BILLION PESOS

GROUP CAPITAL EXPENDITURES

From its beginnings in 1834, Ayala enters its 180th year with a formidable portfolio of businesses ranging from real estate, financial services, and telecommunications to investments in water, electronics, automotive, business process outsourcing, and more recently, power and transport infrastructure. Over the past five years alone, Ayala has invested nearly P500 billion across these key sectors of the economy which has allowed the group to target a broader segment of the local population. Moving beyond the Philippines, Ayala continues to actively expand its reach as manufacturing and services continue to cross national boundaries opening pioneering opportunities to serve the needs of the larger global market.

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Our Mission

Ayala Corporation, a holding company with a diverse business portfolio, has a legacy of pioneering the future. Founded in 1834, it has achieved its position of leadership by being values oriented, goals driven, and stakeholder focused. Anchored on values of integrity, long-term vision, empowering leadership, and with a strong commitment to national development, it fulfills its mission to ensure long-term profitability and value creation. Ayala provides career opportunities and creates synergies as it builds mutually beneficial partnerships and alliances with those who share its philosophy and values. With entrepreneurial strength, it continues to create a future that nurtures to fruition its business endeavors and its aspirations for sustainable national development.

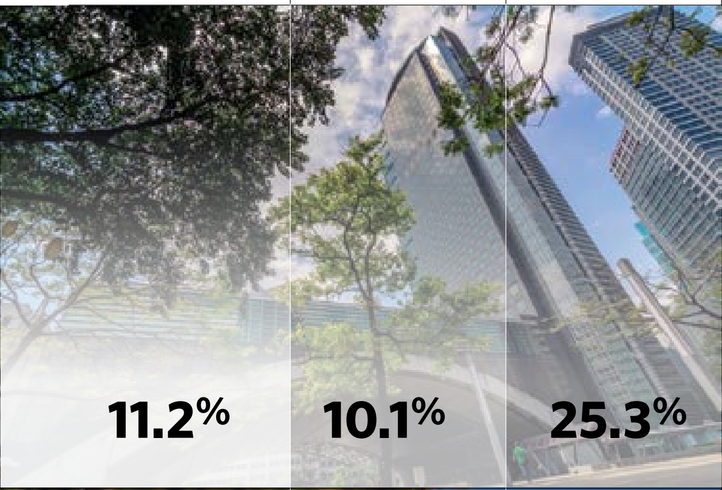
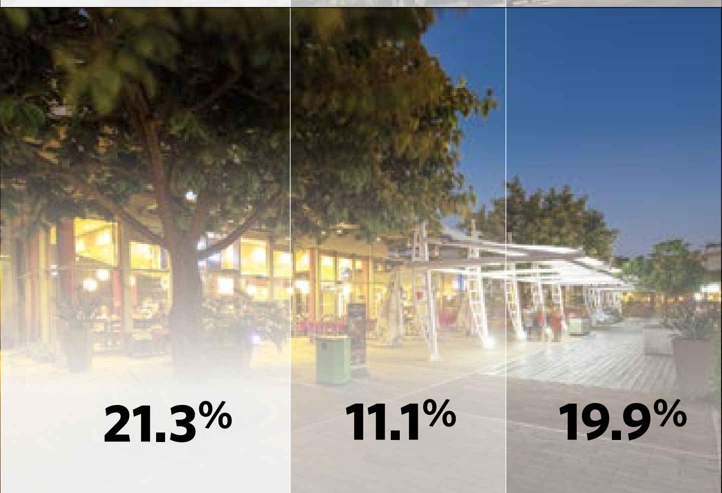
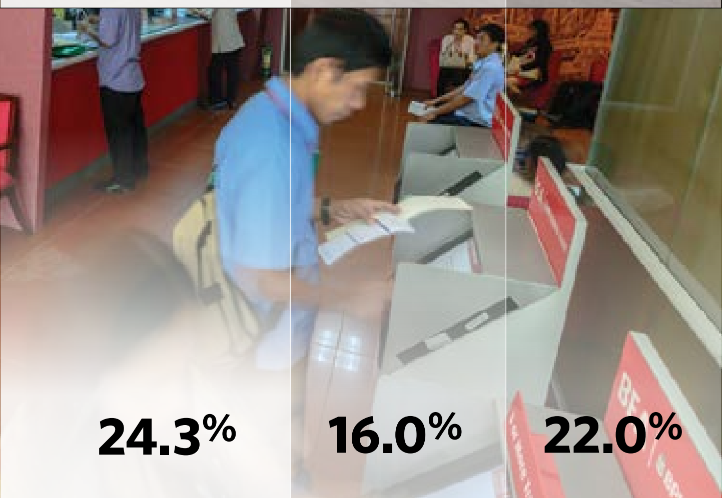
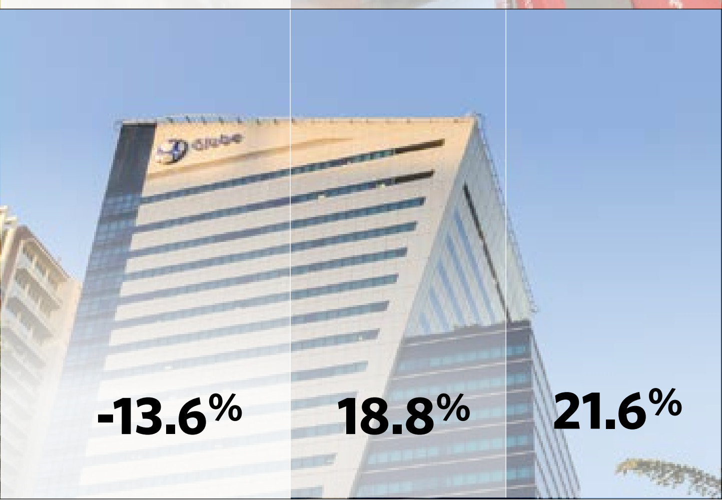
AYALA CORPORATION is one of the largest conglomerates in the Philippines with businesses in real estate, financial services, telecommunications, water and used water services, electronics manufacturing services, automotive dealership and distributorship, business process outsourcing, power, and transport infrastructure. Its corporate social responsibility arm, Ayala Foundation, has programs that focus on education, youth leadership, sustainable livelihood and arts and culture.

AYALA LAND INC. is one of the largest, fully-integrated and most diversified property developers, operating prime commercial spaces in the Philippines. It is engaged in the masterplanning and development of mixed-use communities, comprising of residential, retail, office, hotel, and leisure components within growth centers across strategic areas around the country.

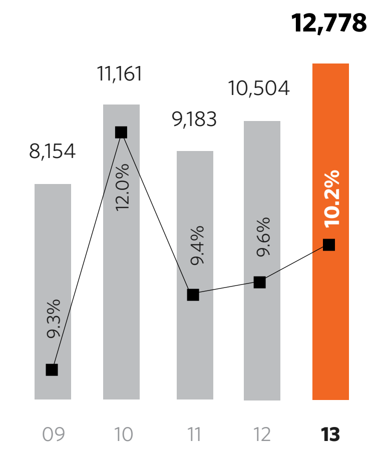
BANK OF THE PHILIPPINE ISLANDS is the Philippines' largest bank in terms of market capitalization and the third largest in terms of total assets. It offers a wide range of financial services that include corporate, consumer, and investment banking, asset management, corporate finance, treasury, securities distribution, remittance, and insurance. BPI is a recognized leader in financial technology, having introduced the automated teller, cash deposit, and express assist machines and kiosk, phone, internet, and mobile banking. BPI services close to seven million depositors through its 800 branches and 2,500 automated teller machines.

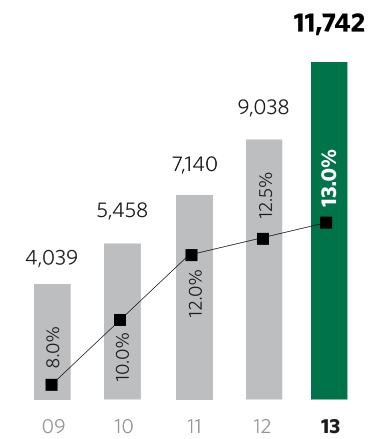
GLOBE TELECOM INC. is a major provider of telecommunications services in the Philippines, servicing 38.5 million mobile subscribers, 2 million wired and wireless broadband customers, and over 594,000 landline subscribers. Formed out of a partnership between Ayala Corporation and Singapore Telecom, the company operates one of the largest and most technologically-advanced mobile, fixed line, and broadband networks in the country. It maintains a distributor and over-the-air reload network spanning over 855,000 retailers nationwide.

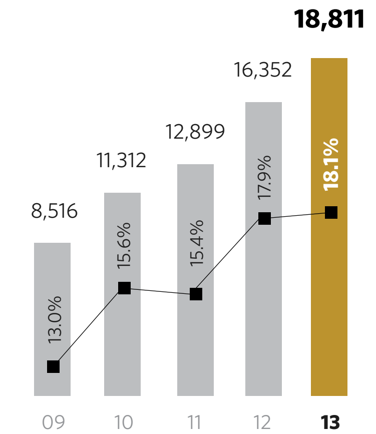
5-YEAR AVERAGE NET INCOME GROWTH	5-YEAR AVERAGE RETURN ON EQUITY	5-YEAR TOTAL SHAREHOLDER RETURN CAGR
11.2%	10.1%	25.3%
21.3%	11.1%	19.9%
24.3%	16.0%	22.0%
-13.6%	18.8%	21.6%

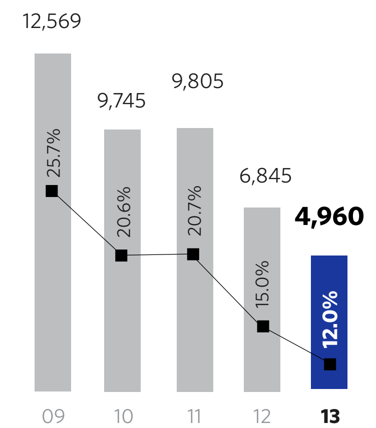





NET INCOME (IN MILLION PESOS) AND RETURN ON EQUITY (%)

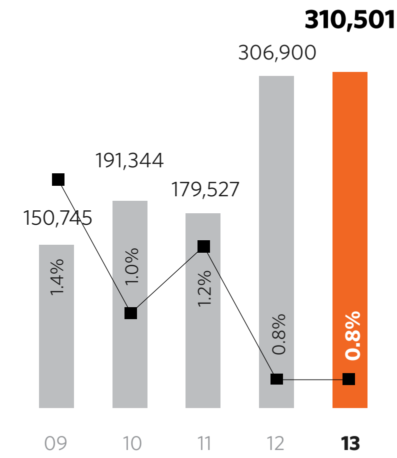


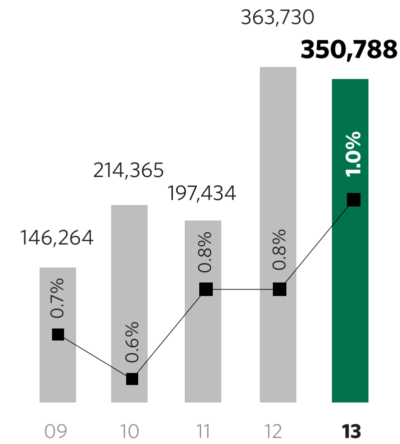


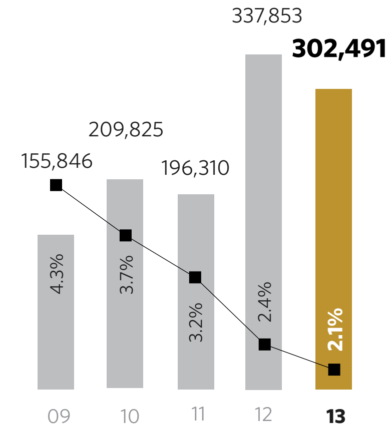


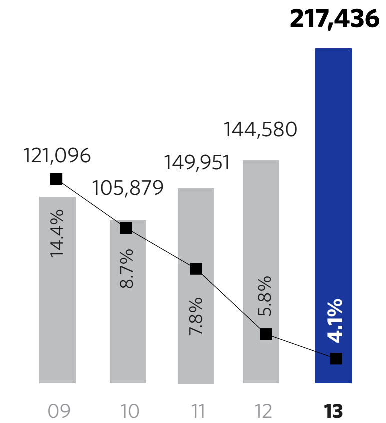


MARKET CAPITALIZATION[1] (IN MILLION PESOS) AND DIVIDEND YIELD[2] (%)









[1] As of end of year [2] Dividend Yield – Based on Bloomberg data

MANILA WATER
CARE IN EVERY DROP

MANILA WATER COMPANY INC. is the sole provider of water and used water services for more than six million people in the East Zone of Metro Manila, which includes Pasig, Mandaluyong, Makati, San Juan, Taguig, Pateros, Antipolo, San Mateo, Rodriguez, Marikina, most of Quezon City, and parts of Manila. In recent years, Manila Water has expanded its presence outside the East Zone with new concessions in Clark Freeport Zone, Laguna, Boracay and Cebu in the Philippines. Outisde the Philippines, it expanded its operations to Ho Chi Minh City, Vietnam.

imi

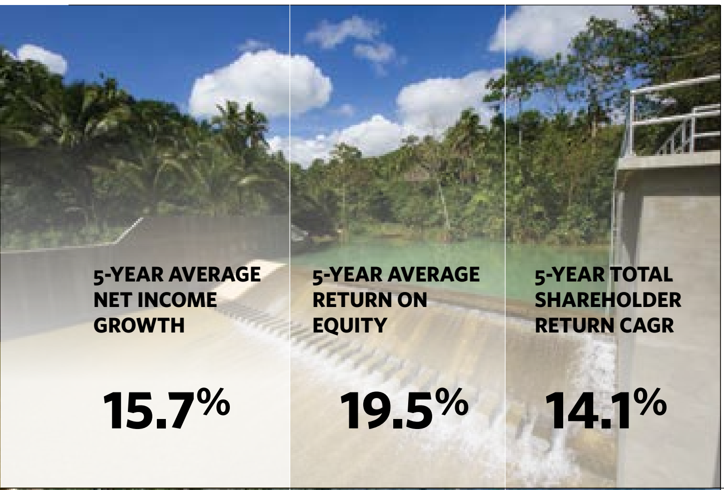
INTEGRATED MICRO-ELECTRONICS INC. is a leading provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS) in the region. It serves diversified markets that include those in the automotive, industrial, medical, telecommunications, infrastructure, storage device, and consumer electronics industries. Committed to top-quality and innovative solutions, IMI has become the preferred partner of leading global original equipment manufacturers (OEMs).

AYALA
AUTOMOTIVE

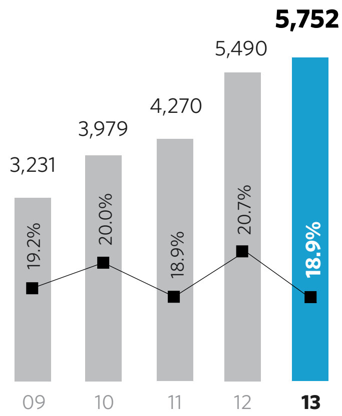
AYALA AUTOMOTIVE HOLDINGS CORPORATION is Ayala's holding company for automotive investments. It is the leading vehicle dealership network of both Honda and Isuzu brands and is the distributor and dealership network of Volkswagen passenger cars in the country.

Liveit

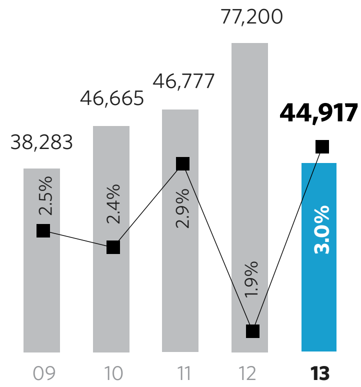
LIVEIT INVESTMENTS LTD. is the holding company for Ayala Corporation's investments in the business process outsourcing (BPO) sector. It has invested over US$200 million in four companies in the Voice (Stream), Knowledge (Integreon), Ad/Marketing Production (Affinity Express), HR (HRMall) and Finance & Accounting (IQBackOffice) spaces with revenues of over $1 billion and over 44,000 employees located in more than 50 sites in 23 countries.



