colleagues in the profession, we also held several discussions with the BIR to clarify the objectives of the new regulation and to obtain a better understanding of the responsibilities of the clients and auditors with regard to this new rule.

Indeed, it has been a challenging year. We continue to see great opportunities for the Firm to grow in today's business and regulatory landscape. Our Firm is committed to delivering quality value-adding services to our clients and to promoting best practices in our organization, the profession that we are in, and the community wherein we practice.



Ma. Victoria C. España



Ma. Victoria C. España
Chief Operating Officer

Legal structure and ownership

P&A is a professional partnership and is duly registered as such with the Philippine Securities and Exchange Commission (SEC). The Firm's Articles of Partnership are on file with the SEC and are amended as necessary from time to time, especially when we welcome new partners or when existing partners retire or withdraw from the partnership.

P&A is accredited with all Philippine regulators having jurisdiction over its professional practice, namely:

- Board of Accountancy
- Securities and Exchange Commission
- Bangko Sentral ng Pilipinas
- Insurance Commission
- Bureau of Internal Revenue

P&A is also registered with the Public Company Accounting Oversight Board (PCAOB) of the United States of America.

In addition to its Articles of Partnership, P&A is governed by a set of Internal Regulations, which is the equivalent of the By-laws of an incorporated entity and is approved by all the partners. The Internal Regulations are designed to maintain a strong partnership structure that promotes the interest of the partners and provides for their cohesiveness, harmony and unity of purpose in the successful pursuit of the Firm's business goals.

P&A is owned by all of its partners and therefore all partners have their respective equity interest in the Firm. The capital contribution of the Partners bears a uniform relationship to their respective profit share allocation. To help new partners when they are admitted into the partnership, the Firm allows them to build up their required capital by making periodic payments. Thereafter, any additional capital requirements are drawn from the partners' respective profit share allocation.

It is a long-established policy of the partnership to keep the Firm adequately capitalized at all times and to exercise prudence in its financial practices.



Governance and management

The governance and management structure of P&A and the definitions of the relationship among the partners are provided in P&A's Internal Regulations.

The Founder of the Firm, Ben Punongbayan, who established the Firm together with Joe Araullo, is currently the chairman of P&A.

Ma. Victoria España was elected by the partners as the Firm's Chief Executive Officer effective July 1, 2011, succeeding Ben Punongbayan. She carries the title of Managing Partner & CEO. She was previously the Firm's Managing Partner & COO.

The top leaders of the Firm are elected by the partners and have fixed terms. Reelection is allowed but term limits are provided.

Currently, the Firm's Board of Partners has as members all the partners. The Board meets every month to discuss the Firm's operating performance and other significant matters affecting the professional practice.

P&A's governance and management structure is reviewed regularly to make sure that the Firm has the appropriate and relevant structure needed to successfully carry out its short- and long-term objectives and its vision.

About our new CEO

Marivic is a certified public accountant with 23 years of professional experience in the field of taxation. She joined P&A as a tax manager in 1997 and was admitted to the partnership in 1999. She headed the Firm's tax division from 2001 to 2006. Before joining P&A, Marivic was a tax manager in a leading construction firm. She also held posts at the Senate Tax Study & Research Office and the Department of Finance.

"Our firm appreciated the candid feedback and willingness to discuss straightforward opinions that differed from our own on key matters."



Practice Operations Committee

To assist P&A's top management in running the business, the Firm has a Practice Operations Committee (POC). This Committee is chaired by the CEO and meets weekly to discuss day-to-day operations, business opportunities, and issues.

The other members of the POC are drawn from the leadership of the Firm's various units.



Marivic C. España
Chairperson



Jun Cuaresma
Head, Audit & Assurance



Dally Duque*
Partner, Audit & Assurance -
Technical



Juancho Robles
Head, Advisory Services and
Risk Management Partner



Lea Roque
Head, Tax Advisory &
Compliance



Jessie Carpio
Head, Finance & Accounting
Outsourcing

*Retired as of June 30, 2011; succeeded in the POC by Mai Sigue-Bisnar, Markets Head

Audit Committee

To promote and observe good governance practices, the Firm has an Audit Committee, the chairman and members of which are elected by the partners for a fixed term.

The Committee has oversight functions over the internal audit activities performed by the Firm's designated internal auditor. The Firm's internal audit activities are in accordance with the international standards for the professional practice of internal auditing.