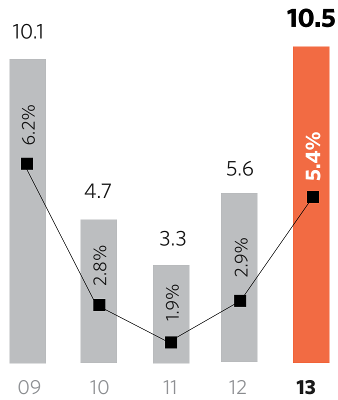
NET INCOME (IN MILLION PESOS) AND RETURN ON EQUITY (%)



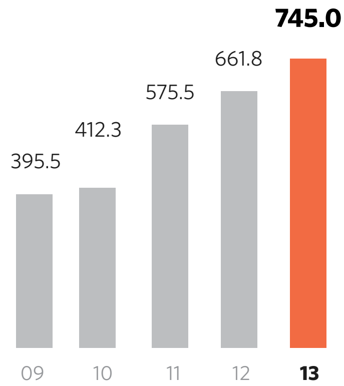
MARKET CAPITALIZATION[1] (IN MILLION PESOS) AND DIVIDEND YIELD[2] (%)

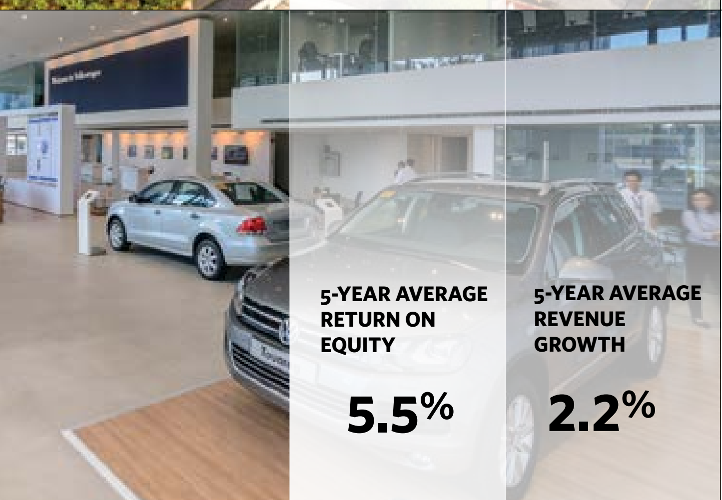


NET INCOME (IN MILLION US$) AND RETURN ON EQUITY (%)

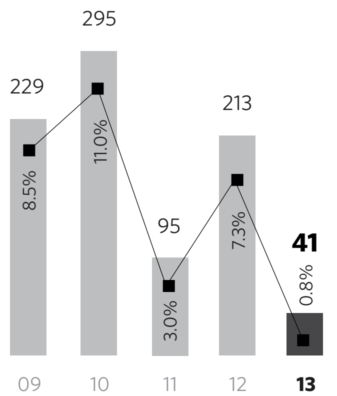


REVENUES (IN MILLION US$)

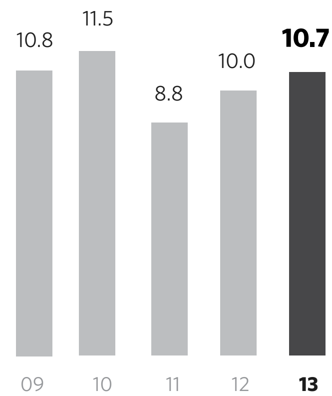




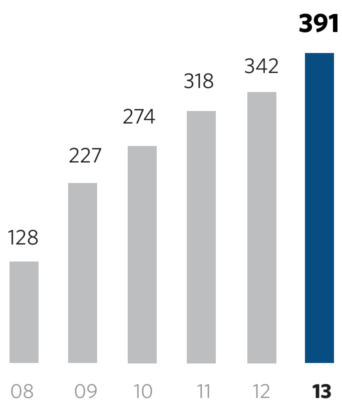
NET INCOME (IN MILLION PESOS) AND RETURN ON EQUITY (%)



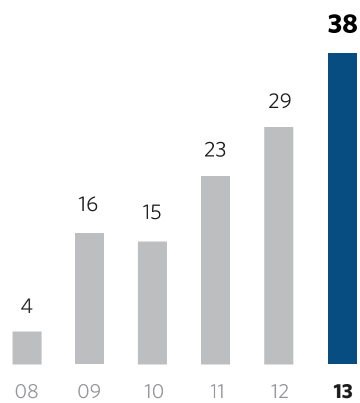
REVENUES (IN BILLION PESOS)



LIVEIT'S SHARE OF REVENUES (IN MILLION US$)



LIVEIT'S SHARE OF EBITDA (IN MILLION US$)



[1] As of end of year [2] Dividend Yield – Based on Bloomberg data

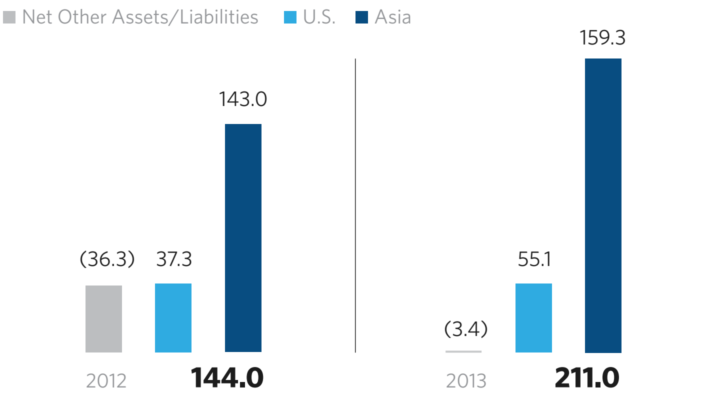
AG Holdings

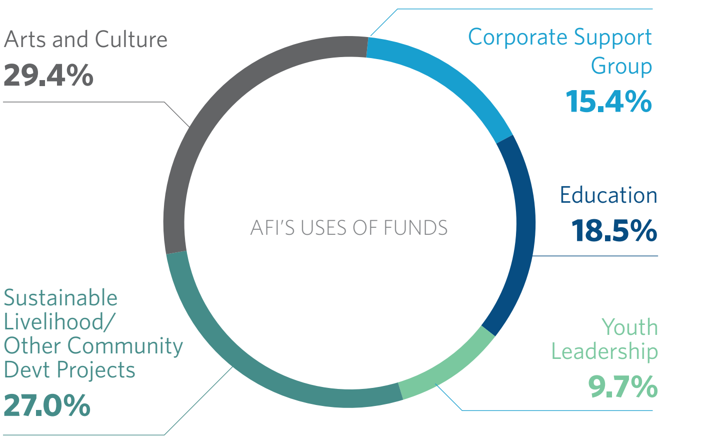
AG HOLDINGS LIMITED is the holding company for the Ayala group's international property investments in the United States and Asia.

Ayala Foundation

AYALA FOUNDATION INC., Ayala's social development arm, envisions communities where people are productive, creative, self-reliant, and proud to be Filipino. As a believer in creating shared value and inclusive business, it has four key program areas—Education, Youth Leadership, Sustainable Livelihood, and Arts and Culture.

NET ASSET VALUE (IN MILLION US$)





159,412
2013 REVENUES (IN MILLION PESOS)

12,778
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS
(IN MILLION PESOS)

599,664
TOTAL ASSETS
(IN MILLION PESOS)

Five-year Consolidated Financial Highlights

	AYALA CORPORATION					AYALA LAND				
	2013	2012 [2]	2011 [2]	2010	2009	2013	2012 [2]	2011 [2]	2010	2009
FOR THE YEAR (In Million Pesos)										
Revenues	159,412	130,571	110,828	98,071	76,294	81,523	59,932	47,668	37,814	30,455
Net Income Attributable to Equity Holders	12,778	10,504	9,183	11,161	8,154	11,742	9,038	7,140	5,458	4,039
Cash Dividends to Common Shares	2,877	2,344	2,124	1,945	1,994	4,067	2,856	1,911	1,211	780
Cash Dividends to Equity Preferred Shares	529	543	554	944	2,026	62	46	60	60	60
AT YEAR-END (In Million Pesos)										
Total Assets	599,664	510,904	369,039	315,370	232,149	325,474	254,116	166,399	121,675	107,742
Cash and Cash Equivalents	65,655	80,286	56,297	53,143	45,657	40,761	32,122	27,286	18,019	10,529
Short-Term Investments	119	297	1,613	3,994	4,561	17	17	195	1,434	4,561
Total Borrowings	205,681	175,085	111,268	82,837	56,523	101,902	74,778	39,041	20,971	18,812
Equity Attributable to Equity Holders	143,476	124,098	106,353	107,541	102,260	98,470	81,993	62,184	56,857	52,392
PER SHARE (In Pesos)										
Earnings - Basic [1]	20.53	17.03	14.17	17.13	11.86	0.84	0.68	0.55	0.41	0.31
Earnings - Diluted [1]	20.39	16.92	14.07	17.01	11.77	0.83	0.67	0.55	0.41	0.31
Book Value of Common Shares [1]	230.68	208.78	183.98	164.37	151.44	6.86	5.87	4.67	4.26	3.93
Cash Dividend to Common Shares	4.80	4.00	4.00	4.00	4.00	0.29	0.21	0.15	0.09	0.06
FINANCIAL RATIOS										
Current Ratio	1.46	1.46	1.76	1.89	2.56	1.45	1.41	1.64	1.67	1.95
Debt-to-Equity Ratio	1.43	1.41	1.05	0.77	0.55	1.04	0.91	0.63	0.37	0.36

[1] Adjusted to reflect retroactive effect of Ayala Corporation's 20% stock dividends in 2011 amounting to ₱4,842 million
[2] Restatement pertains to impact of adoption of new accounting standards on employee benefits (PAS 19) and on consolidation (PFRS 10)

20.53
EARNINGS PER SHARE (IN PESOS)

1.46
CURRENT RATIO

65,655
CASH AND CASH EQUIVALENTS
(IN MILLION PESOS)

FINANCIAL HIGHLIGHTS

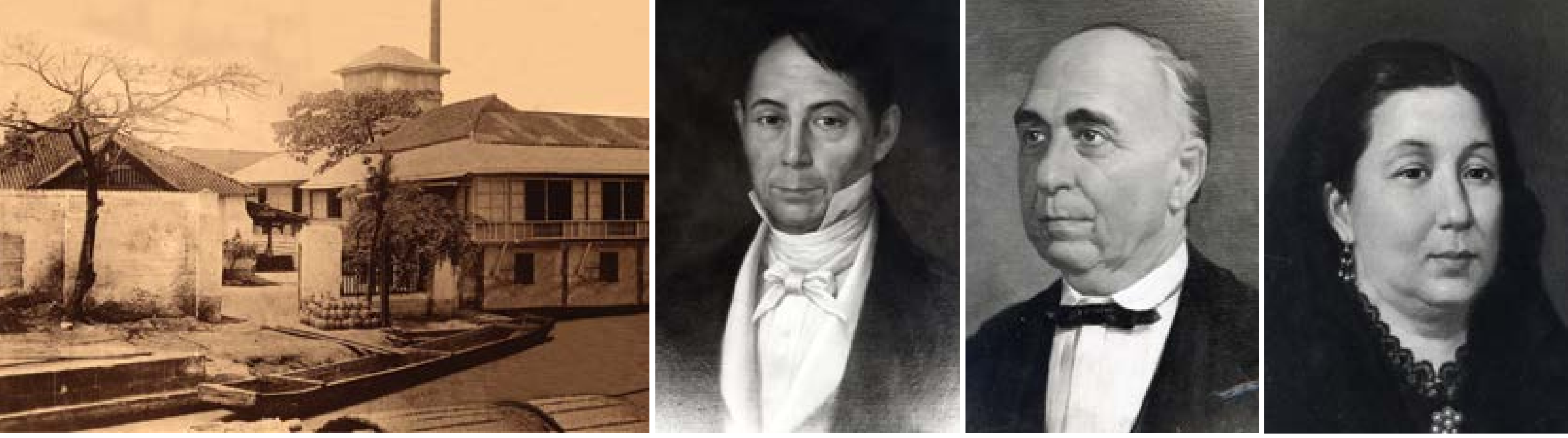
BANK OF THE PHILIPPINE ISLANDS					GLOBE TELECOM					MANILA WATER				
2013	**2012 [2]**	**2011 [2]**	**2010**	**2009**	**2013**	**2012 [2]**	**2011 [2]**	**2010**	**2009**	**2013**	**2012 [2]**	**2011 [2]**	**2010 [2]**	**2009**
52,498	47,384	41,758	38,407	34,395	95,141	86,446	81,518	75,735	74,319	15,926	14,553	12,004	11,013	9,533
18,811	16,352	12,899	11,312	8,516	4,960	6,845	9,805	9,745	12,569	5,752	5,490	4,270	3,979	3,231
6,401	8,180	6,401	6,122	5,844	8,877	8,606	8,206	10,588	15,087	1,560	1,214	1,138	934	811
-	-	-	-	-	24	33	81	-	50	346	278	264	224	200
1,195,364	985,241	843,565	878,146	724,420	159,079	148,012	130,065	130,628	127,644	72,858	67,127	60,897	48,621	43,758
270,179	142,372	106,154	146,638	81,524	7,421	6,760	5,159	5,869	5,940	6,780	5,540	5,235	2,413	4,038
92,153	128,501	86,359	123,972	124,962		-	-	-	3	94	-	658	1,546	3,724
28,230	33,315	25,853	31,868	38,942	69,301	61,779	48,679	50,371	47,477	26,252	24,071	23,268	14,134	14,361
104,535	96,696	86,939	81,031	66,798	41,639	45,698	47,586	46,869	47,709	30,477	26,488	22,538	19,815	16,817
5.19	4.60	3.63	3.38	2.62	37.25	51.45	73.81	73.29	94.59	2.34	2.24	1.71	1.85	1.31
5.19	4.60	3.63	3.38	2.62	37.22	51.38	73.57	73.12	94.31	2.34	2.23	1.71	1.85	1.31
29.37	27.19	24.45	22.78	20.57	308.05	339.15	353.55	348.15	354.50	14.73	12.78	10.62	9.31	7.84
1.80	2.30	1.80	1.80	1.80	67.00	65.00	62.00	80.00	114.00	0.76	0.60	0.56	0.46	0.40
-	-	-	-	-	0.65	0.74	0.60	0.61	0.55	1.12	0.83	1.24	1.09	1.76
-	-	-	-	-	1.66	1.35	1.02	1.07	1.00	0.86	0.91	1.03	0.71	0.55

Ayala
180
Years

A Brief History of the Philippines' Oldest Business House

Ayala in 2014 celebrates its 180th year. How it evolved into one of the largest and most innovative Philippine conglomerates—with businesses ranging from real estate, financial services, and telecommunications to investments in water, electronics, automotive, business process outsourcing, power, and transport infrastructure—is the longest narrative in the country's business history.

Ayala's headquarters at Tower One and Exchange Plaza



From left: The distillery of Casa Roxas; founders Domingo Roxas and Antonio de Ayala; Margarita Roxas de Ayala

The story begins in 1834 in what was Las Islas Filipinas. At a time when Manila's business houses were engaged mainly in executing customers' orders for buying and selling of commodities for a fee, landowner and entrepreneur Domingo Roxas and his young industrial partner Antonio de Ayala created a company that would engage in agribusiness. They built a distillery to derive greater value from cane sugar. It was small but it represented a Philippine step from the purely agricultural to the little-unexplored realm of industry.

When it had grown and become well known, the distillery exported various products to Europe and garnered awards and recognition for their quality. This showed that an enterprise in the rural and remote Philippines could compete in the international arena and win. Its best selling brand, *Ginebra San Miguel*, remains today.

When a Spanish royal decree established El Banco Español-Filipino de Isabela II, Southeast Asia's first private commercial bank, Antonio de Ayala was appointed director representing the Manila business community. Thus began the Ayala involvement in banking. Banco Español-Filipino—which issued the first Philippine paper currency—later became Bank of the Philippine Islands.

One of de Ayala's sons-in-law was the multitalented Jacobo Zobel: businessman, numismatist, archaeologist, writer; mayor of Manila at age 30; he read and spoke 11 languages, including Arabic and Etruscan. While engaged in the family business and serving on the Banco Español-Filipino board, he introduced the first streetcar system in Manila.

After the turn of the 20th century, the tramcar service was sold to an American company that renamed it Manila Electric Railway and Light Co., or MERALCO. The distillery was also sold, to businessman Carlos Palanca; at the time, it had 3,000 employees, including Filipino and French scientists. It had become a de facto incubator of the country's chemical industry.

Ayala
180
Years

Enrique Olgado Zobel, Joseph McMicking, and Jaime Zobel de Ayala

The office of Ayala y Compañia on Echague Street in Quiapo, Manila, 1927

Historical marker acknowledging Ayala as the Philippines' oldest business house of Spanish origin, 1951

Listing in the Manila and Makati stock exchanges, 1976

INTO MODERN TIMES

A decision attributed to Roxas' son Jose Bonifacio was the purchase of land in San Pedro de Makati that extended all the way to the banks of the Pasig River. The property was deemed to have little value and had undergone a series of ownership changes when the company bought it for ₱52,800 in 1851.

When the family's assets were apportioned in 1914, the Makati property went to the cousins Jacobo, Alfonso, and Mercedes Zobel de Ayala. They and their successors would bring Ayala to what it is today.

Mercedes' husband, Col. Joseph McMicking, provided a new vision for Ayala, and for developing what remained of the Makati property. The venture was uncertain and at first difficult. When success came, it signified an unprecedented leap in the evolution of local real estate development. From it emerged the Philippines' first modern Central Business District.

Ayala moved further from being a family business to being more corporate in character. After a century, it began to employ professional managers. It incorporated in 1968 and became publicly listed in 1976.

With professional teams, Colonel McMicking and his successors in management—Jacobo's son Enrique Zobel and Alfonso's son Jaime Zobel—steered Ayala to great success in the 20th century. Today, Jaime Augusto and Fernando Zobel de Ayala share leadership of a modern conglomerate with a much broader impact on the life of the nation.

Projects for social development include promoting art and cultural heritage through Ayala Museum

BEYOND 180 YEARS: ENABLING ENTREPRENEURSHIP

Ayala has found that the entrepreneurial spirit that has driven it for 18 decades is shared by many Filipinos, including merchants in its malls, retailers of Globe products, overseas workers' families that bank with BPI, residents' cooperatives in Manila Water's distribution zone, and micro-entrepreneurs who benefit from BanKO's microfinance services. As Ayala continues its expansion and diversification, it keeps an enthusiastic eye for the many thousands of people who will begin and build their own businesses through the ones it creates.

"By emphasizing a social purpose, we achieve a more complete form of doing business and generate a cycle of prosperity," says the chairman and chief executive officer, Jaime Augusto Zobel de Ayala.

"We have always believed that the development of every individual foregrounds the development of the whole," adds his brother Fernando, president and chief operating officer.

Ayala's reputation for integrity, product and service quality, financial strength and prudence, and high professionalism has made it a partner of choice for major international corporations and the employer of choice for many of the best and brightest talents. The respect and trust it enjoys is deemed to have been earned by few other businesses in the Philippines, and these are the core values that it treasures the most.

The conglomerate's leadership, with Jaime Zobel de Ayala as chairman emeritus, constantly promotes these values, including a deep commitment to Philippine development and to the Filipino.

Ayala's narrative of pioneering innovation continues into a future full of new opportunity and promise.

Livelihood programs

CENTEX schools provide quality public education

Fernando and Jaime Augusto Zobel de Ayala

CHAIRMAN'S MESSAGE

Fellow Shareholders:

The country's resilient domestic consumption patterns, increased government spending and the impact of structural reforms implemented by our country's economic managers, continued to fuel the Philippines' healthy economic growth trajectory. This positive momentum, which was sustained during the year despite weakness in the global economy has, to a large extent, helped shape the Ayala group's growth strategy over the past few years.

This was reflected in the investments we have undertaken as a group, as we continued to develop value enhancing opportunities under this favorable economic environment. Our combined group capital spending has expanded aggressively over the past five years as our core businesses in real estate, banking, telecommunications and water distribution executed aggressive growth strategies to seize investment opportunities in their respective sectors. Cumulative capital expenditures of the Ayala group over the past five years alone had amounted to nearly ₱500 billion. We consider this a significant contribution to our national economy. In 2014 alone, the entire Ayala group has planned for a record ₱187 billion in capital expenditures, surpassing the previous year's group capital expenditures of ₱120 billion, to support the investment needs of our core businesses and ramp up investments in our new businesses. This clearly underscores our group's confidence in the growth of the Philippine economy.

At the parent company level, we have, over the past three years, expanded our portfolio and invested in power and transport infrastructure. These two sectors, we believe, are critical pillars of support to the country's growth agenda and will help contribute to sustaining it well into the future. The enabling regulatory framework that has developed and encouraged attractive investment opportunities has elicited renewed economic participation from the private sector, including Ayala. We also believe that, when viewed from our conglomerate's perspective, our participation in these sectors has helped create synergies across our different business lines.

To date, we have committed over US$400 million in equity to a growing pipeline of energy related projects, both through acquisitions and greenfield projects. We have so far assembled nearly 1,000 megawatts in gross generating capacity. We continue to be on the lookout for more potential investments and we would be prepared to deploy another US$400 million in this space moving forward.

In the field of transport infrastructure, we continue to actively participate in several projects under the public-private partnership program of the Aquino government. We have so far been awarded the *Daang Hari* connector road project, a four-kilometer toll road in the southern part of Metro Manila, and the *Automated Fare Collection System*, a contactless ticketing system for the metropolis's light rail systems. We will continue to participate in other bids which we believe have strategic value to the group.

Over the next few years, we hope to generate a larger contribution from these new businesses, both in terms of earnings and value creation. We believe that these will also balance out and complement the components of our portfolio that tend to be more sensitive to economic cycles.

While we pursue new business opportunities, we will likewise continue to rebalance our existing portfolio as we recalibrate our ownership stakes in our existing businesses. Last year, we further increased our ownership in the Bank of the Philippine Islands and Manila Water Company, an indication of our optimism in their respective growth strategies and their continued ability to support Ayala's growth.

These dynamic portfolio adjustments all support our aspiration to surpass our target net income of ₱20 billion and mid-teen return on equity metrics by 2016.
As our core businesses sustain their robust growth trajectory, our international businesses continue to improve in profitability and as we develop new sources of earnings, we believe we are on track to realize our three-year aspiration.

Part of our role as a holding company is to continue to evolve and grow our portfolio in ways that remain relevant to market opportunities and add value to the customers that we serve. Over the past 180 years, Ayala has built a track record in building businesses across various sectors and has pioneered in, and reshaped, a number of industries in the country—from distilling to banking, insurance, transportation and

We intend to
stay relevant to
the changing world
and to contribute,
in our unique ways,
to helping shape the future.

real estate, as well as telecommunications and water infrastructure. Throughout its history, our company has also aligned itself with the country's economic and social development agenda. We will endeavor to remain a contributor to progressive economic growth either by redefining the businesses we are in or by executing on new ideas for products and services that contribute to the welfare of the communities we serve.

We attribute much of the success we have achieved over the past 180 years to the organization's pioneering spirit and entrepreneurial drive as we seek to remain relevant to our changing markets. As we celebrate our 180th anniversary this year, we will continue to align our businesses' strategies to the broader sustainable development goals of the country and to the opportunities we see developing in the global and regional markets. Our businesses contribute to many aspects of the Filipino consumers' lives—from building communities across the country, to widening our banking reach to provide for the underserved, to adjusting our telecommunication infrastructure to the needs of the modern consumer and to improving the delivery of our water and used water services. More recently, we have sought to help address the power and transportation backlogs of our energized economy. We have, over time, deliberately widened the reach and access of our products and services to serve the needs of a much larger segment of our society as we seek to remain relevant to a wider section of our population. In addition, we have sought to move beyond our shores to serve the needs of a changing global market as manufacturing and services cross national boundaries with the aim of enhancing reach, productivity and efficiency.

As a final word, we thank the many executives and leaders who have come before us and who have helped shape Ayala into the respected institution that it is today. We would not be the institution we are today without the reputation of trust that has been created by those who came before us. That having been said, our future now lies in those that are part of today's organization and who have added their own blend of engaged rigor, imagination, determination and foresight to the tasks at hand. It is in this light that I extend a special word of thanks to our Board of Directors for their extraordinary support and guidance, and to our management team for their shared commitment towards our goal of shared value creation. Finally, we thank all our many business partners and stakeholders for their continued trust and confidence. While we remain proud of our past, we are excited by the many opportunities that the future brings. We intend to stay relevant to the changing world and to contribute, in our own unique ways, to helping shape the future. Thank you for being our partner in this quest.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

PRESIDENT'S REPORT

Fellow Shareholders:

The sustained growth momentum of the Philippine economy in 2013 underpinned the strong performance of our core businesses and reaffirmed our efforts to aggressively expand in our markets and in new growth sectors.

Ayala's consolidated net income in 2013 grew by 22% to ₱12.8 billion, driven mainly by our real estate and banking units, as well as the improved performance of our international businesses. This mitigated the lower contribution from our telecom unit as a result of accelerated depreciation charges it booked during the year. Excluding this, our core net income actually jumped by 28% to ₱14.8 billion. Our return on common equity based on reported net income improved to 10.2% while our market capitalization by year-end reached ₱310.5 billion.

REAL ESTATE

Ayala Land posted a strong performance as it delivered 30% growth in net income to a record ₱11.7 billion. Revenue growth was strong across all its businesses with a robust pipeline of launches across its residential, commercial leasing, and hotels and resorts projects. Real estate demand remained strong throughout the year. The huge housing backlog coupled with the low interest rate environment, the availability of financing, and the proliferation of more affordable housing formats continued to support domestic demand. Overseas Filipino remittances also pushed residential sales, while price growth was gradual. Ayala Land's strong top-line growth combined with effective cost-containment measures resulted in consistent margin improvements. As a result, our equity earnings from Ayala Land rose by 19% to ₱5.5 billion, contributing 31% to our equity earnings.

BANKING

Similarly, Bank of the Philippine Islands (BPI) sustained its earnings growth trajectory on the strength of its core banking business. BPI's net income rose by 15% to a record high of ₱18.8 billion. Revenues grew strongly as net interest income rose by 10%, while non-interest income increased by 11%. The bank's loan portfolio grew in excess of 20%, a rate among the highest in Philippine banking. The double-digit growth in earnings of BPI combined with the 14.3% increase in our ownership stake in the bank drove 60% of the growth in Ayala's net income this year. With this stellar performance, our equity earnings from BPI rose by 45% to ₱8.3 billion.

WATER

Our water business remained steady despite facing regulatory challenges. Manila Water posted a 5% growth in net income as revenues grew by 9% in line with billed volume growth of 5%. New businesses outside the East Zone concession contributed significantly with Boracay, Clark, and Laguna posting strong growth, while new businesses in Vietnam almost doubled contribution. Manila Water continues to ramp up its new businesses with a goal to bring up the contribution of these new businesses to a third of its net income in the coming years. It recently took over as the exclusive water service provider of the Laguna Technopark complex and is expected to complete construction of the Cebu Bulk Water project by June of 2014. In the meantime, arbitration hearings are ongoing for the rate rebasing of the East Zone concession which we hope to be resolved by the second half of 2014.

TELECOM

The strong performance of these businesses offset the lower reported earnings from our telecom unit, Globe, which reported a 28% decline in net income to nearly ₱5 billion. This was mainly due to the impact of accelerated depreciation charges related to the network modernization. Excluding that, core net income was actually up by 13% to ₱11.6 billion. Revenue growth remained strong and surpassed industry growth. Its mobile revenues grew by 8% on the strength of its postpaid business' 18% growth while its prepaid business grew by a steady 3%. Its aggressive subscriber acquisition programs and attractive value offers resulted in an increase in total mobile subscribers to 38.5 million by year-end. In 2013, Globe surpassed the 40% mark in share of industry mobile revenues.

INTERNATIONAL BUSINESSES

Our international businesses, LiveIt and IMI, helped lift our earnings this year despite sluggish to moderate global economic growth.

Our BPO unit, LiveIt ended 2013 with a net income of US$2 million driven by the improved operations of Stream, Integreon and Affinity Express. In the coming year, LiveIt expects further growth and margin improvement as its business units achieve additional scale. With LiveIt's deep experience in the strong global

Overall, we are optimistic that the growth momentum in 2013 will be sustained in the coming year. Our earnings outlook for each of our key business units remains upbeat with mostly double-digit earnings growth expected in 2014.

demand for skilled Filipino talent in the IT-BPO sector, Ayala started to invest in the education sector through LiveIt Global Services Management Institute (LGSMI). LGSMI's vision is to provide high quality education that is affordable for the mass market and specifically geared towards employability. LGSMI has established partnerships with three higher education institutions and is building a chain of low cost secondary schools.

Our electronics business, Integrated Micro-Electronics Inc. (IMI), nearly doubled its net income to US$10.5 million on the back of a 13% growth in revenues. IMI Europe (with operations in Europe and Mexico) and IMI Philippines drove revenue expansion with 29% and 19% growth, respectively. These operations made up 57% of total revenues which reached US$745 million in 2013. Meanwhile, its China and Singapore operations remained stable.

As a result of the strong performance of most of our core businesses as well as our international businesses, equity earnings in 2013 rose by 23% to ₱17.6 billion.

NEW BUSINESSES

We continue to scale up and build our portfolio of new businesses.

AUTOMOTIVE

In addition to our Honda and Isuzu dealerships, we launched in 2013 our distributorship of Volkswagen cars in the Philippines. This latest addition enhances our portfolio of passenger vehicles and will further reinforce our presence in the automotive sector given the strength of the Volkswagen brand worldwide.

POWER

We also continued to build our portfolio in power. So far we have committed over US$400 million of equity over the past three years and have built a portfolio of power generation assets with a total capacity of close to 1,000MW. Earnings contribution from several of these assets is expected this year, particularly GN Power. GN Power achieved commercial operations in January 2014. Testing and commissioning of the first unit of the 2 x 135-MW South Luzon Thermal Energy Corp., the 18-MW expansion of Northwind, and the 81-MW wind project of North Luzon Renewable Energy Corp. are expected to be completed within 2014. In the meantime, we continue to work on a pipeline of projects to invest a total of around US$800 million in this sector.

TRANSPORT INFRASTRUCTURE

In the area of transport infrastructure, we won two of the three projects that we bid for under the government's public-private partnership program. The *Daang Hari* connector road is now well under construction and should be complete by 2014. We are also part of the consortium, together with BPI and Globe, and in partnership with the First Pacific group, that was awarded by the Department of Transport and Communications the *Automated Fare Collection System* project. This project is a payments system that will start with the rail operations in Metro Manila with a potential to expand into various retail areas. We believe this has a high potential for synergy with our other businesses.

We continue to work on other public-private partnership bids which are due in the second quarter of 2014, particularly the *Cavite-Laguna Expressway*, the *LRT 1*, and the *Southwest Integrated Transport Terminal*.

HEALTHY BALANCE SHEET

We increased our level of investment at the parent level by 15% in 2013 to ₱21 billion. Notwithstanding this, our balance sheet remains healthy. At the parent level, we ended the year with cash of ₱26 billion, with gross debt at ₱71 billion. We had several fund raising initiatives in 2013 to ensure sufficient funding capacity and flexibility for the pipeline of projects in view. These included the reissuance of ₱10-billion, 15-year preferred class B shares and also the placement of our common shares held in treasury which raised a total of ₱3.3 billion. We continue to maintain a comfortable gearing level with net debt to equity at the parent level of 0.32 to 1. This healthy balance sheet and cash position allow us to continue to pursue investments in new businesses and in our existing portfolio as well as cover our common share dividend and interest expense, which amounted to ₱2.6 billion and ₱4.4 billion, respectively in 2013.

Early in 2014, LiveIt also closed the sale of its 29% stake in Stream Global Services, which is one of its BPO investee companies, generating approximately US$145 million in total net debt and equity proceeds.

OUTLOOK

Overall, we are optimistic that the growth momentum in 2013 will be sustained in the coming year. Our earnings outlook for each of our key business units remains upbeat with mostly double-digit earnings growth expected in 2014. This puts us in line with our aspiration to surpass the ₱20 billion net income level by 2016. The sustained momentum of our property and banking units, the tapering of our telecom unit's accelerated depreciation charges combined with the continued improvement of our international businesses should keep us on track with this three-year aspiration.

While we continue to work towards this financial goal as we expand our businesses, we are also very mindful of our responsibilities towards the environment, the communities that we serve and the communities around us. We have always believed that a strong and sustainable business means going beyond simply doing well for ourselves, but also doing well for others in a way that improves the lives of people and communities around us. Underlying this is our group-wide sustainability policy that covers our operations, our products and services, our supply chain, our human resource practices, our community involvement and our overall management approach. In 2013, we continued to refine these and developed specific focus areas where we aim to establish measurable targets for our social and environmental performance to complement our focus on our financial metrics.

Our progress in all these initiatives and our attainment of our financial targets would certainly not be possible without the shared vision of the rest of the Ayala group executive and management team and staff, the guidance and leadership of our Board of Directors, and the trust and confidence of all our partners and stakeholders.
We thank you all for your continued commitment and support.

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

AyalaLand REAL ESTATE

₱66.3 BILLION CAPEX

More land acquisitions to **develop new growth centers** in key strategic areas

Launched 81 projects valued at **₱140 Billion**

₱81.5 Billion Consolidated Revenues, up 36%

₱11.7 Billion Net Income, up 30%

ROE steady at **13.0%**

EBIT margin at **26.0%**

GAE-to-Revenue ratio down to **7.3%**

REVENUES

₱52B
Property Development
Up 51%

PROPERTY DEVELOPMENT

28,482 new residential units

BellaVita project launched in Cavite and Tarlac

Redeveloped and built around **Makati, Bonifacio Global City, Nuvali,** and **Cebu**

₱18B
Commercial Leasing
Up 21%

COMMERCIAL LEASING

Shopping Center GLA: **1.27M sqm**

BPO GLA: **490,450 sqm**

Hotel Rooms: **2,001**

₱6.4B
Services
Up 19.6%

SERVICES

Construction

₱72 billion of order book

Property Management

268 properties under management

It was another stellar year for Ayala Land as sales and net income soared to all-time highs. This puts the company a full year ahead of its net income target set under its "*5-10-15*" plan which started in 2009.

New business lines were introduced to further enhance and complement Ayala Land's mixed-use community developments. Partnerships with leading local retailers allowed the company to enter the retailing business with various formats including convenience stores, supermarkets and department stores. In addition, hospitals and ambulatory healthcare facilities in the pipeline will complete the value proposition of Ayala Land's various developments.

Moving forward, Ayala Land will carry on, as it has over the past 25 years, its aggressive growth plans by creating new townships in different locations nationwide. The company will leverage on its experience and expertise as it continues to build large-scale, mixed-use and sustainable developments for its wide range of customers.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(In Million Pesos except per share amounts and ratios)

	2013	**2012****
Total assets	325,474	254,116
Stockholders' equity*	98,470	81,993
Revenues	81,523	59,932
Net income attributable to equity holders	11,742	9,038
Earnings per share	0.84	0.68
Ratios		
Current Ratio	1.45	1.41
Debt-to-equity ratio	1.04	0.91
Return on equity	13.0%	13.0%
Top Shareholders		
Ayala Corporation	48.93%	50.4%
Aberdeen Asset Management Asia Ltd.	15.83%	17.88%

*Stockholders' equity excludes non-controlling interests

**As restated

BPI FINANCIAL SERVICES

Net income of **₱18.8 Billion** up 15.0%; ROE of **18.1%**

Capital adequacy ratio at **13.7%**

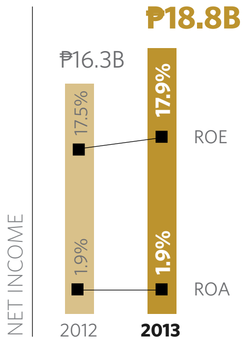
Non-performing loans ratio at **1.8%**

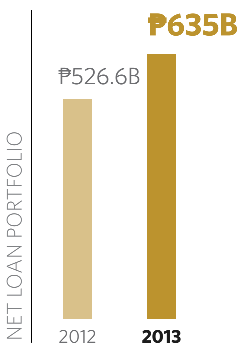
₱1.2 Trillion in Assets

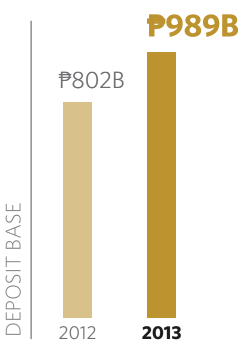
Net Loan Portfolio of **₱635 Billion,** up 21%

Corporate Lending, up **23%**; Consumer Lending, up **13%**

BPI Family launched its first credit card with the lowest finance charge







CURRENT AND SAVINGS ACCOUNTS

Market Share of **21%**

CONSUMER LENDING

Home Loan Portfolio up **19%**

Home Loan Releases up **17%**

CARD BANKING

Non-collateralized loans and credit cards up **10%**

Personal loans up **31%**

DEBIT CARD TRANSACTIONS

Billings up **22%**

Prepaid card business up **42%**

SELF-SERVICE TRANSACTIONS

Number of ATMs up **21%**

BPI Express Online client base up **30%**

Online Banking Kiosks up **60%**

Express Mobile users up **56%**

CONSOLIDATED FINANCIAL HIGHLIGHTS

(In Million Pesos except per share amounts and ratios)

	2013	2012*
Total assets	1,195,364	985,241
Stockholders' equity*	104,535	96,696
Revenues	52,498	47,384
Net income attributable to equity holders	18,811	16,352
Per share		
Earnings	5.19	4.60
Book Value	27.19	29.37
Return on equity	18.1%	17.9%
Top Shareholders		
Ayala Corporation (Direct Ownership)	21.8%	21.8%
Ayala DBS Holdings, Inc.	21.3%	21.3%

*Stockholders' equity excludes non-controlling interests

Bank of the Philippine Island's financial performance in 2013 was built on the strength of its wide range of retail, commercial and corporate banking products and services tailored to the needs of its customers. These products and services are offered through the bank's various business segments and channels.

BPI's current accounts and savings accounts' (CASA) growth remained strong. In consumer lending, BPI Family Savings Bank fortified its market leadership in the thrift bank industry. BPI's card banking also delivered a strong year on a combination of growth in payment transactions and healthy lending. Non-collateralized loans generated from the credit cards and personal loans businesses grew. The credit cards business maintained its market position as the third most-used card issuer in the Philippines, posting a ₱8.7 billion-growth in billings. Debit card transactions processed through the *Express Payment System* facility increased and the prepaid cards business, which caters to the unserved market especially in e-commerce, grew its cardholder base.

Self-service transactions now account for 80% of the bank's total transactions. BPI's ATM network and *BPI Express Online's* enrolled client base both grew in 2013. The bank also achieved significant increase in the use of online banking kiosks, corporate internet banking, and BPI Express Mobile, the country's leader in mobile banking.

BPI's investment banking services remained at the forefront of the most notable transactions of 2013. Among its landmark transactions are the Development Bank of the Philippines' Tier 2 bonds, the country's first *Basel III*-compliant issue, the Max's Group's acquisition of Pancake House Inc., and Del Monte Pacific Limited's acquisition of the consumer food business of Del Monte Corporation in the U.S. The bank also served as adviser and underwriter for Manila Electric Company's debut domestic retail bond offering.

Despite the volatile global financial environment, the local currency treasury desk of BPI's global banking business registered an increase of over 40% in securities trading income. BPI's asset management and trust business remains to be a strong business contributor in 2013 generating ₱3.8 billion in gross revenues from continuing operations, up 25% from the previous year.