Juancho Robles
Chairman



Third Librea*
Internal Auditor



Francis Albalate
Member



Wowie Roguel
Member

*Succeeded by Boyet Murcia effective July 1, 2011.

Quality control systems

The ability to deliver high quality audits and other services to clients is an important part of the Firm's competitive advantage and strength.

We acknowledge that quality is essential in performing engagements and delivering services. Hence, we make sure that we live up to the high standards that we set for ourselves and that our clients expect from us. We have our own internal quality control systems in place to ensure our compliance with professional standards, regulatory and legal requirements, and Grant Thornton International quality control policies and procedures. This provides reasonable assurance that the Firm issues reports that are appropriate to the circumstance.

P&A's internal quality assurance procedures

The audit and assurance practice is one of the core business segments of the Firm. Compliance with professional standards is undeniably more important with respect to the provision of audit and assurance services where the quality of work is critical not only to us and to our clients, but also to government regulators and other users of financial information.



In the delivery of audit and assurance services, we are guided by our internal quality assurance procedures and policies, which are compliant with the pronouncements of the local standard-setters and government regulators, among them:

- Philippine Standard on Quality Control (PSQC) 1: Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements. PSQC 1 requires policies and procedures addressing each of the following elements:
 - * Leadership responsibilities for maintaining or improving quality within the Firm
 - * Ethical requirements
 - * Acceptance and continuance of client relationships and specific engagements
 - * Human resources
 - * Engagement performance, including consultation
 - * Monitoring
- Philippine Standard on Auditing 220: Quality Control for Audits of Historical Financial Information
- Code of Ethics for Professional Accountants in the Philippines

The effectiveness of the Firm's internal quality control system for audit and assurance services is continuously being monitored. Our monitoring process – the internal quality control review (IQCR) program – complies with the requirements of PSQC 1.

The IQCR review is performed annually by designated audit partners and managers of the Firm. The process entails the selection of audit engagements for review and the inspection of work papers and other documentation prepared for the audit engagements selected for review. The objective is to determine if the audit documentation appropriately supports the auditors' report that we issue on the financial statements. The main product of these reviews is a document that summarizes the review findings, which are discussed with the engagement teams concerned, and the action plans to address those findings. The accomplishment of action plans is also monitored.

The Firm's last completed IQCR was undertaken in 2010 and covered audits of 2009 financial statements. The 2011 IQCR review covering audits of 2010 financial statements is ongoing.

Audit methodology

We use Horizon™, a global computer-based audit methodology of Grant Thornton International. This audit methodology is supported by a number of automated tools, such as Voyager (an electronic audit workstation), TBEAM (trial balance) and IDEA (or Integrated Data Examination

and Analysis), among other tools. To enable the Firm and the audit teams to effectively and efficiently use Horizon™, the Firm has made significant investments in IT systems and infrastructure, including providing one laptop each to all practice staff.

Our methodology helps us achieve our audit objectives in an efficient and cost-effective manner as it focuses the audit efforts on risks and directly relates the extent of our work to the results of our risk assessments.

Internal quality control procedures for other services

Quality control procedures are also in place for other services provided by the Firm. These are likewise in line with the quality control procedures for audit and assurance engagements. For Advisory services and Tax services, annual internal engagement inspections are also undertaken by designated Firm professionals and periodic reviews are performed by Grant Thornton International. For outsourcing services, the internal control processes of the Finance & Accounting Outsourcing Division have been subjected to audits by third parties, as part of the requirements of some of the division's clients.



Marites L. Apostol

In July 2011, Finance & Accounting Outsourcing (F&AO) – currently the fastest growing division in P&A – welcomed a third partner. Tes L. Apostol has been with F&AO since 1997. Before she joined P&A, she was an accounting manager at a multinational semiconductor manufacturing company and an accounting senior at another auditing firm.

Grant Thornton International quality control procedures

As a member firm of Grant Thornton International, we are required to abide by a system of quality control in addition to our own quality control procedures. This encompasses, at a minimum, the following standards issued by the International Federation of Accountants (IFAC), as supplemented by additional Grant Thornton International quality assurance policies:

- International Standard on Quality Control 1: Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
- International Standard on Auditing 220: Quality Control for Audits of Historical Financial Information
- International Ethics Standards Board for Accountants Code of Ethics

Supporting robust audit delivery

Grant Thornton International views quality as paramount. As auditors, member firms exist and grow only on the bedrock of their reputation for high quality audits.