Globe TELECOMMUNICATIONS

₱29 BILLION CAPEX

25% IT Transformation programs (₱7.3 Billion)

26% Data related (₱7.7 Billion)

16% Traditional services (₱4.6 Billion)

32% Others*

* Includes one-time spends and investments and international cable systems

₱36.5 Billion	Consolidated EBITDA, up 4% due to revenue gains
₱11.6 Billion	Core Net Income, up 13%, excluding accelerated depreciation charges related to network and IT transformation programs
38.5 Million	Total Mobile Subscribers up 16%

REVENUES

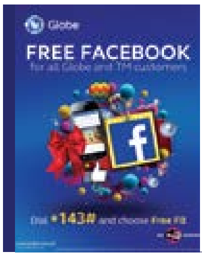
₱72.8B
Mobile
Up 8%

₱45.7B
Prepaid
Up 3%

₱27.1B
Postpaid
Up 18%

₱10.4B
Broadband
Up 20%

₱7.3B
Fixed Line
Up 6.8%



MOBILE PREPAID

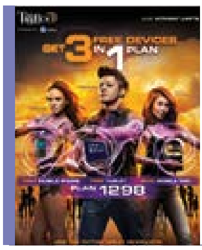
36.45M subscribers

Globe Prepaid
17.8M subscribers, **up 8%**

Touch Mobile
18.6M subscribers, **up 25%**

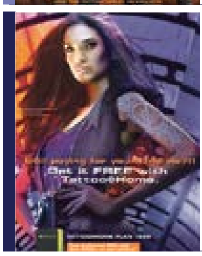
MOBILE POSTPAID

2.03M subscribers
Up 17%



BROADBAND

Over **2M** subscribers
Up 22% in customer base



FIXED LINE

Over **520K** subscribers
Up 3.5%

CONSOLIDATED FINANCIAL HIGHLIGHTS

(In Million Pesos except per share amounts and ratios)

	2013	2012**
Total assets	159,079	148,012
Stockholders' equity*	41,639	45,698
Service revenues	90,500	82,742
Net income attributable to equity holders	4,960	6,845
Per share		
Earnings	37.25	51.54
Ratios		
Current Ratio	0.65	0.74
Debt-to-equity ratio	1.66	1.35
Return on equity	11.9%	15.0%
Top Shareholders		
Ayala Corporation	30.5%	30.5%
Singapore Telecom International Pte Ltd	47.3%	47.3%

*Excludes non-controlling interests

**As restated

Globe Telecom ended 2013 with record-level consolidated service revenues, 9% higher than in 2012. This was driven by the continued demand for data connectivity across mobile, broadband and fixed line data segments.

Mobile revenues rose owing to the sustained leadership of the *Globe Postpaid* brand. Globe continued to invest in acquiring and retaining high-quality postpaid customers, resulting in the increase of its subscriber base. This sustained the growth of postpaid revenues which rose by 18% year-on-year.

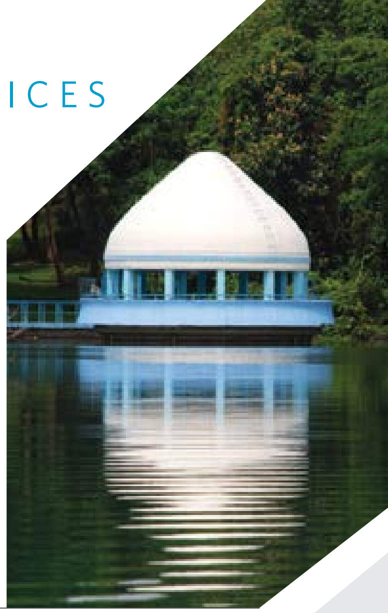
On the prepaid segment, revenues grew despite the continued pressures on yields due to the shift from pay-per-use to value-based bucket and unlimited offers, as well as the pervasiveness of multi-SIM incidence in the market. *Globe Prepaid* and *TM* ended the year higher than 2012, with total prepaid subscriber base reaching 36.4 million as of end-2013. This puts Globe's total mobile subscribers at 38.5 million.

Globe's broadband businesses ramped up, registering sharp growths on both revenues and customer base from 2012. The competitiveness and affordability of the various offers launched throughout the year and the increasing pervasiveness of the fixed and wireless broadband network contributed to the robust performance in 2013.

Globe incurred non-cash accelerated depreciation charges of ₱9.1 billion, up from ₱5.1 billion a year ago, which put net income at the end of the year at ₱5 billion. EBITDA margin was at 40% against 42% in 2012.

Globe's balance sheet and cash flows remained strong with ample liquidity. Gearing remained comfortably within bank covenants but was higher with the additional borrowings raised for the company's network transformation program. On a consolidated basis, gross debt-to-equity ratio was at 1.66:1 from 1.35:1 in 2012, while net debt-to-equity was at 1.49:1 as of end 2013 from 1.20:1 last year.

Globe paid out ₱8.9 billion in cash dividends in 2013, representing 86% of 2012 core net income, in line with the company's dividend policy of distributing 75% to 90% of prior year's core net income.



₱5.6 BILLION CAPEX

₱4.7 Billion allotted to East Zone

₱954 Million alloted to subsidiaries

Consolidated revenues of **₱15.9 Billion**

EBITDA of **₱11.6 Billion, up 9%**

CAPITAL EXPENDITURES

EAST ZONE CONCESSION CAPITAL EXPENDITURE

76%

- Network reliability
- Water supply and waste water expansion projects

24%

Concession fees payment to Metropolitan Waterworks and Sewerage System

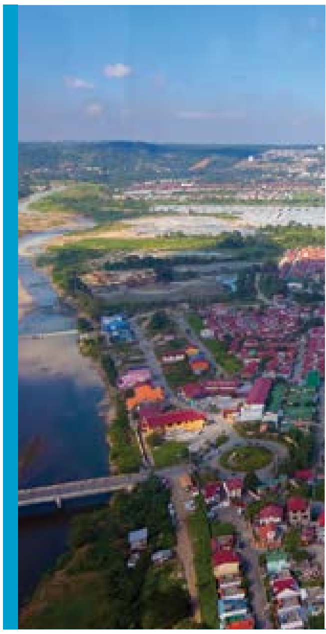
SUBSIDIARIES CAPITAL EXPENDITURE

79%

Laguna Water's network coverage expansion

21%

Disbursed by Boracay Island and Clark Water



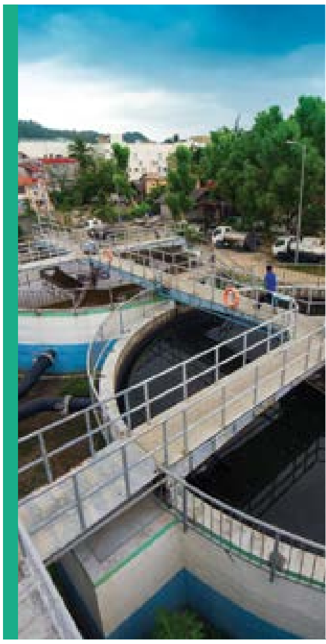
EAST ZONE CONCESSION

Water connections to **921,898 customers, up by 3%** mostly from Marikina, Pasig and Rizal expansion areas

East Zone billed volume and average effective tariff **up 2%** due to consumer price index adjustment of 3.2%

Non-revenue water (NRW) level **improved to 11.2%**

Seismic retrofitting for the Balara Treatment Plants as part of MWC's Natural Calamity Mitigation Program



NEW BUSINESSES

31.47% stake in Saigon Water Infrastructure Joint Stock Company in Vietnam

Laguna Water acquired the **water reticulation and sewer system** of Laguna Technopark Inc.

Cebu Manila Water Development Inc. secured a **20-year bulk water supply agreement** with the Metropolitan Cebu Water District

Exploration of possible opportunities and partnerships using **bulk water and NRW reduction business models** in Indonesia and Myanmar

NET INCOME

₱5.8B

88%

East Zone

12%

Subsidiaries and Vietnam

Laguna AAAWater Corporation

Clark Water Corporation

Boracay Island Water Company

Vietnam

- Leakage reduction project
- Thu Duc B.O.O. Corporation and Kenh Dong Water Supply Joint Stock Company

CONSOLIDATED FINANCIAL HIGHLIGHTS

(In Million Pesos except per share amounts and ratios)

	2013	2012**
Total assets	72,857	67,127
Stockholders' equity*	30,477	26,488
Revenues	15,926	14,553
Net income attributable to equity holders	5,752	5,490
Per share		
Earnings	2.34	2.24
Book Value	14.73	12.78
Ratios		
Current Ratio	1.12	0.83
Debt-to-equity ratio	1.09	1.21
Return on equity	18.4%	20.7%
Top Shareholders		
Ayala Corporation	48.8%	47.3%
Mitsubishi Corporation	1.2%	7.6%

*Stockholders' equity excludes non-controlling interests

**As restated

Manila Water Company Inc., posted a 5% growth in net income as a result of continued expansion in the East Zone and strong performance of new businesses. Total billed volume from the new businesses account for 28% of the consolidated billed volume, 3% higher than 2012.

Manila Water continues to explore new business opportunities. It completed the acquisition of a 31.47%-stake in Saigon Water Infrastructure Joint Stock Company, a major water infrastructure player in Vietnam. Laguna Water, meanwhile, concluded the purchase of the water reticulation and sewer system of Laguna Technopark Inc., an industrial estate in Laguna province. In Indonesia, Manila Water is exploring possible opportunities and partnerships using bulk water and NRW reduction business models.

As it expands its domestic and regional presence, Manila Water continues to broaden operations in the Philippines through its concessions in Clark, Pampanga, Cebu, Laguna, and Boracay Island. These concessions, combined with its new businesses overseas, are projected to contribute significantly to Manila Water's income in the next five years.

In 2013, Manila Water entered into arbitration proceedings to settle issues related to the Rate Rebasing Process in the East Zone. The company expects to receive a resolution from the arbitration panel in 2014.

AYALA AUTOMOTIVE

AUTOMOTIVE

HONDA ISUZU

₱10.7 Billion Consolidated Sales, up 7%

₱41 Million Consolidated Net Income, down 81%

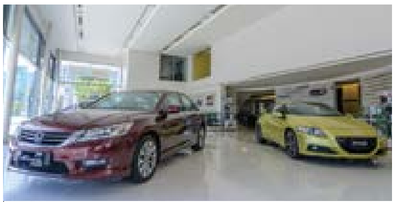
10,111 units sold, up 9%

VEHICLE UNIT SALES

10,111
automotive units sold

6,080
Honda units sold

4,031
Isuzu units sold



AYALA HONDA DEALERS

46% of total Honda Nationwide Sales

HONDA CARS PHILIPPINES INC.

13,356 units sold; up 6%

AYALA ISUZU DEALERS

33% of total Isuzu Nationwide Sales

ISUZU PHILIPPINES CORPORATION

11,793 units sold; at par with 2012

VOLKSWAGEN

Importership agreement between Volkswagen AG and Automobile Central Enterprise Inc. signed on May 27, 2013

Volkswagen BGC and **Greenfield District Service Center** started operations in October and November 2013, respectively

VOLKSWAGEN DEALERSHIPS

VOLKSWAGEN BGC

Inaugurated **February 2014**

6,000 sqm. floor area

18-car showroom

10-bay service workshop area

VOLKSWAGEN GREENFIELD DISTRICT SERVICE CENTER

Inaugurated **November 2013**

15 work bays

State of the art tools and equipment

CONSOLIDATED FINANCIAL HIGHLIGHTS

(In Million Pesos except unit sales and ratios)

	2013	2012
Revenues	10,729	9,993
Consolidated net income	41	213
Car unit sales	10,111	9,259
Return on equity	0.8%	7.3%

Philippine auto industry sales reached 211,818 units in 2013, 15% higher than last year due to new product offerings and aggressive marketing activities.

This reflected positively on Honda Cars Philippines Inc.'s (HCPI) growth and resulted in higher demand for the *Honda City* and *CR-V* models. The upcoming launches of the all-new *Accord*, *City* and *Jazz* in 2014 are expected to strengthen HCPI's position in the industry reversing its slight market decline in the previous year.

The Ayala Honda dealers maintained overall market share leadership with Honda Cars Alabang topping the list of local dealers, a distinction it has held for eight consecutive years. This will be further boosted with the transfer of the Cebu dealership to a bigger facility and in a more strategic location in the North Reclamation Area in December 2013.

Isuzu Philippines Corporation (IPC) maintained last year's sales levels due to strong truck sales and introduction of the new *D-Max* in September 2013. The Ayala Isuzu dealerships strengthened their leadership position in the network with Isuzu Pasig as the top-selling dealer nationwide and Isuzu Cebu as the dominant provincial dealer.

In September 2013, Volkswagen AG and Ayala celebrated the return of Volkswagen to the Philippine market with a grand launch at Ayala Tower One and Exchange Plaza, highlighting the brand's heritage under the theme "*The Time is Now*." The elaborate two-day public display called "*People's Car Celebration*" showcased various facets of the Volkswagen brand at the Greenbelt Park and Ayala Museum.

Apart from Ayala's flagship Volkswagen dealership at Bonifacio Global City and its Volkswagen Greenfield District Service Center, Ayala Automotive will roll out three more Volkswagen dealerships in Cebu, Quezon City and Alabang, for a wider reach and better access to customers.

Given the dominant position of Volkswagen in the global automotive market, this new partnership will enhance Ayala Automotive's existing portfolio of automotive brands. With Honda, Isuzu and Volkswagen, Ayala can offer a more robust range of passenger vehicles, which will reinforce further its strong presence in the automotive sector.

ac energy ENERGY

US$430 Million – Equity committed in the past three years

1,000MW – Target attributable generating capacity by 2016

SOUTH LUZON THERMAL ENERGY CORPORATION

2 x 135MW capacity

Unit 1 under construction and expected to be completed by 2014

GN POWER MARIVELES

660MW capacity

Operational in Q1 2014

NORTHWIND POWER DEVELOPMENT CORPORATION

33MW operational, awaiting feed-in-tariff

18MW expansion under construction and expected to be completed 2014

NORTH LUZON RENEWABLE ENERGY CORPORATION

81MW capacity

Under construction and expected to be completed in 2014

QUADRIVER / PHILNEW RIVER / PHILNEW HYDRO

Pilot project of 11MW capacity

Pre construction activities ongoing

AC Energy continues to build a diversified portfolio of renewable and conventional power generation assets through acquisitions and development of greenfield projects. AC Energy's goal is to help build base load capacity for the country and develop alternative energy sources.

US$60 Million – Equity committed

US$200 Million – Target total investment

AC Infrastructure Holdings, Inc. selectively pursues tollroad, rail and airport projects under the public-private partnership (PPP) program. Ayala's entry into transport infrastructure will enhance synergies across the group and create new sources of growth. AC Infra intends to invest approximately US$200 million in the transport infrastructure sector by 2016.

CURRENT PROJECTS

DAANG-HARI

AC Infra won the first PPP road project, the four-kilometer *Daang-Hari* connector road to the South Luzon Expressway. Full commercial operations is targeted for the last quarter of 2014.

AUTOMATED FARE COLLECTION SYSTEM

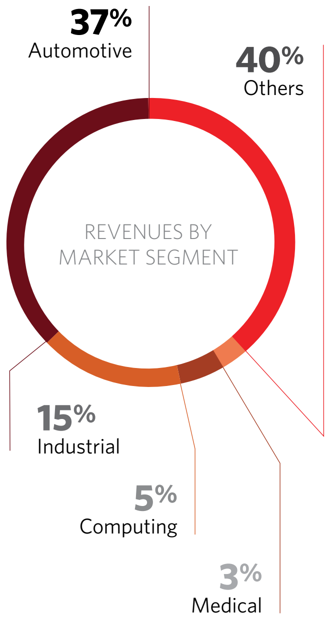
AF Consortium, a partnership between the Ayala Group and the First Pacific Group, was awarded a 10-year concession to build and maintain the *Automated Fare Collection System* (*AFCS*). The *AFCS* is a contactless single ticketing system similar to Hong Kong's "*Octopus card*" for the LRT Lines 1 and 2 and the MRT Line 3. The three rail services have a combined ridership of approximately one million passengers per day. The consortium members include BPI Card Finance Corporation, as lead member, Globe and AC Infra of the Ayala Group, and Metro Pacific Investments Corp., Smart Communications, Inc. and Meralco Financial Services Corporation of the First Pacific Group.

IMI ELECTRONICS

Revenues up **12.6%** to **US$745 Million**

Net Income nearly doubled to **US$10.5 Million**

REVENUES



CHINA & SINGAPORE

US$277.2M
Revenues

EUROPE & MEXICO

US$234.9M
Revenues
Up **28.9%**

PHILIPPINES

US$189.2M
Revenues
Up **18.9%**

PSI TECHNOLOGIES

US$43.1M
Revenues
Down **5.5%**

RESEARCH AND DEVELOPMENT AREAS

Design & Development	Advanced Manufacturing Engineering	Test & Systems Development
Philippines • Automotive Camera Platform • Compact design • Thermal efficiency	**USA** • 6 new products • 16 prototypes	**Philippines** • 5-axis focusing and alignment system for automotive camera line • Stand-alone lens inspection system
China • HVAC • Cost-effective Microcontroller input/output (I/O) systems with LCD display	**Mexico** Development of small plastic molds, plastic injection, and complete product assembly of HVAC and blower units for Japan Climate Systems Corporation (JCS) for Mazda cars	**China** Prototype of an automated board assembly guiding system
Europe • Motor Drive Platform • Enables effective utilization of complex technologies • Reduces the risk of product malfunctions	**Asia** Established 3 sites in China: Shenzen, Jiaxing and Chengdu that offer development services for new processes and design for manufacturability	**Asia** • Test system upgrades • Complex power modules for semiconductor handling systems • Servo actuator systems
		Europe Automated final assembly machines

Amidst a subdued global economy, IMI thrived in 2013 due to its strong business expansion in Europe, Mexico, and the Philippines. Its diversification strategy allowed it to successfully weather a general decline in electronic equipment production and a contraction in the electronics outsourcing industry. The significant growth of the automotive business in its Bulgaria plant as a result of new projects contributed to IMI's growth this year.

Despite the volatilities and uncertainties, however, the Electronics Manufacturing Services industry is expected to grow by 7.8% in 2014.[1]

IMI is well positioned to take advantage of new contracts in the key markets it participates in. The expected worldwide growth for automotive electronics to US$314 billion by 2020, driven in large part by government and automaker safety initiatives, is also anticipated to benefit IMI. A vital engine for market growth is the effort among automakers to add *advanced driver assistance systems* (*ADAS*)—mechanisms that enhance car safety—which are a key selling point. The integration of *ADAS* into the instrument cluster and head-up display (HUD) is expected to be commonplace in the next several years.[2]

Similarly, the industrial electronics market is anticipated to reach US$321 billion by 2013[3] and the medical electronics market will likely hit US$372.4 billion in that same year. Imaging systems is forecast to be the fastest growing application with a compounded annual growth rate of 16.9% by 2018.[4]

These developments all bode well for the company's steady growth. Moving forward, IMI will continue to invest in its technical capabilities to ensure its competitiveness in capturing high-growth and high-margin opportunities.

1. *IDC 2013*
2. *Companies & Markets Research 2013*
3. *Research & Markets 2014*
4. *RnR Market Research 2014*

CONSOLIDATED FINANCIAL HIGHLIGHTS

(In US Million Dollars except per share amounts and ratios)

	2013	2012**
Total assets	488	453
Stockholders' equity*	193	194
Revenues	745	662
Net income attributable to equity holders	10.5	5.6
Per share		
Earnings per share	0.006	0.002
Book Value	0.10	0.10
Ratios		
Current Ratio	1.53	1.56
Debt-to-equity ratio	0.48	0.47
Return on equity	5.4%	2.9%
Top Shareholders		
AYC Holdings Ltd	57.9%	57.9%
Resins, Inc.	14.7%	14.7%
EPIQ NV	12.2%	12.2%

*Stockholders' equity excludes non-controlling interests

**As restated

Business Process Outsourcing

Share of Revenues: **US$391 Million, up 14%**

Share of EBITDA: **US$38.2 Million, up 31%**

Net Income: **US$1.7 Million, up $16 Million**

LiveIt Investment Limited maintained its momentum of growth and profit improvement, and exited the year with its 12th consecutive quarter of year on year growth in Share of EBITDA. Net income was after $14.5 million of interest expense and amortization of intangibles related to the leveraged buyout of Stream.

In March of 2014, LiveIt closed on the sale of its 29% stake in Stream. This resulted in approximately US$145 million of total debt and equity proceeds and a capital gain on the sale of ₱1.8 billion for Ayala.

	stream	Integreon	affinity EXPRESS	IQ BackOffice
SERVICES	Provider of customer relationship management services including sales, customer care, and technical support	Provider of integrated legal, document, research and business support solutions	Provider of high-volume marketing production and media services	Provider of finance, accounting and human resources services
REACH	Over 40,000 employees in 23 countries	Over 2,000 employees in the U.S., U.K., South Africa, India, China and the Philippines	Over 1,800 employees in the U.S., Canada, India and the Philippines	Over 500 employees in the U.S., India and the Philippines
SALES	**US$1,022 Million**	**US$105 Million**	**US$26 Million**	**US$10 Million**

Education

Ayala started investing in the For Profit Education sector through **LiveIt Global Services Management Institute** (LGSMI), after recognizing the large demand for Filipino talent from the IT-BPO and other industries. LGSMI's goal is to provide excellent but low cost education to lower income students on a scale basis. LGSMI seeks to partner with or acquire existing schools, or build new schools, in both Basic Education and Higher Education.

BASIC EDUCATION

LGSMI has formed a majority owned joint venture, Affordable Private Education Center (APEC), with Pearson, the world's leading learning company, to build a chain of low-cost secondary schools that will provide quality education with annual school fees that are affordable for lower income households.

"Education is an important strategic focus for Ayala. There is strong global demand for Filipino talent and our vision is to deliver high-quality, affordable education that can significantly enhance students' employment potential."

– JAIME AUGUSTO ZOBEL DE AYALA

HIGHER EDUCATION

LGSMI has formed partnerships with Jose Rizal University, Emilio Aguinaldo College (EAC) and University of Iloilo to offer its Professional Employment Program (PEP), which is designed to bridge the gap between academe and industry, and produce graduates with strong English, computer literacy and service industry skills. PEP's graduates are employed 30% faster at 30% higher wages versus non-PEP graduates. LGSMI also opened a Senior High School (grades 11 and 12) in partnership with EAC, in anticipation of the implementation of K-12 in 2016.

Investment in ARCH Fund returned a total of **30.6%** of capital originally committed

AG Holdings committed to a **second ARCH Fund** which increased in value in 2013

AG Holdings' Asian operations continued to realize value from its existing portfolio of investments in the region. Its investment in ARCH Fund continues to perform—contributing to the earnings of the group.

AG Holdings is working closely with Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) to pursue opportunities in Vietnam.

AG Holdings sold its ownership interests in real estate projects in Bangkok, Thailand, and Jakarta, Indonesia to generate cash to be redeployed towards other initiatives and investments.

EDUCATION

CENTEX TEACHER-TRAINING PROGRAM
CENTEX, in partnership with JP Morgan Chase & Co., trained 100 principals and 200 teachers on pedagogy, methodology, and critical, creative and caring thinking.

TEXT2TEACH
Text2Teach provided multimedia educational materials in English, Math, Science and Values Education through mobile technology to 340 schools and 30,000 public elementary school students.

TEXT2TEACH TRAINING PROGRAM
Text2Teach, in partnership with DepEd, LGUs, Nokia, Toshiba, Pearson, Globe Telecom, conducted training programs for 1,700 teachers and 680 barangay officials and officers of parent-teacher's associations.

The program was listed in *Nominet 100* and named "*exemplary ICT innovation*" during the UNESCO Asia Pacific ministerial forum in China.

YOUTH LEADERSHIP

LEAD ASEAN SUMMIT
AFI and the United States Embassy in Manila held a three-day summit with interactive panel discussions, exposure trips, cultural exchange activities and workshops for 150 young leaders from across Southeast Asia.

LEADERSHIP COMMUNITIES
There were 25 youth leaders empowered to develop solutions to social problems in their communities.

15TH AYALA YOUNG LEADERS CONGRESS (AYLC)
The 80 delegates from colleges and universities across the country participated in the *15th AYLC*, bringing its total alumni to 1,043.

AYLC alumni have established careers in various areas such as business, government, academe, nonprofit organizations, military, and media.

SUSTAINABLE LIVELIHOOD

MY FAIR SHARE
AFI and the Ayala group help create a wider market for the products of various communities in El Nido, Palawan, Calauan, Laguna and Talipanan, Oriental Mindoro.

ARTS AND CULTURE

POP-TASTIK PINOY EXHIBIT AT THE AYALA MALLS
Filipinas Heritage Library and GMA-7 partnered to showcase local films, small publishers, and costumes.

FOURTH PHILIPPINE INTERNATIONAL LITERARY FESTIVAL
Filipinas Heritage Library, in partnership with the National Book Development Board, organized a discussion on folk and popular literature.

ARCHIVING
Filipinas Heritage Library and *EAT Bulaga* partnered for an archiving project.

Ayala Foundation strengthened its commitment to partnership with the launch of its official tagline—"*As One We Can.*" It deepened its work in communities in four program areas: education, youth leadership, sustainable livelihood and arts and culture.

EDUCATION

Aside from its teacher-training initiatives, *CENTEX* continued to provide bright children from disadvantaged families access to high-quality education. It remains fully committed to its partnership with the Department of Education and the local government units of Manila and Batangas.

YOUTH LEADERSHIP

On its 15th year, the *Ayala Young Leaders Congress* (*AYLC*) welcomed 80 delegates from colleges and universities across the country, bringing its total alumni to 1,043. The *AYLC* alumni have established careers in various areas such as business, government, academe, nonprofit, military and media.

SUSTAINABLE LIVELIHOOD

Ayala Foundation piloted various projects in El Nido, Palawan, Calauan, Laguna and Talipanan, Oriental Mindoro to help families in these communities create viable sources of income.

ARTS & CULTURE

Arts and culture continue to be a major focus of the foundation. The new *Filipinas Heritage Library* (*FHL*) reopened at the Ayala Museum as a "contemporary space for the contemporary researcher." It aims to strengthen its digitization efforts and establish *Filipiniana Online*, a web-based library of rare materials.

The Ayala Museum exceeded the 100,000 mark for visitorship in 2013 as it continued to keep strong programming at the center of its strategy. Among its notable exhibitions were *Images of Nation: The Real HR Ocampo, I Love Kusama* and *Constancio Bernardo, 1913–2013.*

Other standout projects include the "*Strengthening the Capacity of Civil Society Organizations in the Philippines*" project that focuses on uplifting the capacities of 120 civil society organizations across the country. The project, which is funded by the United States Agency for International Development, completed its second year in 2013.

The foundation has also started to implement education and sustainable livelihood projects and rebuild disaster-resilient classrooms in Negros Occidental after *Typhoon Yolanda* struck the province.

"This is of strategic importance to us because we believe businesses simply cannot prosper in a deteriorating society, much less in an environment that is constantly degraded."

– JAIME AUGUSTO ZOBEL DE AYALA

For the last 180 years, Ayala's sustainable development is anchored on its commitment to align business strategies and objectives with national development goals.

In 2013, we published our first externally assured conglomerate Sustainability Report where we made significant improvement in the reporting standards across all our business units. At the conglomerate level, we

ALI

GUIDING PRINCIPLES

- Disaster-resilient land acquisition
- Storm-water and ecosystem sensitivity
- Pedestrian and transport connectivity
- Local employment

HIGHLIGHTS

- *Alay 25* initiative for relief, livelihood and rebuilding efforts in Visayas raised ₱35 million
- Received *Corporate Governance Asia Recognition Award for Best Environmental Responsibility* in the 3rd Asian Excellence Awards
- Received citation from Philippine Chamber of Commerce and Industry *Excellence in Ecology and Economy Awards*
- Only Philippine company included in the *Dow Jones Sustainability Index* for 2013
- APMC received the Department of Energy's *Don Emilio Abello Energy Efficiency Awards*
- ALI's *El Nido Resorts* garnered the prestigious World Travel and Tourism Council for the Community Benefit category

BPI

HIGHLIGHTS

- Invitation to international events like *FinNet 2013* Washington, DC; IFC Financial Sector Partners Meet in Kochi, India; and the HK Global Investor Forum
- SEF Philippines, with BPI as lead partner bank, was recognized by the UN Framework Convention on Climate Change in the "*Momentum for Change*" activities in Warsaw, Poland
- Installation of a 5-KW commercial solar PV system at its Ayala Avenue Extension branch

increased our reported indicators by 69%, from 42 to 71 indicators. This third conglomerate report has progressed from B to B+ Application Level of the Global Reporting Initiative (GRI). We have taken initial steps for the early adoption of the *GRI Version 4* reporting guidelines.

As we strive to continuously improve our sustainability practices, our groupwide sustainability policy across seven key components underwent a more vigorous review last year. These covered our current operations, our products and services, the supply chain, our human resource practices, our community involvement, our overall management approach, and our approach to expanding our businesses.

The disciplined review of our sustainability policy has enabled us to measure the current trajectory of our performance across the triple bottom line metrics.

Globe

HIGHLIGHTS

- Anchored its US$700 million *Network Modernization Program* on sustainable energy strategy
- Planted 163,977 trees
- Reached 694,310 paperless bill subscribers
- Conserved 3,200 trees
- Houses 4,100 employees in its new LEED-certified headquarters, The Globe Tower

BANKO

- Developed mobile money ecosystems with USAID-funded *Scaling Innovations in Mobile Money (SIMM)*
    - to enable payroll disbursements to local government employees and residents in Pulilan, Bulacan and make payments to the Pulilan Water District
    - to facilitate disbursement of allowances and stipends to public school teachers and government scholars in Quezon City
    - to enable cooperatives in hard-to-reach areas as BanKO partner outlets in Batangas City
- Offered retail loans and grew lending portfolio to ₱50 million
- Partnered with Mercy Corps, Goal International, and others, to facilitate emergency cash transfers to beneficiaries in areas affected by *Typhoon Yolanda*
- Tied up with *GCash* to offer salary loans to *GCash's* payroll accounts

MWC

HIGHLIGHTS

- Aligned Sustainability Policy to international frameworks including *ISO 26000* on social responsibility
- Revised *Climate Change Policy* to remain consistent with government's anchor strategy of adaptation

PROGRAMS

- *Tubig Para Sa Barangay* has helped over 1.7 million people
- *Lingap* serves more than 300 public service institutions
- *Toka Toka* promotes shared responsibility on used water
- *Greening Our Future*, an environmental awareness program for employees, has garnered 7,000 attendees
- *Global Handwashing Day* had 7,000 participants during its weeklong event

It likewise set a baseline from which we can set more specific and measurable targets and further improve on our monitoring and reporting standards.

Through the Sustainability Council, we are able to sustain the progress of our sustainability initiatives, to tap group synergies and leverage on them, to share best practices, and to explore new opportunities.

In the coming year, we aim to establish measurable targets for each of our business units' environmental and social performance, which should complement our financial targets and growth plans. The entire Ayala group is also working on the integration of environmental and societal risks as part of the existing Enterprise Risk Management system to ensure that we manage broader sustainability risks in our business processes. We also aim to develop a unified strategy for improved internal and external

AC Energy

INVESTMENTS

- Construction of the second phase of a 135-MW circulating fluidized bed thermal plant in Batangas in partnership with Phinma Group's Trans-Asia Oil and Energy Development Corporation
- Development of an 81-MW wind power project with an investment value of approximately US$220 million in Caparispisan, Pagudpud, Ilocos Norte through a joint venture with UPC Philippines Wind Holdco I B.V.
- Joint venture with Power Partners Ltd. Co to build and operate a 3 x 135-MW thermal power plant in Kauswagan, Lanao del Norte

Auto

OPERATIONS

- Incorporation of environmental sustainability practices such as proper waste disposal, recycling, and energy conservation in the Honda and Isuzu dealership networks
- Incorporation of *Road Safety Awareness* campaign and *Defensive Driving* seminars in Ayala Auto's CSR program to promote road safety and environmental consciousness

stakeholder participation and engagement to ensure that we implement improvements in innovation, learning and sustainability performance.

In order to further leverage on group synergies and widen the reach and benefits of Ayala's sustainability programs, we will undertake initiatives that engage our supply chain in developing sustainable solutions. At the holding company level, we will provide impetus for our subsidiaries to create more strategic community development initiatives that mutually capitalize on their strengths and expertise.

We will continue to embed our sustainability initiatives in our businesses as we continue to create value, foster inclusive growth, and contribute to nation building.

IMI

OPERATIONS

- Continuous promotion of green manufacturing and *Hazardous Substance Process Management System* (HSPM)
- Ensuring compliance with environmental directives and regulations
- Business ventures in clean technologies and integrated Environment, Health and Safety Management System including energy management, water conservation, health and safety management, and chemical waste management
- Propagation of renewable energy through its solar panel product development and manufacturing business, and clean lighting technology design

AFI

EDUCATION

- Focus on kindergarten through Grade 6 in public schools
- *CENTEX* provides bright children from economically disadvantaged families high-quality education in its schools in Manila and Batangas
- *Text2Teach* uses mobile technology to provide educational materials in Mathematics, Science, English and Values Education for 5th and 6th graders

YOUTH LEADERSHIP

- *Ayala Young Leaders Congress* and *Leadership Communities* encourage the youth to serve as change agents in their local communities and in the country

SUSTAINABLE LIVELIHOOD

- Helps heads of families attain gainful employment or diversified sources of income in El Nido, Palawan; Calauan, Laguna; and Talipanan, Oriental Mindoro by connecting these communities to a wider market including the *My Fair Share* project

ARTS AND CULTURE

- Ayala Museum and Filipinas Heritage Library champion the richness of Filipino art, history, and culture through creative programs and dynamic events and activities

Corporate Governance

Issues of governance and growth are sources of building trust not only for the institution and the community. As we push forward, we would like to take these practices further, take it to the level of rigor that is now expected in the global community as standards move up to a common standard uniformly across the world for public companies and even private companies.

JAIME AUGUSTO ZOBEL DE AYALA, CHAIRMAN
Corporate Governance Summit, February 2014

Good corporate governance is integral to Ayala. The company continues to raise the bar of good governance by pursuing measures that bring up the level of awareness and practices in the organization to help drive value creation and long-term growth.

Ayala's corporate governance practices have been consistently cited in various polls and publications locally and in the region. Poll results published by *Asiamoney* ranked Ayala best in the Philippines in Corporate Governance, Disclosure and Transparency, Responsibilities of Management and the Board of Directors and Shareholders' Rights and Equitable Treatment. Ayala was similarly ranked first in Corporate Governance by *Euromoney* and *FinanceAsia* in 2013.

BOARD STRUCTURE AND PROCESS

Key Roles and Responsibilities

The Board establishes the vision, strategies, key policies, and procedures of the company, as well as the mechanism to properly monitor and evaluate management performance. The Board takes the lead in the review of annual corporate strategy and monitors the implementation of the corporate strategy. The Board also ensures that internal control mechanisms for good governance are adequate and firmly in place. It is also the duty of the Board to promote shareholders' rights.

The company sets an annual training budget for the directors and encourages new directors to attend an orientation program in corporate governance.

Composition

- The Ayala Board is composed of seven directors who have diverse experience, background, and disciplines in the areas of business, finance, and law and are elected annually
- 57% of the Board is composed of non-executive and independent directors
- None of the independent directors owns more than 2% of the outstanding capital stock
- The profile of each director is found in the Board of Directors section of this report on pages 54 and 55.

Independent Directors

Independent directors have no interest or relationship with the company that may hinder their independence from the company or management or interfere with their exercise of judgment in carrying out their responsibilities as directors. The seven-member Board includes three independent directors who make up more than 40% of the Board's membership—Ramon R. del Rosario, Jr., Xavier P. Loinaz, Antonio Jose U. Periquet. Yoshio Amano, general manager of Mitsubishi Corporation's Manila Branch; and Mr. Delfin L. Lazaro are non-executive directors.

In 2013, the non-executive and independent directors met twice without the presence of any of the executive directors and/or management.

Chairman and Vice Chairman

The Chairman of the Board is Jaime Augusto Zobel de Ayala, who assumed the position in 2006. Fernando Zobel de Ayala has held the position of Co-Vice Chairman since 1994 and sole Vice Chairman since 2006.

Board Performance

The Board meets at least six times every year. Board materials are made available to the directors at least five working days in advance of the scheduled meeting. Discussions during board meetings are open and independent views are given due consideration. Average attendance in the Board's six meetings in 2013 was 98%. All directors, except for Xavier P. Loinaz, had perfect attendance. Mr. Loinaz was absent from one board meeting last year.

The Board conducts an annual self-assessment exercise to monitor and improve the performance of the Board as a whole, and that of the individual directors. The self-assessment survey covers four areas of board performance: 1) effectiveness of board processes and meetings, 2) fulfilment of the board's key responsibilities, 3) quality of the board-management relationship, and 4) performance of individual board members. The results of the survey are compiled by the Compliance Officer and are reported at the next board meeting.