Grant Thornton International provides resources that assist member firms in delivering high quality audits. These resources include:

- the Grant Thornton global audit methodology (known as Horizon™) with supporting state of the-art software
- policies and procedures contained in industry oriented audit programs and manuals that are benchmarked against International Standards on Auditing, International Standards on Quality Control, and the International Ethics Standards Board for Accountants Code of Ethics
- protocols that enable member firms to consult with the Grant Thornton International auditing standards team and, if necessary, with audit specialists in other member firms

“Very professional from the partner down to the audit staff. Engaging during discussions of findings by offering advice when needed. Straightforward and [at] the same time ready to help the client if needed. Fast and efficient audit field work. And faster submission of audit reports.”



- protocols that enable member firms to consult with the Grant Thornton International Financial Reporting Standards (IFRS) help desk
- a comprehensive intranet service that includes up-to-date information for member firms on relevant professional standards, a worldwide restricted entity list, an International Financial Reporting Standards help desk, topical alerts, financial statement templates and examples

Grant Thornton International develops and delivers worldwide training with a focus on audit risk assessment (including fraud) and response. Grant Thornton International's audit approach facilitates the audit team's understanding of how the recent economic situation impacts the specific audit situation such that a tailored risk identification and response can be achieved.

GTAR

Every member firm in the Grant Thornton network is obliged to submit to an inspection of its audit practice by Grant Thornton International, referred to as the Grant Thornton International Audit Review (GTAR).

The GTAR involves a review of the conduct of audit work performed by each member firm. The inspection process includes an evaluation of policies and procedures of the member firm applicable to its assurance practice, benchmarking those policies and procedures against relevant policies and procedures of the international organization. The inspection team reviews financial statements, audit reports and engagement files, and also interviews partners and staff on various matters.



Mhycke C. Gallego

In May 2011, we welcomed back Mhycke C. Gallego, who joins us as one of the partners of the Advisory Services Division. Mhycke started his career with P&A as a financial and information systems auditor, and then moved to a building-materials company where he was regional internal control manager before returning to P&A.

"The [engagement] was professionally done and evidences were properly obtained to support the findings. Findings and recommendations were thoroughly discussed with management."



External monitoring

P&A is registered with the Public Company Accounting Oversight Board (PCAOB) under the U.S.'s Sarbanes-Oxley (SarbOx) Act of 2002. Although it has yet to undergo a PCAOB inspection, the Firm ensures that its quality control system, particularly for audit and assurance services, can pass PCAOB scrutiny.

At present, the Philippines does not have an equivalent PCAOB inspection rule. Attempts in the past to enact a law similar to the SarbOx Act have not prospered. However, the Board of Accountancy (BOA) — the government body that regulates the accountancy practice in the Philippines — has established a Quality Assurance Review (QAR) Program to carry out the BOA's responsibility under its charter, i.e., to oversee the quality of audits of financial statements. The implementation of this QAR Program was initially set on January 1, 2011, but was put on hold by the BOA until certain issues are resolved.

The BOA's QAR Program covers all certified public accountants (CPAs) in the public accounting sector, whether they practice as an individual practitioner or as a partnership. Upon its implementation, a review will be undertaken of the quality control measures instituted by these CPAs engaged in the practice of accountancy. The extent of the QAR work and the frequency of the review are based on the risk exposure or size profile of CPA practitioners.

Since P&A is one of the largest accounting firms in the country, we expect to be among the first firms to be inspected under the QAR Program once it is finally implemented.

Developments in the Audit & Assurance Division



Dally B. Duque

Mabel E. Comedia

Dally Duque, our Partner-in-charge of the Technical Standards Group, retired on 30 June 2011. In Dally's 19 years with the Firm, she has contributed greatly to the growth of P&A and has undertaken various projects and programs for standards-setting bodies in the Philippines. Mabel Comedia, one of our Audit partners, takes over the helm of the Technical Standards Group.



Chris M. Ferareza

At the start of our new fiscal year, we also welcomed Chris Ferareza into the partnership. Chris has been with our Audit & Assurance Division since he graduated with a bachelor's degree in Accountancy, summa cum laude, from Far Eastern University.