Board of Directors

	Executive Committee	Personnel and Compensation Committee	Nomination Committee	Audit and Risk Committee	Finance Committee	Committee of Inspectors of Proxies and Ballots***
Jaime Augusto Zobel de Ayala	C		M		M	
Fernando Zobel de Ayala	M		M			
Yoshio Amano*	M	M		M		
Ramon R. del Rosario, Jr.**		C	C	M		
Delfin L. Lazaro*		M			C	
Xavier P. Loinaz**				C		
Antonio Jose U. Periquet**			M		M	
Solomon M. Hermosura						C
Jaime P. Villegas						M
Josephine G. De Asis						M

C - Chairman
**Non-executive Director*
M - Member
***Independent Director*
***May not be members of the Board of Directors

Board Committees

EXECUTIVE COMMITTEE

- Exercises the Board's powers in the intervening periods between Board meetings
- Cannot approve:
  1. actions requiring shareholders' approval;
  2. the filling of vacancies in the Board;
  3. the amendment or repeal of By-Laws or the adoption of new By-Laws;
  4. the amendment or repeal of any resolution of the Board which by its express terms cannot be amended or repealed; and
  5. the distribution of cash dividends

NOMINATIONS COMMITTEE

- Adopts process and criteria in nominating directors that are aligned with the company's strategic directions, its By-Laws, Revised Manual of Corporate Governance, and the rules of the Securities and Exchange Commission (SEC)
- Meetings in 2013:
  - review and approval of final list of nominees for directors for election at the 2013 annual stockholders' meeting
  - appointment of the Chief Internal Auditor and Treasurer

PERSONNEL COMMITTEE

- Establishes a policy for a formal and transparent procedure for determining the salaries of officers and directors
- Oversees the salaries of senior management and other key personnel
- Meetings in 2013:
  - approval of performance bonus and merit increase of employees for 2013 and the Employee Stock Option Plan (ESOP) for 2013

Board Committees

The Board has established committees to assist in exercising its authority in monitoring the performance of the company. The committees, as illustrated above, provide organized and focused means for the directors to achieve specific goals and address issues, including those related to governance.

Director and Senior Executive Compensation

Non-executive directors are Board members who are not officers or consultants of the company. They receive remuneration consisting of: 1) a retainer fee of ₱1,200,000.00; 2) per diem of ₱200,000.00 for each board meeting attended; 3) per diem of ₱100,000.00 per Audit and Risk Committee meeting attended; and 4) ₱50,000.00 per diem for other committee meetings attended. In 2013, Mr. Periquet received gross remuneration of ₱2.75 million, Messrs. Amano and Loinaz received ₱2.9 million each, and Mr. del Rosario received ₱3.25 million. None of the non-executive directors has been contracted and compensated by Ayala for services other than those provided as a director.

Ayala adopts a performance-based compensation scheme for its senior executives. As additional incentive to Management, the Board approved stock option plans for officers covering 3% of the company's authorized capital stock. The grantee is selected based on performance over a three-year period.

MANAGEMENT

Management is accountable to the Board of Directors for all operations of the company. It lays down the company's targets in concrete and specific terms, and formulates the basic strategies for achieving these targets. Jaime Augusto Zobel de Ayala is the chief executive officer (CEO) and concurrently serves as chairman of the board, while Fernando Zobel de Ayala is the president and chief operating officer (COO).

The respective roles of the Chairman/CEO and the President/COO are complementary and ensure a strategic distribution of leadership functions with clearly defined accountabilities.

- The CEO takes the lead on company strategy, visioning, and developing business partnerships
- The President/COO is responsible for daily operations, new business initiatives, corporate policy, and resource allocation.

In all functions and critical issues, both coordinate closely with each other. The Chairman/CEO and

FINANCE COMMITTEE

- Oversees the company's financial policy and strategy, including capital structure, dividend policy, acquisitions, and divestments, and makes the appropriate recommendations to the Board of Directors
- Supervises the company's Treasury activities, and reviews and approves changes in Treasury Policies
- Regularly reviews and evaluates the financial affairs of the company and carries out other duties delegated by the Board of Directors
- Meetings in 2013:
  - approval of the re-issuance of the Preferred B shares
  - acquisition of the additional ownership interest in Ayala DBS Holdings, Inc.

AUDIT AND RISK COMMITTEE

- Oversees the internal control, financial reporting and risk management processes of the company
- Meetings* in 2013:
  - review and approve the Corporation's 2012 consolidated audited financial statements as audited by Sycip Gorres Velayo & Co. (SGV), and the 2013 unaudited financial statements for the three quarters
  - review and approve the 2013 Internal Audit Plan
  - recommend the appointment of SGV as the company's external auditor for 2013 and the approval of the audit fees of SGV
- The activities of the Audit and Risk Committee are further discussed in the Accountability and Audit section on pages 48 to 49 and the Report of the Audit and Risk Committee to the Board of Directors on page 62.

*The Committee had six meetings in 2013.

INSPECTORS OF PROXIES AND BALLOTS COMMITTEE

Is guided by the existing laws, rules and regulations of the Securities and Exchange Commission regarding proxies

President/COO are supported by a management committee composed of key executives who meet twice a month to discuss business performance and issues critical to the growth of the company, facilitating the flow of strategic and operational information among decision makers.

A culture of good governance is fostered throughout the organization, with the Management and the Board equally responsible for ensuring that the mechanisms and structures for good governance are securely in place. The Chairman/CEO, President/COO, and members of the management committee attend the annual stockholders' meetings.

Enterprise Risk Management: A Constantly Evolving Process

Institutionalized in 2002, the company has adopted an integrated enterprise risk management (ERM) framework primarily designed to be a key enabler in the strategic and sustained growth of the company and the Ayala group, and to support the vision of conglomerate-wide practice of risk management.

The Chief Risk Officer (CRO) is the advocate of enterprise policies to ensure that an effective control environment exists within the entire Ayala Group. The Board monitors the effectiveness of risk management and receives regular updates from management on the strategic and operational risks facing the Ayala group.

The CRO is supported by the Risk Management Director who drives the implementation and continuous improvement of the risk management process, and provides oversight and assistance to the Ayala group of companies' risk management functions. The Ayala Group Enterprise Risk Management Council, composed of the CROs and ERM Heads from the group, ensures the ERM policy and process are effectively implemented and areas of excellence and improvement are identified. These initiatives further support the vision of a conglomerate-wide practice of risk management.

As part of its annual planning cycle, the Risk Management Committee, composed of senior management and key leaders, perform an enterprise wide assessment focused on identifying key enablers and risks that could threaten the achievement of the company's strategy and business objectives. In 2013, the Committee performed the annual risk assessment exercise based on management effectiveness and impact to the achievement of the company's key strategies and business objectives. Risk owners who have overall responsibility for ensuring that the risks are managed and monitored overtime were also identified.

Risk management strategies and action plans were developed, updated, monitored, and continuously reviewed for effectiveness and relevance.

In 2013, the Ayala Group Enterprise Risk Management Council had its first summit where regional speakers were invited to share on best practices in embedding risk management processes in business and strategies. Attendees were respective CROs and ERM leaders of Ayala group of companies.

Risk Management Strategy and Action Plans

Risk is inevitable given the diverse portfolio of Ayala's business operations. Thus, embedding risk awareness and risk management in the culture of the organization and integrating it into the company's operations and strategic decision-making is necessary for intelligent risk-taking and effectively balancing risk and reward. Management recognizes that in sectors and countries in which the company has invested, or has plans to invest, it must continue to evaluate the risks and opportunities in relation to both the company's business portfolio and the integration to existing business operations. Organizational structure, leadership and talent management, and development programs are reviewed regularly to respond to changing needs, new business models and strategies. Policies are regularly reviewed and updated to remain relevant, and investment in processes and technologies are made to support the requirements of new businesses.

The company adopts a disciplined approach in its investment evaluation and decision process. Discussions on new business development, strategy execution, and synergy initiatives happen at various levels in the organization including at the Management and Board oversight committees.

Management recognizes that in sectors and countries in which the company has invested, or has plans to invest, it must continue to evaluate the risks and opportunities in relation to both the company's business portfolio and the integration to existing business operations. Organizational structure, leadership and talent management and development programs are reviewed regularly to respond to changing needs, new business models and strategies. Policies are regularly reviewed and updated to remain relevant, and investment in processes and technologies are made to support the requirements of new businesses.

Management will continue to identify investment opportunities in emerging markets and growth areas that can contribute to the business strategy and long-term vision of the company. Relevant policies and procedures, including post-investment analysis and performance monitoring and reviews have also been implemented.

Constant communication from the Board and senior management serve to reinforce and nurture the risk management culture at Ayala.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee oversees the performance of external and internal auditors. The roles and responsibilities of the Committee are outlined in the expanded Audit and Risk Committee Charter published on the company's website. The internal audit function is governed by a separate Internal Audit Charter.

Independent Public Accountants

The external auditor of the company is SGV & Co., with Jessie D. Cabaluna as the partner-in-charge since 2012. The Audit and Risk Committee reviews Ayala's financial reporting to ensure the integrity of the company's public reports, and oversees the work of the external auditor.

The committee recommends to the Board and stockholders the appointment of the external auditor and appropriate audit fees. The company paid or accrued the following fees, including VAT, to its external auditor in the past two years:

	Audit and Audit-related Fees	Other Fees
2013	₱9.74 M	₱0.60 M
2012	₱11.09 M	₱2.21 M

In 2013, SGV & Co. billed the company for an aggregate fee of ₱0.60 million for the following services:

I. Updates on Philippine Reporting Standards for the entire group of companies

II. Review of Ayala Rewards Circle (ARC)

III. Validation of votes during the annual stockholders' meeting

In 2012, SGV & Co. billed the company for an aggregate fee of ₱2.21 million for the following services:

I. Updates on Philippine Reporting Standards for the entire group of companies

II. Review of the Hyperion or the Financial Management Automated Consolidation System

No tax consultancy service was secured from SGV & Co. in the past two years.

Internal Audit

The Internal Audit unit independently reviews Ayala's organizational and operational controls and risk management policies, and the company's compliance to these controls and policies. The audit team, consisting of certified public accountants and a certified internal auditor, reports to the Audit and Risk Committee.

Business and support units are regularly audited according to annual audit programs approved by the Audit and Risk Committee.

In 2013, the Audit and Risk Commitee received, noted, and/or approved audit reports from Internal Audit that were performed in accordance with the approved Internal Audit Plan. The Internal Audit function was rated "Generally Conforms" after a thorough third-party quality assessment review (QAR) by the Institute of Internal Auditors Inc. (USA) in May 2007. The rating, considered the highest possible score in connection with the QAR, confirmed that Internal Audit's activities conformed to the International Standards for the Professional Practice of Internal Auditing. The next QAR will be undertaken in 2014. The company continues to improve the internal audit function by using a risk-based audit approach and by benchmarking against best practices.

Solomon M. Hermosura is Ayala's Compliance Officer and performs the following tasks:

- Ensures that the company adheres to sound corporate governance and best practices;
- Identifies and manages compliance risks;
- Implements and monitors compliance procedures based on the Manual of Corporate Governance;
- Certifies yearly the extent of Ayala's compliance with the Manual; and
- Conducts a yearly performance assessment of each member of the Board to determine the level of the Board's compliance with leading practices and principles, using a formal self-rating system that takes into account factors such as independence, effectiveness, experience, judgment, knowledge, time commitment and teamwork, while identifying key areas for improvement.

Mr. Hermosura participated in the panel discussion at the *Global Corporate Governance Conference* held in Singapore last November 2013 on the topic of "*Sustainability and Governance*" and at the ACCRA-MAP forum held last November 26 at the InterContinental Manila ballroom, on the "*Proposed Amendments to the Corporation Code*" with SEC Chair Tess Herbosa as the speaker and University of the Philippines' Dean Danny Concepcion as the other panelist. He emphasized that disclosures are viewed as tools of fairness and honesty in Ayala and that the practice of good governance enhances internal control processes.

DISCLOSURE AND TRANSPARENCY

Ownership Structure

Ayala's outstanding common shares as of December 31, 2013 were held by:

Mermac, Inc.	303.7 Million common shares	50.66%
PCD Nominee Corporation (Non-Filipino)	142.9 Million common shares	23.83%
Mitsubishi Corporation	63.08 Million common shares	10.52%

	Outstanding shares	**Foreign-owned**
Common Shares	599 Million shares	34.60%
Voting Preferred Shares	200 Million shares	17.26%
Preferred B Shares	20 Million shares	0.20%

There were no cross or pyramid shareholdings.

Unstructured Disclosures

In 2013 the company filed, among others, unstructured disclosures involving the following:

- Placement and subscription to the 399,528,229 Ayala Land's common shares
- Acquisition of 20% ownership interest in Ayala DBS Holdings Inc. held by DBS Bank Ltd. resulting to additional 4.3% effective ownership in the Bank of the Philippine Islands (BPI)
- Acquisition of additional 140 million Manila Water common shares
- SEC approval of the amendment in the Articles of Incorporation to exempt from pre-emptive rights the sale of 100 million common shares
- Sale of 5,183,740 common Treasury Shares
- Early Redemption of 12 million preferred A shares and re-issuance of 20 million preferred B shares
- Participation in the stock rights offering of BPI
- Appointment of a new company Treasurer
- Declaration of cash dividends on all outstanding common and preferred shares
- Dividend rate re-pricing on the voting preferred shares
- Notices of interest payments for all outstanding corporate bonds

AC ENERGY HOLDINGS, INC. (ACEHI)

- Signing of Power Purchase Agreement for the expansion of Batangas power plant
- Signing of Joint Venture Agreement for the Wind Farm Projects
- Signing of Joint Venture Agreement with Power Partners Ltd. Co. to build and operate a 3 x 135-megawatt thermal power plant in Kauswagan, Lanao del Norte
- Expansion of Calaca thermal power plant and signing of engineering procurement and construction contract with DMCI
- Signing of loan facilities from various commercial banks for the expansion of Calaca thermal power plant
- Sale of 40% stake in Palm Concepcion Power Corporation and Panay Consolidated Land Holdings Corp.

AC INFRASTRUCTURE HOLDINGS CORPORATION (AC INFRA)

- Submission of prequalification documents to the Department of Public Works and Highways for the bidding of the Cavite-Laguna Expressway Project
- Submission of bid document to the Department of Transportation and Communications for the development of Mactan-Cebu International Airport
- Submission of best bid for the LRT/MRT *Contactless Fare Collection* System Project

NEW CLARIFICATIONS

- AC Infra's pre-qualification to bid for the seven-kilometer elevated roadway connecting the three terminals of NAIA
- Studying possible investment opportunities in Myanmar
- Acquisition by Stream Global Services, Inc. of the U.K.-based LBM Holdings Ltd. and N2SP Tunisie
- Interest to bid for the ₱60 billion *LRT-1 Cavite Extension Project*
- Interest to bid for United Leyte Geothermal Power Complex
- Acquisition by ACEHI of additional equity interest in GN Power Mariveles Coal Plant Ltd.

Content and Timing of Disclosures

Ayala updates the investing public with strategic, operating, and financial information through adequate and timely disclosures filed with the SEC and PSE. These disclosures are readily available on the company's website: *www.ayala.com.ph*.

Aside from compliance with periodic reporting requirements, Ayala promptly discloses major and market-sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, and other information that may affect the decision of the investing public.

The Annual Report (SEC Form 17-A) together with the consolidated audited financial statements for 2012 were submitted to the SEC on April 12, 2013.

In 2013, the audited financial statements as contained in the Definitive Information Statement were submitted to the SEC and Philippine Stock Exchange on March 21, 2013, more than three weeks before the April 19, 2013 annual stockholders' meeting.

Interim or quarterly financial statements and results of operations were submitted to the regulators within 45 days from the end of the financial period. The results were also provided to financial and stock market analysts during an analysts' briefing, where members of senior management presented the results personally. The financial statements are also available to the public through the company website.

Financial Reporting

Ayala's financial statements comply with Philippine Accounting Standards and Philippine Financial Reporting Standards. The annual consolidated financial statements detail total assets, total liabilities and equity, revenues, costs and expenses, income before income tax, net income attributable to equity holders of Ayala and non-controlling interests, and earnings per share.

Ayala regularly provides a more comprehensive disclosure of business segment results to help shareholders appreciate the company's various businesses and their impact on overall value enhancement. The following are disclosed in the note on Business Segments, pages 201 to 206: 1) total revenue, 2) operating profit, 3) net income, 4) segment assets, 5) investments in associates and jointly controlled entities, 6) segment liabilities, and 7) depreciation and amortization.

A section on Geographical Segment includes the following information: 1) Revenue, 2) Segment Assets, and 3) Investment Properties.

Transactions entered into with associates and other related parties are on an arm's length basis. Sales and purchases of goods and services to and from related parties are in accordance with market prices. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements on pages 210 to 213.

Information on Ayala's financial instruments is guided by the company's risk management objectives and policies to allow a better assessment of financial performance and cash flows. Significant accounting judgments and estimates are also disclosed.

DEALINGS IN SECURITIES

Ayala has adopted a policy on insider trading stock transactions to ensure compliance with disclosure rules and prevent unlawful the government regulations against insider trading.

Reporting of Transactions

Ayala complies with the requirement for its directors and principal officers to report to the SEC and the PSE, within five trading days, any acquisition or disposal, or change in their shareholdings in the company.

Ayala has expanded the coverage of this requirement to include members of the Management Committee and all the managing directors. All other officers must submit a quarterly report on their trades of company shares to the Compliance Officer.

Trading Blackouts

The company has adopted a policy on insider trading. This covers directors, officers, consultants, employees who may have knowledge of material facts or changes in the affairs of Ayala that have not been disclosed to the public, and members of covered persons' immediate families.

The covered persons are prohibited from buying or selling the company's securities during trading blackout periods. They are also required to submit annually a certification of compliance with the prohibition against trading during the blackout periods.

During the year, notices of trading blackouts were issued for a period covering ten (10) trading days before and three (3) trading days after the disclosure of quarterly and annual financial results. The company strictly enforces compliance with these trading blackout periods and there have been no violations of the company's policy on insider trading.

STAKEHOLDER RELATIONS

Ayala aims to adhere to the highest possible level of moral benchmarks and fairness in dealing with all its shareholders, customers, employees and business partners to constantly stengthen its foundation for long-term, beneficial relationships.

Shareholder Meeting and Voting Procedures

Stockholders are informed at least 15 business days before the scheduled date of their meetings. The notice of regular or special meetings contains the agenda and sets the date, time and place for validating proxies, which must be done at least five (5) business days prior to the annual stockholders' meeting. Each outstanding common and voting preferred shares of stock entitles the registered holder to one vote.

Shareholder and Investor Relations

The company's investor communications program promotes greater understanding of its long-term proposition to create value. Through its Investor Relations Unit under Corporate Strategy and Development, information requirements of the investing public and minority shareholders are fully disclosed to the local bourse on time, as well as via quarterly briefings, annual stockholders' meetings, one-on-one meetings, conference calls, road shows and investor conferences, website and e-mails or telephone calls.

The company holds regular briefings and meetings with investment and financial analysts where they are given access to senior management. In 2013 four briefings were held announcing the 2012 year-end results and 2013 first quarter, first half, and third quarter results.

Ayala regularly updates its website to ensure the disclosures to the regulators and presentations at analysts' briefings are immediately made available on the web to provide easy access for the investing community.

The Investor Relations Unit also regularly attends investor conferences and holds non-deal roadshows to update its foreign institutional investors/overseas shareholders.

Employee Relations

Ayala is committed to the safety and welfare of its employees and keeps open lines of communication. The company maintains a comprehensive medical and wellness program which provides for in-patient and out-patient benefits for employees, dependents and retirees. Employees are encouraged to undergo annual executive check-up or physical examinations for health maintenance. The company pays for memberships in gym, sports clubs and interest clubs. A chapel is maintained in the office vicinity for employees' spiritual growth.

The company conducts regular training on safety and fire and earthquake drills, in coordination with the local government fire department and the office building administrator.

Various development opportunities are provided to all Ayala employees. Learning in Ayala come in diverse forms, going beyond the traditional classroom and instructor-led formats. A good example is our leadership programs where participants engage in learning through discussion, practical application and simulations.

This year, with 200 top executives completing the Ayala *Leadership Acceleration Program*, leadership development focus shifted to the next line of leaders. Aimed at strengthening further Ayala's leadership pipeline, the *Emerging Ayala Group Leaders* Program is geared towards empowering middle managers with robust knowledge and skill sets centered around strategy, innovation, customer centricity and transformational leadership.

CODE OF ETHICAL BEHAVIOR

Ayala adopts as part of its basic operating principles, the primacy of the person, shared values and the empowerment of people. The company and its employees are guided by four core values: integrity, long-term vision, empowering leadership and commitment to national development. These values are expressed in the company's *Code of Ethical Behavior*, which sets and outlines the general expectations and standards for employee behavior and ethical conduct. The Code is in accord with the company's human resources policies, which include the Code of Conduct that prescribes standards by which employees are expected to conduct themselves. Employees are required to disclose annually any business and family related transactions to ensure that potential conflicts of interest are brought to management attention.

OTHERS

ANTI-MONEY LAUNDERING. As a holding company, Ayala does not face issues on anti-money laundering. The company strictly complies with the provisions of the *Anti-Money Laundering Law*.

WEBSITE

Additional information on the company's corporate governance initiatives are available at *www.ayala.com.ph*.

RECOGNITIONS

Ayala figured prominently in polls of regional publications such as *Asiamoney*, *Euromoney*, *Alpha SouthEast Asia Magazine*, *FinanceAsia*, and *Corporate Governance Asia* in the areas of company management, corporate governance, corporate social responsibility and investor relations. Ayala also earned a citation from The Philippine Dealing System Group for its P10-Billion 15-Year Corporate Bonds Issue due in 2027.

Ayala executives also reaped recognitions for their exceptional leadership. Jaime Augusto Zobel de Ayala and Ayala Land's Antonino T. Aquino were named among the top 12 Philippine Directors recognized by the *Asian Corporate Director Recognition Awards* as outstanding corporate director. Antonino Aquino was again named Best Executive by *Asiamoney*, and Ramon G. Opulencia Treasurer of the Year 2013 by *The Asset*.

BOARD OF DIRECTORS

JAIME AUGUSTO ZOBEL DE AYALA 1

Filipino, 54, director of Ayala Corporation since May 1987. He is the Chairman and CEO of Ayala Corporation since April 2006. He also holds the following positions: Chairman of Globe Telecom, Inc., Integrated Micro-Electronics, Inc. and Bank of the Philippine Islands; Co-Chairman of Ayala Foundation, Inc.; Vice Chairman of Ayala Land, Inc. and AC Energy Holdings, Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board and Asia Business Council; Vice Chairman of the Makati Business Club, and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, International Business Council of the World Economic Forum; Philippine Representative for APEC Business Advisory Council. He graduated with B.A. in Economics (with honours) degree from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business in 1987.

FERNANDO ZOBEL DE AYALA 2

Filipino, 53, Director of Ayala Corporation since May 1994. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He is also Chairman of Ayala Land, Inc., Manila Water Company, Inc., AC International Finance Ltd., AC Energy Holdings, Inc., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Director of Bank of The Philippine Islands, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Livelt Investments, Ltd., Ayala International Holdings Limited, Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., Manila Peninsula and Habitat for Humanity International; Member of The Asia Society, INSEAD East Asia Council, Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, *Kapit Bisig para sa Ilog Pasig* Advisory Board and National Museum.

RAMON R. DEL ROSARIO, JR. 3

Filipino, 69, Independent Director of Ayala Corporation since April 2010. He is the President and Chief Executive Officer of Philippine Investment Management, Inc. and PHINMA Corp.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., Microtel Development Corp., Trans Asia Power Generation Corporation, Trans-Asia Renewable Energy Corp., Trans-Asia Petroleum Corp., CIP II Power Corp., Fuld & Co., Inc., and Fuld & Co (Philippines), Inc.; Vice-Chairman of Trans-Asia Oil & Energy Development Corporation, PHINMA Property Holdings Corp., and PHINMA Foundation; Director of Holcim (Philippines), Inc., Union Galvasteel Corp., and South Luzon Thermal Energy Corp.; Chairman of The National Museum of the Philippines, the Makati Business Club, Philippine Business for Education, the Philippines-U.S. Business Council, and the Integrity Initiative; Vice-Chairman of Caritas Manila; and Trustee of De La Salle University.

YOSHIO AMANO 4

Japanese, 55, Director of Ayala Corporation since April 2012. He is the General Manager of Mitsubishi Corporation-Manila Branch; Chairman of International Elevator & Equipment Inc., and MCPL (Philippines) Inc.; President of MC Diamond Realty Investment Phils., Inc., and MC Oranbo Investment, Inc.; Director of Isuzu Philippines Corporation, Imasen Philippines Manufacturing Corp., Kepco Ilijan Corporation, UniCharm Philippines Inc., Trans World Agro-Products Corp., Philippine Resins Industries, Inc., Philippine Integrated Energy, Inc., Portico Land Corporation, Japanese Chamber of Commerce & Industry of the Philippines (JCCIPI), The Japanese Association Manila Inc.

DELFIN L. LAZARO 5

Filipino, 67, has served as member of the Board of Ayala Corporation since January 2007. His other significant positions include: Chairman of Philwater Holdings Company, Inc., Atlas Fertilizer & Chemicals Inc., Chairman and President of Michigan Power, Inc., and A.C.S.T. Business Holdings, Inc.; Chairman of Azalea Intl. Venture Partners, Ltd.; Director of Ayala Land, Inc., Integrated Micro-Electronics, Inc., Manila Water Co., Inc., Ayala DBS Holdings, Inc., AYC Holdings, Ltd., Ayala International Holdings, Ltd., Bestfull Holdings Limited, AG Holdings, AI North America, Inc., Probe Productions, Inc. and Empire Insurance Company; and Trustee of Insular Life Assurance Co., Ltd.

ANTONIO JOSE U. PERIQUET 6

Filipino, 52, Independent Director of Ayala Corporation since September 2010. He is the Chairman of Pacific Main Holdings, Inc., Campden Hill Group, Inc., and Regis Financial Advisers; Director of ABS-CBN Corporation, ABS-CBN Holdings Corporation and Straits Wine Company; Independent Director of BPI Capital Corporation, DMCI Holdings, Inc., Philippine Seven Corp., Bank of the Philippine Islands and BPI Family Savings Bank, Inc.; and Trustee of Lyceum of the Philippines University, Inc.

XAVIER P. LOINAZ 7

Filipino, 70, Independent Director since April 2009. He was formerly the President of the Bank of the Philippine Islands (BPI) from 1982 to 2004. He was also President of Bankers Association of the Philippines from 1989 to 1991. He currently holds the following positions: Independent Director of BPI, BPI/MS Insurance Corporation, BPI Family Savings Bank, Inc. and Globe Telecom; Trustee of E. Zobel Foundation and PETA; Chairman of *Alay Kapwa Kilusan Pangkalusugan.*

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LEFT TO RIGHT

1 Fernando Zobel de Ayala and Jaime Augusto Zobel de Ayala

2 John Eric T. Francia, Maria Lourdes Heras-de Leon, and Delfin C. Gonzalez, Jr.

3 Arthur R. Tan and Ernest L. Cu

4 Alfredo I. Ayala, Cezar P. Consing, and Solomon M. Hermosura

5 Antonino T. Aquino, Gerardo C. Ablaza, Jr. and John Philip S. Orbeta

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MANAGEMENT COMMITTEE

Senior Leadership Team

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

GERARDO C. ABLAZA, JR.
President and Chief Executive Officer
Manila Water Company, Inc.

ANTONINO T. AQUINO
President and Chief Executive Officer
Ayala Land, Inc.

ALFREDO I. AYALA
President and Chief Executive Officer
LiveIt Investments, Ltd.

CEZAR P. CONSING[1]
President and Chief Executive Officer
Bank of the Philippine Islands

ERNEST L. CU
President and Chief Executive Officer
Globe Telecom, Inc.

JOHN ERIC T. FRANCIA
Group Head, Corporate Strategy and Development
President, AC Energy Holdings, Inc. and AC Infrastructure Holdings Corporation

MARIA LOURDES HERAS-DE LEON
President
Ayala Foundation, Inc.

DELFIN C. GONZALEZ, JR.
Chief Finance Officer
Chief Risk Officer
Group Head, Finance

SOLOMON M. HERMOSURA
General Counsel
Group Head, Legal and Compliance
Corporate Secretary

AURELIO R. MONTINOLA III[2]

JOHN PHILIP S. ORBETA
Group Head, Corporate Resources
Chairman and President, Ayala Automotive Holdings Corporation

ARTHUR R. TAN
President and Chief Executive Officer
Integrated Micro-Electronics, Inc.

MANAGING DIRECTORS

Emmanuel A. Aligada
Ferdinand M. dela Cruz
Gil B. Genio
Ronald Luis S. Goseco
Jose Teodoro K. Limcaoco
Ramon G. Opulencia - Treasurer[3]
Rufino F. Melo III[4]
Luis Juan B. Oreta
Ginaflor C. Oris
Virgilio C. Rivera, Jr.
Jaime E. Ysmael

EXECUTIVE DIRECTORS

Ruby P. Chiong
Ma. Cecilia T. Cruzabra[5]
Rosallie A. Dimaano
Jenara Rosanna F. Ong
Alfonso Javier D. Reyes
Ma. Victoria P. Sugapong
Sheila Marie U. Tan
Jaime P. Villegas

ASSOCIATE DIRECTORS

Fatima P. Agbayani
Catherine H. Ang
Paolo F. Borromeo
Alexander T. Cordero
Josephine G. de Asis
Emily C. de Lara
Felipe Antonio P. Estrella III
Romualdo L. Katigbak
Noel Eli B. Kintanar
Erwin P. Locsin
Guillermo M. Luz
Monina C. Macavinta
Rafael Nestor V. Mantaring
Ma. Teresa S. Palma
Rene D. Paningbatan
Maria Angelica B. Rapadas
Ma. Victoria A. Tan
Norma P. Torres

CONSULTANTS/ADVISERS

Patrice R. Clausse
Victoria P. Garchitorena
Delfin L. Lazaro
Michael C. Montelibano
Marciano A. Paynor, Jr.[6]
Eliezer C. Tanlapco
Ramon M. Zialcita

1 Effective April 18, 2013
2 Until April 18, 2013
President and Chief Executive Officer
Bank of the Philippine Islands
3 Until December 31, 2013
4 Retired December 31, 2013
5 Effective January 1, 2014
Treasurer
6 Effective February 1, 2014

Management's Discussion and Analysis of Operations

For the year ended December 31, 2013

Ayala Corporation's consolidated net income attributable to equity holders for the year ended December 31, 2013 amounted to ₱12.8 billion, 22% higher than 2012. Core net income reached ₱14.8 billion, 28% higher than prior year. This excludes the impact of the accelerated depreciation of Globe Telecom as a result of its network modernization program.

CONSOLIDATED SALE OF GOODS AND SERVICES

Ayala's consolidated sale of goods and services for the year reached ₱136.9 billion, a 24% increase from 2012 primarily driven by new projects and improved sales performance of real estate, electronics, automotive and water utilities groups. This accounts for 86% of total income in 2013.

Real Estate

Ayala Land Inc.'s (ALI) net income rose by 30% to a record ₱11.7 billion on the back of double-digit revenue growth and stable margins across its business segments. ALI recorded ₱81.5 billion in total revenues, a 36% jump from its year-ago level as its property development, commercial leasing and construction businesses continued to post gains.

Revenues from property development expanded by 51% to ₱52 billion driven by strong gains from its residential segment as well as the sale of commercial lots in *NUVALI* and *Arca South*, which is the Food Terminal Inc. property ALI acquired in 2012. Revenues from commercial leasing grew 21% to ₱18 billion on a combination of higher average lease rates and occupied gross leasable area in shopping centers and offices coupled with the opening of new malls. This was boosted by higher revenues from hotels and resorts, which rose 64% to ₱4 billion, as new hotels and resorts begin to contribute. Revenues from construction and property management generated combined revenues of ₱26.3 billion, 29% higher than the previous year.

ALI spent ₱66 billion in capital expenditures in 2013, the bulk of which was used to fund projects in residential development and land acquisition. ALI has earmarked ₱70 billion in capital expenditures for 2014 as it continues to pursue its growth initiatives.

Water and Wastewater Services

Manila Water Company's (MWC) net income expanded by 5% in 2013 to ₱5.8 billion, driven by higher billed volume in the East Zone and increased contribution from new businesses. New businesses, which include operations in Laguna, Boracay, Clark and Vietnam, accounted for 10% of MWC's earnings in 2013. Additional income from the liquidation of connection fees in the East Zone was also recognized, boosting net income.

Total revenues grew by 6% to ₱15.3 billion with total billed volume up 5% versus prior year. Revenues from its Vietnam operations, which consist of a leakage reduction project and two bulk water companies, Thu Duc Water B.O.O Corporation and Kenh Dong Water Supply Joint Stock Company, grew by 42% from the previous year to ₱294 million.

Net Income referred to represents net income attributable to owners of the parent company.

MWC recently took over as exclusive water provider within the Laguna Technopark through its subsidiary, Laguna Water Company. It is also constructing a bulk water project in Cebu, which is expected to start operations in June.

Electronics

Ayala's electronics business, Integrated Micro-Electronics Inc. (IMI), nearly doubled its net income in 2013 to US$10.5 million due mainly to business expansion in Europe and the Philippines. Despite a contraction in the electronics sector, IMI continued to register higher revenues in 2013, reaching US$745 million, a 12.6% growth from a year ago. This resilient performance was primarily driven by IMI's diversification strategy. This includes the company's move to higher-growth, higher margin niche markets in automotive, industrial, medical, and telecommunications segments.

Automotive

Consolidated sales of Ayala Automotive Holdings Corporation grew by 7% to ₱10.7 billion. Vehicle unit sales grew by 9%. Consolidated net income, which includes its equity share and dividend income from Honda Cars Philippines Inc. and Isuzu Philippines Corporation, was 81% lower than the previous year mainly on start-up costs of Volkswagen operations.

In 2012, Volkswagen AG appointed Ayala Automotive as the Philippine importer for Volkswagen passenger vehicles. This partnership will enhance Ayala Automotive's existing portfolio of product offerings along with the Honda and Isuzu brands.

EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES

Share of earnings from associates and joint venture equities increased by 31% to ₱10.1 billion. The increase was primarily driven by higher equity earnings from the Bank of the Philippine Islands, partly offset by lower net income registered by Globe Telecom.

Financial Services

BPI registered a 15% year-on-year growth in net income to ₱18.8 billion, primarily driven by higher interest income on the back of a 21% growth in the bank's loan portfolio. Higher fee-based income and foreign exchange trading likewise contributed to the bank's earnings in 2013. This translated to a return on equity of 18%.

The double-digit loan growth was driven by higher corporate and consumer loans, which grew by 23% and 13%, respectively. While the net interest income expanded as a result of an 18% growth in the bank's average asset base, net interest margin slightly contracted by 26 basis points to 3.3% owing to the competitive lending environment. BPI's asset quality further improved with 90-day gross non-performing loan ratio closing at 1.8% from the 2.1% registered a year ago.

BPI's total assets at the end of 2013 expanded 21% to ₱1.2 trillion. Deposits jumped 23% to ₱989 billion as a result of higher savings and demand deposits. The bank's operating expenses rose 7%, with increases largely attributed to regulatory, technology and occupancy-related costs. Despite this, BPI managed to post modest gains in its cost-to-income ratio to 51% from 52% the previous year.

Telecommunications

Globe Telecom sustained its growth momentum with core net income of ₱11.6 billion, a 13% increase year-on-year. This was driven by consolidated service revenues of ₱90.5 billion, up 9% from last year, led by the continued growth in mobile telephony and the demand for data connectivity across its mobile, broadband and fixed line businesses.

Mobile revenues, which account for 80% of total revenues, rose 8% to ₱72.8 billion on the back of sustained growth in postpaid revenues, which expanded by 18% to ₱27.1 billion. Prepaid revenues inched up 3% to ₱45.7 billion despite yield pressures from the shift to value-based from pay-per-use bucket. Globe's mobile subscribers climbed 16% to 38.5 million in 2013. Its broadband business registered a sharp gain in both revenues and customer base, climbing 20% and 22%, respectively year-on-year. Fixed line data expanded by 13% to ₱4.7 billion, mitigating the decline in traditional fixed line voice services.

Globe's operating expenses rose 13% to ₱54 billion, largely due to subsidy and recontracting costs. Globe's reported net income declined 28% in 2013 owing to accelerated depreciation charges arising from its network transformation initiative.

INTEREST INCOME

Interest income declined 26% to ₱3.4 billion owing to lower placements and interest rates of the real estate group and Ayala parent in 2013. This accounts for 2% of the total income in 2013.

COSTS AND EXPENSES

Consolidated cost of goods grew 20% to ₱66.5 billion while cost of rendering services expanded 37% to ₱31.5 billion. The increase was driven by higher sales of the real estate, electronics, automotive, water utilities and business process outsourcing (BPO) groups. The cost of goods accounts for 52%, while the cost of rendering services makes up for 24% of total costs and expenses in 2013.

Consolidated general and administrative expenses expanded 14% to ₱14.6 billion on the back of higher operating expenses of the real estate group coming from newly consolidated subsidiaries. General and administrative expenses accounts for 11% of total costs and expenses in 2013.

INTEREST AND OTHER FINANCING CHARGES

Consolidated interest expenses and other financing charges rose 29% to ₱10.5 billion as a result of higher loan balance from fundraising activities in late 2012. These include borrowings at the Ayala parent level that were used to fund new initiatives in the power and transport infrastructure sectors. Similarly, ALI secured new loans in 2013 to fund its landbanking and expansion of various mixed use developments. This year's consolidated interest expenses and financing charges account for 8% of the total cost and expenses for the year.

BALANCE SHEET HIGHLIGHTS

Consolidated cash and short term investments declined by 18% to ₱65.7 billion as of the end of 2013 compared to ₱80.3 billion in 2012. Decline was due mainly to placements of funds from short term cash equivalents to other form of financial instruments, and use of funds for operations and loan payments.