Independence practices

P&A complies with Grant Thornton International independence policies and procedures, as well as the independence requirements of the Code of Ethics for Professional Accountants in the Philippines. These policies and procedures include the following:

- **Performance of relationship checks**
Conducting reviews for potential conflicts of interest and/or threats to independence (jointly referred to as “relationship checks”) prior to proposing on an engagement are important safeguards against threats to objectivity. For all new engagements, P&A conducts conflicts-of-interest checking procedures involving all its partners and managerial personnel. An automated conflict check database system is maintained to identify and monitor relationships with both prospective and existing clients. The Firm also follows Grant Thornton International’s standardized approach for conducting relationship checks if a client has international operations.
- **Maintenance of a Global Restricted List**
As a member firm within Grant Thornton International, P&A is required to maintain a listing of companies that are considered restricted as a result of an audit relationship and of a financial interest. The Firm makes the listing of these companies available through a global restricted list, which is maintained by Grant Thornton International.

Professional personnel in member firms have access to this global restricted list via the Grant Thornton International intranet. The global restricted list serves as a point of reference for member firms that are

considering providing non-audit services to public companies that are already audit clients. If a prospective client appears on the global restricted list, consultation is required with the concerned audit partner to ensure that any threats to independence that may arise due to the proposed non-audit service can be adequately addressed and that the proposed non-audit service is permitted.

- **Adoption of an automated independence tracking system**
P&A has also adopted Grant Thornton International’s automated independence tracking system — the Global Independence System (GIS). Partners and client-facing managers of member firms are required to maintain a portfolio in GIS of those publicly traded securities in which they have a financial interest. The GIS monitors these financial interests against the global restricted list and is designed to alert the member firm or the individual professional and a national compliance officer in the event that a security held also appears on the global restricted list. The GIS provides a mechanism to assist the individual and the national compliance officer in determining whether the security may continue to be held, based upon the facts and circumstances.
- **Monitoring compliance with independence policies**
All partners and professional staff members are also required to confirm annually their compliance with independence requirements. The Firm’s designated risk management partner, Juancho Robles, periodically conducts an internal review of compliance with independence requirements.

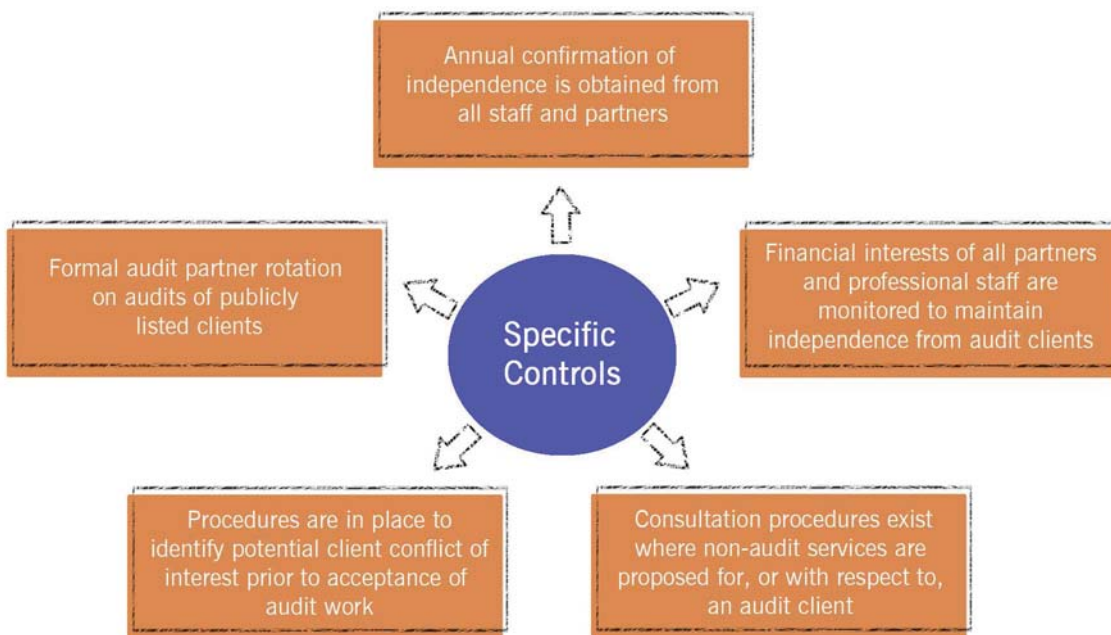
- **Partner rotation for audits of publicly listed clients**

Procedures are in place to ensure that every five years, there is a rotation of engagement partners handling publicly listed audit clients. This practice aims to prevent potential threats to independence arising from the long association of senior audit personnel with publicly listed audit clients.

Client acceptance procedures

The Firm has formal processes in place to ensure that engagements are accepted only after risk assessments focused on the client’s integrity and compliance with independence and ethical standards are performed. The risk assessments cover a variety of potential key risk areas, including company performance, management’s reputation, and the nature of the client service requirements. Consultation procedures are also in place to resolve significant issues that could arise throughout the client acceptance process.

For potential key engagements of a particular size and nature of business, the Firm also consults with the global client acceptance advisory committee of Grant Thornton International. The International Executive Director-Risk and Regulatory Matters chairs a global client acceptance advisory committee. The client acceptance advisory committee is comprised of the Worldwide Director-Quality Control and partners, nominated by their managing partners, selected from a geographically dispersed set of member firms. The Associate General Counsel assists with the coordination of the activities of this committee. The committee reviews submissions from member firms for acceptance and re-acceptance of assurance engagements that meet certain risk criteria.



Professional skills and values

Culture of continuous learning

People are the primary assets of any organization, which is why at P&A, we put a premium on the continuous development of every member of the Firm. An important part of our culture, training enjoys the full support of the senior management team.

The Firm has designed a set of graduated training programs – aimed at enhancing technical competency as well as leadership and interpersonal skills – for various levels of responsibility that apply to both the client-servicing divisions and the support groups.

Technical training programs address the development of skills that are closely related to a staff member's line of work. These may cover topics such as audit concepts and methodology, business advisory processes and systems, new tax laws and regulations, and outsourcing trends and techniques. Programs targeted at improving soft skills address staff members' interpersonal, leadership and communication skills, all of which contribute to the successful execution of each staff member's role in the Firm.

P&A has its own Training and Organizational Development Group (Training Group) that has been set up within the People and Culture Group (formerly the Human Resources Group). The group spearheads firm-wide training initiatives in consultation with the senior management team and representatives of the different practice divisions. On top of assessing, designing and conducting the soft skills programs for staff members, the Training Group works with its counterparts in the various practice divisions to ensure that technical programs are in place and are structured to address the technical competency requirements of the practice personnel and others in the support groups.

The People and Culture Group also conducts regular competency assessments. Members of the group discuss with the practice units the current competencies of personnel and determine what other skills new hires and current staff members need to develop. Through this constant dialogue, the Firm is able to gear its recruitment and training efforts towards either hiring people with the needed competencies or developing untapped skills in our current staff.

This culture of continuous learning ensures that P&A maintains its standards for quality personnel and service.

"P&A employed a personal touch that made us feel that the success of the engagement was as important to them as it was to us. The approach is also friendly, putting us in a relaxed mood during the course of the engagement."



Involvement in professional organizations

The Firm and its partners are committed to contributing to the growth and betterment of the profession and the business community. Thus, the partners make it a point to play active roles in organizations and associations that undertake programs and activities in these areas.

| | | |
|--|--|---|
| Involvement in professional organizations | Members of ACPAPP | Members of the Tax Management Association of the Philippines |
| Ben Punongbayan Director and Treasurer of the International Chamber of Commerce Auditor of the Philippine Chamber of Commerce and Industry | Francis Albalate Jessie Carpio Mabel Comedia Jun Cuaresma Nelson Dinio Dally Duque Third Librea Paz Malubay Boyet Murcia Ramil Nañola Ben Punongbayan Juancho Robles Edward Roguel Mai Sigue-Bisnar Ben Valdez | Ma. Victoria España Lina Figueroa Edward Roguel Lea Roque |
| Ma. Victoria España President of the Eastern Metro Manila Chapter of the Philippine Institute of Certified Public Accountants (PICPA) Director of the Association of Certified Public Accountants in Public Practice (ACPAPP) Fellow of the Institute of Corporate Directors | Members of the Management Association of the Philippines Jessie Carpio Jun Cuaresma Ma. Victoria España Ben Punongbayan | Members of the Information Systems Audit and Control Association Mhycke Gallego Third Librea Juancho Robles |
| Jun Cuaresma Board of Trustee of the ACPAPP Foundation | Members of the Financial Executives Institute of the Philippines Francis Albalate Jun Cuaresma Ma. Victoria España Ben Valdez | Members of the American Institute of CPAs Nelson Dinio Juancho Robles |
| Jessie Carpio Vice President of the ACPAPP Foundation | | |
| Juancho Robles Director for Trainings and Professional Development of the Association of Certified Fraud Examiners (ACFE) Acting President, Director of the Institute of Internal Auditors-Philippines (IIA-P) | | |
| Lea Roque Member of the Integrated Bar of the Philippines Member of the British Chamber of Commerce Member of the Le Club/French Chamber of Commerce | | |
| Dally Duque Chairperson of the Philippine Interpretations Committee | | |
| Mai Sigue-Bisnar Chair for Professional Development of the Eastern Metro Manila Chapter of PICPA | | |
| Ramil Nañola Charter President of the IIA-P (Davao Chapter) | | |
| Paz Malubay President of the Association of CPAs in Commerce & Industry Member of the Business Processing Association of the Philippines | | |
| Mhycke Gallego Vice President for Professional Development of the IIA-P Member of the ACFE-London Chapter Co-Chair for Professional Development of the Northern Metro Manila Chapter of PICPA | | |
| Boyet Murcia Board of Director of the Southern Metro Manila Chapter of PICPA | | |

Corporate social responsibility

P&A takes its corporate social responsibility (CSR) seriously. Through the P&A Foundation, the Firm's CSR arm, P&A aims to empower underprivileged individuals, families and communities and contribute towards an improved quality of life. The foundation, through P&A For a Cause or PAUSE, also spearheads development initiatives in various areas of concern such as health and nutrition, shelter and infrastructure, livelihood and enterprise, education and youth formation, sustainable development of the environment, and gender and human development.

One of the major programs of the foundation is the P&A Scholarship Program, which provides tuition-fee assistance to outstanding accountancy students from lower-income families.

At present, the P&A Foundation supports five scholars: two at Bicol University in Daraga, Albay; two at the University of San Carlos in Cebu City; and one at the University of the Philippines - Diliman, in Quezon City. Of the five scholars, two are graduating in 2012.

Two scholars who graduated from UP Diliman last April 2011 are currently reviewing for the October 2011 CPA licensure examination. They received assistance with their review-school fees from the P&A Foundation.

Through the People and Culture Group (formerly the Human Resources Group), P&A has provided free copies of its publications to universities and colleges with accountancy programs. Schools that have received free copies of P&A publications include Bicol University, De La Salle University - Dasmariñas, De La Salle University - Manila, Far Eastern University, Holy Angel University, Pamantasan ng Lungsod ng Maynila, the Polytechnic University of the Philippines, San Beda College, the University of San Carlos, the University of Santo Tomas, the University of the East - Manila, the University of the Philippines - Diliman, and the University of the Philippines - Visayas.

In addition, P&A has made its publications available in a lower-cost edition for accountancy students.

P&A has also extended assistance to accountancy professors by sponsoring training updates registered with the Philippine Institute of Certified Public Accountants for continuing professional education (CPE) credits. The first training update was held at De La Salle University - Manila on May 24, 2011, with representatives from P&A's Tax Advisory & Compliance Division as resource speakers. Participants included accountancy professors from De La Salle University - Dasmariñas, De La Salle University - Manila, Far Eastern University, Mapua Institute of Technology, the Polytechnic University of the Philippines, San Beda College, the University of Santo Tomas, the University of the East - Manila, and the University of the Philippines - Diliman.

Last year, P&A entered into a memorandum of agreement with the Institute for Solidarity in Asia (ISA) – a non-stock, non-profit corporation that assists public sector organizations in improving their governance practices – to subsidize the institutionalization of ISA's Performance Governance System (PGS) in the Department of Education (DepEd). The PGS is a globally-recognized governance framework designed to help organizations perform and execute their strategies successfully. Through its assistance, the Firm enables the DepEd to adopt and implement PGS, thereby helping the agency meet its performance targets.



Financial information

(Peso amounts in millions)

| | Financial Year Ended June 30 | | | | |
|--|------------------------------|-------------|--------------|--------------|---------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Firm-wide revenue ¹ | P 616.9 +8% | P 570.8 +2% | P 561.2 +14% | P 494.1 +12% | P 441.6 |
| Revenue by service line | | | | | |
| Audit & Assurance | 303.0 +7% | 284.0 +11% | 255.4 +5% | 242.7 +4% | 233.3 |
| Advisory ² | 84.0 .. | 83.9 +6% | 79.5 +27% | 62.7 +23% | 50.8 |
| Tax ³ | 100.2 +13% | 88.9 -24% | 116.3 +5% | 110.3 +12% | 98.2 |
| Outsourcing ⁴ | 129.7 +14% | 114.0 +4% | 110.0 +40% | 78.4 +32% | 59.3 |
| Capital expenditures, mainly in technology hardware and software | 24.4 | 21.7 | 24.3 | 43.9 | 30.7 |
| Personnel, at peak level | 556 | 575 | 597 | 605 | 547 |
| Partners | 19 | 19 | 19 | 19 | 17 |
| Number of office locations | 5 | 5 | 5 | 5 | 4 |

¹ Revenue is recognized on accrual basis, which includes estimated realization of work in progress.

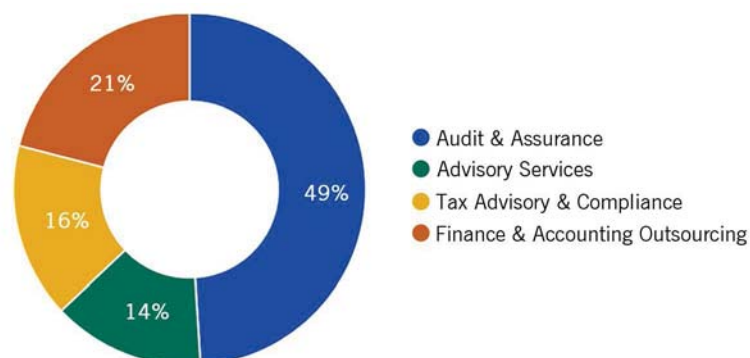
Revenue includes reimbursable out-of-pocket expenses, following prevailing practice.

² Consists of Business Risk Services — internal audit, fraud and forensic, etc. — and Transaction Advisory Services

³ Consists of both consulting and compliance work

⁴ Mainly accounting and payroll preparation services

Revenue share by
service line for
Financial Year
ended June 30, 2011



Partner remuneration

The Firm's annual net income is fully allocated among the partners based on a system called *unit participation*. This method is similar in its application to shares of stock in a corporation.

P&A adopts a conservative policy in the cash distribution of the profit share allocations of the partners. Cash distribution is generally based on cash basis net income. In this manner, any undistributed amount from the accrual basis net income is retained in the business as credits to the partners which, in effect, serve as their additional capital. On this basis, the Firm's financial position is kept healthy at all times.

The participating units of the partners are adjusted annually based on performance. The system, therefore, provides for a regular progression of the cumulative participating units of each partner. However, maximum limits in participating units have been established for each position of leadership in the Firm. On the whole, the system enables a new partner to increase his or her participating units and equivalent income steadily over time.

Payments to the partners are made monthly with the final cash distribution done three months after the close of the fiscal year and when the final financial results have been determined and audited.

The profit shares of the partners for the fiscal year ended June 30, 2011 averaged P8.4 million per partner, which includes the amount retained in the business as described earlier.



"Balanced advice — not too aggressive and not too conservative — on the risk that we asked to be evaluated."



Public interest entities

The Firm's roster of clients includes more than 200 public interest entities for which we have carried out statutory audits for 2010. For purposes of this Transparency Report and to be consistent with regulatory requirements, we define public interest entities to include clients:

- that have issued securities listed for trading on an exchange
- with total assets of at least P50 million and with 200 or more shareholders who each hold at least 100 shares
- regulated companies such as banks, insurance companies, investment houses, securities broker/dealer, mutual fund, pre-need companies, or entities with secondary license

- that can be considered economically significant (i.e., entities with total assets exceeding P350 million or with total liabilities exceeding P250 million)

A list of P&A's clients classified as public interest entities can be viewed at the Firm's website: www.punongbayan-araullo.com.



Grant Thornton International

Punongbayan & Araullo (P&A) is a member firm within Grant Thornton International Ltd (Grant Thornton International).

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