Accounts receivable rose by 32% to ₱56.3 billion on the back of higher sales from residential brands, new project launches and existing project sales of the real estate group. The significant growth in revenues of the electronics group particularly in Europe and the Philippines coupled with higher receivables of the BPO group also contributed to the increase. This account makes up for 9% of total assets in 2013.

Noncurrent asset held for sale represents the carrying value of our investment that will be disposed within Y2014.

Overall, total current assets increased by 18% to ₱211.5 billion.

Total noncurrent assets rose to ₱384.8 billion from ₱331.9 billion in 2012. This was primarily due to an increase in investments in our banking sector coupled with higher earnings from investee companies, additional investments in real properties, land and improvements and higher receivables by ALI arising from ramp up on revenues.

On the liabilities side, total current and noncurrent liabilities reached ₱364.2 billion, 20% higher than its level in 2012.

Total consolidated stockholders' equity reached ₱235.5 billion, 14% higher than in 2012 mainly as a result of additional paid up capital from re-issuance of treasury shares and higher earnings during the period, net of dividends.

On a consolidated basis, gearing remained comfortable with consolidated debt-to-equity ratio at 1.43 to 1 and consolidated net debt-to-equity ratio at 0.98 to 1. Gearing at the parent company level also remained comfortable with debt-to-equity ratio at 0.49 to 1 and net debt-to-equity ratio at 0.32 to 1.

In 2014, the Ayala group earmarked nearly ₱187 billion in capital expenditures to continue its investment programs in its real estate, banking, telecommunications, and water businesses as well as to ramp up its new businesses.

Report of the Audit and Risk Committee to the Board of Directors For the Year Ended 31 December 2013

The Audit and Risk Committee's roles and responsibilities are defined in the Audit and Risk Committee Charter approved by the Board of Directors. The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to: (a) the integrity of the company's financial statements, the financial reporting process and the systems of internal controls; (b) the quality and integrity of the risk management process; (c) the performance of the company's internal audit function and independent auditors; and (d) the compliance with legal and regulatory matters and other reporting standards.

In compliance with the Audit and Risk Committee Charter, we confirm that:

- The Chairman and another member of the Committee are independent directors;
- We had four (4) regular meetings and one executive session with SGV & Co., the independent auditor of Ayala Corporation;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Ayala Corporation and Subsidiaries, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with management, internal auditors, and SGV & Co. We also reviewed and discussed the annual Parent Company Financial Statements. These activities were performed in the following context:
  - That management has the primary responsibility for the financial statements and the financial reporting process; and
  - That SGV & Co. is responsible for expressing an opinion on the conformity of the Ayala Corporation's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and the respective audit plans of the company's internal auditors and SGV & Co. We have also discussed the results of their audits and their assessment of the company's internal controls and the overall quality of the financial reporting process including their management letter of comments;
- We have reviewed and approved all audit, audit-related and permitted non-audit services provided by SGV & Co. to Ayala Corporation and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have reviewed the reports and updates of the internal auditors ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing; and
- We have reviewed the reports of the Chief Risk Officer and the periodic updates regarding the company's enterprise risk management procedures and processes, the business risks and the mitigating steps to address such risks.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2013 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange. We are also recommending to the Board of Directors the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2014 based on their performance and qualifications.

March 05, 2014

XAVIER P. LOINAZ Chairman	YOSHIO AMANO Member	RAMON R. DEL ROSARIO JR. Member

Statement of Management's Responsibility for the Financial Statements

The management of Ayala Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President & Chief Operating Officer

DELFIN C. GONZALEZ, JR.
Chief Finance Officer

Independent Auditors' Report

The Stockholders and the Board of Directors
Ayala Corporation
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying consolidated financial statements of Ayala Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, 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 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Corporation and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225155, January 2, 2014, Makati City

March 10, 2014

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31		January 1
	2013	2012 (As restated - Note 3)	2012 (As restated - Note 3)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 5, 31 and 32)	**₱65,655,049**	₱80,286,355	₱56,296,503
Short-term investments (Notes 6, 31 and 32)	**119,345**	296,503	1,613,058
Accounts and notes receivable (Notes 7, 31 and 32)	**56,341,044**	42,549,654	32,885,380
Inventories (Note 8)	**50,178,486**	33,269,028	28,797,176
Other current assets (Notes 9 and 32)	**39,194,020**	22,651,834	9,385,087
Total Current Assets	**211,487,944**	179,053,374	128,977,204
Noncurrent asset held for sale (Note 12)	**3,328,712**	–	–
	214,816,656	179,053,374	128,977,204
Noncurrent Assets			
Noncurrent accounts and notes receivable (Notes 7 and 32)	**18,282,941**	17,880,961	8,551,382
Investments in bonds and other securities (Notes 10, 31 and 32)	**2,784,807**	3,243,920	3,745,168
Land and improvements (Note 11)	**62,474,802**	49,218,000	18,530,915
Investments in associates and joint ventures (Note 12)	**119,804,086**	102,938,897	74,784,619
Investment properties (Note 13)	**63,157,223**	52,448,932	43,545,305
Property, plant and equipment (Note 14)	**25,883,469**	23,002,450	14,052,410
Service concession assets (Note 15)	**73,754,407**	71,295,399	66,247,192
Intangible assets (Note 16)	**4,175,846**	4,021,031	4,312,163
Deferred tax assets - net (Note 25)	**6,513,585**	4,546,961	3,364,976
Pension and other noncurrent assets (Note 17)	**8,016,478**	3,253,792	2,927,921
Total Noncurrent Assets	**384,847,644**	331,850,343	240,062,051
Total Assets	**₱599,664,300**	₱510,903,717	₱369,039,255
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses (Notes 18, 31 and 32)	**₱103,604,247**	₱81,901,050	₱51,060,180
Short-term debt (Notes 20, 31 and 32)	**15,811,285**	12,343,472	7,333,841
Income tax payable	**1,667,543**	1,480,567	483,265
Current portion of:			
Long-term debt (Notes 20, 31 and 32)	**11,842,519**	19,021,440	7,804,893
Service concession obligation (Notes 15 and 32)	**1,290,406**	840,563	980,620
Other current liabilities (Notes 19 and 32)	**10,991,693**	6,970,433	5,432,055
Total Current Liabilities	**145,207,693**	122,557,525	73,094,854

(Forward)

	December 31		January 1
	2013	2012 (As restated - Note 3)	2012 (As restated - Note 3)
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 20, 31 and 32)	**₱178,027,343**	₱143,719,591	₱96,129,597
Service concession obligation - net of current portion (Notes 15 and 32)	**7,868,295**	7,371,965	6,916,998
Deferred tax liabilities - net (Note 25)	**6,347,400**	6,256,125	6,136,681
Pension liabilities - net (Note 27)	**1,915,040**	1,583,270	1,010,210
Other noncurrent liabilities (Notes 21 and 32)	**24,827,938**	22,974,892	11,282,000
Total Noncurrent Liabilities	**218,986,016**	181,905,843	121,475,486
Total Liabilities	**364,193,709**	304,463,368	194,570,340
Equity			
Equity attributable to owners of the parent			
Paid-in capital (Note 22)	**50,166,129**	45,119,932	42,832,820
Share-based payments (Note 28)	**485,187**	460,771	553,743
Remeasurement gains/(losses) on defined benefit plans (Note 27)	**(1,317,954)**	(943,361)	(456,254)
Net unrealized gain on available-for-sale financial assets (Note 10)	**277,848**	1,798,964	1,725,394
Cumulative translation adjustments	**(1,256,831)**	(3,238,400)	(2,311,050)
Equity reserve (Note 2)	**7,482,121**	5,379,074	1,016,259
Retained earnings (Note 22)	**92,639,781**	83,268,077	75,651,302
Treasury stock (Note 22)	**(5,000,000)**	(7,497,344)	(12,408,886)
Parent Company preferred shares held by subsidiaries (Note 22)	**–**	(250,000)	(250,000)
	143,476,281	124,097,713	106,353,328
Non-controlling interests (Note 2)	**91,994,310**	82,342,636	68,115,587
Total Equity	**235,470,591**	206,440,349	174,468,915
Total Liabilities and Equity	**₱599,664,300**	₱510,903,717	₱369,039,255

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
INCOME			
Sale of goods (Note 31)	**₱92,725,460**	₱69,335,195	₱55,955,447
Rendering of services (Notes 13 and 31)	**44,216,018**	40,553,713	34,491,400
Share of profit of associates and joint ventures	**10,091,140**	7,681,899	7,046,223
Interest income (Note 31)	**3,435,948**	4,632,453	3,317,343
Other income (Note 23)	**8,942,978**	8,367,264	10,017,880
	159,411,544	130,570,524	110,828,293
COSTS AND EXPENSES			
Costs of sales (Notes 8 and 31)	**66,539,860**	55,285,281	44,145,429
Costs of rendering services (Notes 23 and 31)	**31,486,686**	22,989,804	20,790,694
General and administrative (Notes 23, 27 and 31)	**14,562,571**	12,771,846	11,089,807
Interest and other financing charges (Notes 20, 23 and 31)	**10,511,432**	8,155,330	6,535,243
Other charges (Note 23)	**5,532,086**	6,892,568	7,933,297
	128,632,635	106,094,829	90,494,470
INCOME BEFORE INCOME TAX	**30,778,909**	24,475,695	20,333,823
PROVISION FOR INCOME TAX (Note 25)			
Current	**8,036,780**	5,838,415	4,498,973
Deferred	**(1,382,570)**	(861,978)	(271,483)
	6,654,210	4,976,437	4,227,490
NET INCOME	**₱24,124,699**	₱19,499,258	₱16,106,333
Net Income Attributable to:			
Owners of the parent (Note 26)	**₱12,777,932**	₱10,504,385	₱9,183,335
Non-controlling interests	**11,346,767**	8,994,873	6,922,998
	₱24,124,699	₱19,499,258	₱16,106,333
EARNINGS PER SHARE (Note 26)			
Basic	**₱20.53**	₱17.03	₱14.17
Diluted	**₱20.39**	₱16.92	₱14.07

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
NET INCOME	**₱24,124,699**	₱19,499,258	₱16,106,333
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translations of foreign investments	**2,223,630**	(1,137,783)	(611,877)
Changes in fair values of available-for-sale financial assets	**(79,486)**	(360,318)	(34,375)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans	**(566,140)**	(104,709)	(689,834)
Tax effect relating to components of other comprehensive income	**72,973**	12,858	87,931
	1,650,977	(1,589,952)	(1,248,155)
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translations of foreign investments	**112,230**	(108,187)	(12,638)
Changes in fair values of available-for-sale financial assets	**(1,346,297)**	296,879	574,930
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans	**(104,731)**	(533,205)	(85,082)
	(1,338,798)	(344,513)	477,210
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**312,179**	(1,934,465)	(770,945)
TOTAL COMPREHENSIVE INCOME	**₱24,436,878**	₱17,564,793	₱15,335,388
Total Comprehensive Income Attributable to:			
Owners of the parent	**₱12,863,794**	₱9,163,498	₱8,776,161
Non-controlling interests	**11,573,084**	8,401,295	6,559,227
	₱24,436,878	₱17,564,793	₱15,335,388

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
			Other Comprehensive Income						Treasury Stock (Note 22)				
	Paid-in Capital (Note 22)	Share-based Payments (Note 28)	Remeasurement Gain (Losses) on Defined Benefit Plans (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Retained Earnings (Note 22)	Parent Company Preferred Shares Held by Subsidiaries (Note 22)	Common Stock	Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2013												
At January 1, 2013, as previously reported	₱45,119,932	₱460,771	₱–	₱2,055,500	(₱3,238,400)	₱5,379,074	₱83,572,053	(₱250,000)	(₱1,697,344)	(₱5,800,000)	₱125,601,586	₱77,893,853	₱203,495,439
Effect of adoption of new and revised accounting standards (Note 3)	–	–	(943,361)	(256,536)	–	–	(303,976)	–	–	–	(1,503,873)	4,448,783	2,944,910
As of January 1, 2013, as restated	45,119,932	460,771	(943,361)	1,798,964	(3,238,400)	5,379,074	83,268,077	(250,000)	(1,697,344)	(5,800,000)	124,097,713	82,342,636	206,440,349
Net income	–	–	–	–	–	–	12,777,932	–	–	–	12,777,932	11,346,766	24,124,698
Other comprehensive income (loss)	–	–	(374,593)	(1,521,116)	1,981,569	–	–	–	–	–	85,860	226,319	312,179
Total comprehensive income (loss)	–	–	(374,593)	(1,521,116)	1,981,569	–	12,777,932	–	–	–	12,863,792	11,573,085	24,436,877
Exercise of ESOP/ESOWN	287,338	(90,083)	–	–	–	–	–	–	–	–	197,255	–	197,255
Cost of share-based payments	–	114,499	–	–	–	–	–	–	–	–	114,499	–	114,499
Sale of treasury stock	9,558,859	–	–	–	–	–	–		1,697,344	2,000,000	13,256,203	–	13,256,203
Redemption of preferred shares	(4,800,000)	–	–	–	–	–	–	250,000	–	(1,200,000)	(5,750,000)	–	(5,750,000)
Cash dividends	–	–	–	–	–	–	(3,406,228)	–	–	–	(3,406,228)	(3,529,114)	(6,935,342)
Change in non-controlling interests	–	–	–	–	–	2,103,047	–	–	–	–	2,103,047	1,607,703	3,710,750
At December 31, 2013	₱50,166,129	₱485,187	(₱1,317,954)	₱277,848	(₱1,256,831)	₱7,482,121	₱92,639,781	₱–	₱–	(₱5,000,000)	₱143,476,281	₱91,994,310	₱235,470,591

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
			Other Comprehensive Income						Treasury Stock (Note 22)				
	Paid-in Capital (Note 22)	Share-based Payments (Note 28)	Remeasurement Gain (Losses) on Defined Benefit Plans (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Retained Earnings (Note 22)	Parent Company Preferred Shares Held by Subsidiaries (Note 22)	Common Stock	Preferred Stock - B	Total	Non-controlling Interests	Total Equity
For the year ended December 31, 2012 (As restated -Note 3)													
At January 1, 2012, as previously reported	₱42,832,820	₱553,743	₱–	₱1,725,394	(₱2,311,050)	₱1,016,259	₱75,885,784	(₱250,000)	(₱6,608,886)	(₱5,800,000)	₱107,044,064	₱64,193,972	₱171,238,036
Effect of adoption new and revised accounting standards (Note 3)	–	–	(456,254)	–	–	–	(234,482)	–	–	–	(690,736)	3,921,615	3,230,879
As of January 1, 2012, as restated	42,832,820	553,743	(456,254)	1,725,394	(2,311,050)	1,016,259	75,651,302	(250,000)	(6,608,886)	(5,800,000)	106,353,328	68,115,587	174,468,915
Net income	–	–	–	–	–	–	10,504,385	–	–	–	10,504,385	8,994,873	19,499,258
Other comprehensive income (loss)	–	–	(487,107)	73,570	(927,350)	–	–	–	–	–	(1,340,887)	(593,578)	(1,934,465)
Total comprehensive income (loss)	–	–	(487,107)	73,570	(927,350)	–	10,504,385	–	–	–	9,163,498	8,401,295	17,564,793
Exercise of ESOP/ESOWN	779,027	(171,284)	–	–	–	–	–	–	–	–	607,743	–	607,743
Cost of share-based payments	36,807	78,312	–	–	–	–	–	–	–	–	115,119	–	115,119
Sale of treasury stock	1,471,278	–	–	–	–	–	–	–	4,911,542	–	6,382,820	–	6,382,820
Cash dividends	–	–	–	–	–	–	(2,887,610)	–	–	–	(2,887,610)	(2,478,197)	(5,365,807)
Change in non-controlling interests	–	–	–	–	–	4,362,815	–	–	–	–	4,362,815	8,303,951	12,666,766
At December 31, 2012	₱45,119,932	₱460,771	(₱943,361)	₱1,798,964	(₱3,238,400)	₱5,379,074	₱83,268,077	(₱250,000)	(₱1,697,344)	(₱5,800,000)	₱124,097,713	₱82,342,636	₱206,440,349

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
			Other Comprehensive Income						Treasury Stock(Note 22)				
	Paid-in Capital (Note 22)	Share-based Payments (Note 28)	Remeasurement Gain (Losses) on Defined Benefit Plans (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Retained Earnings (Note 22)	Parent Company Preferred Shares Held by Subsidiaries (Note 22)	Common Stock	Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2011 (As restated -Note 3)												
At January 1, 2011, as previously reported	₱37,855,466	₱1,243,055	₱–	₱1,128,734	(₱1,763,471)	₱148,302	₱74,011,144	(₱250,000)	(₱4,832,262)	₱–	₱107,540,968	₱59,210,496	₱166,751,464
Effect of adoption of new and revised accounting standards (Note 3)	–	–	–	–	–	–	(22,930)	–	–	–	(22,930)	3,633,594	3,610,664
As of January 1, 2011, as restated	37,855,466	1,243,055	–	1,128,734	(1,763,471)	148,302	73,988,214	(250,000)	(4,832,262)	–	107,518,038	62,844,090	170,362,128
Net income	–	–	–	–	–	–	9,183,335	–	–	–	9,183,335	6,922,998	16,106,333
Other comprehensive income (loss)	–	–	(456,254)	596,660	(547,579)	–	–	–	–	–	(407,173)	(363,772)	(770,945)
Total comprehensive income (loss)	–	–	(456,254)	596,660	(547,579)	–	9,183,335	–	–	–	8,776,162	6,559,226	15,335,388
Exercise of ESOP/ESOWN	135,037	–	–	–	–	–	–	–	–	–	135,037	–	135,037
Cost of share-based payments	–	178,733	–	–	–	–	–	–	–	–	178,733	143,556	322,289
Redemption of preferred B shares	–	–	–	–	–	–	–	–	–	(5,800,000)	(5,800,000)	–	(5,800,000)
Acquisition of treasury stock	–	–	–	–	–	–	–	–	(1,776,624)	–	(1,776,624)	–	(1,776,624)
Cash dividends	–	–	–	–	–	–	(2,677,930)	–	–	–	(2,677,930)	(2,231,826)	(4,909,756)
Stock dividends	4,842,317	–	–	–	–	–	(4,842,317)	–	–	–	–	–	–
Change in non-controlling interests	–	(868,045)	–	–	–	867,957	–	–	–	–	(88)	800,541	800,453
At December 31, 2011	₱42,832,820	₱553,743	(₱456,254)	₱1,725,394	(₱2,311,050)	₱1,016,259	₱75,651,302	(₱250,000)	(₱6,608,886)	(₱5,800,000)	₱106,353,328	₱68,115,587	₱174,468,915

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱30,778,909**	₱24,475,695	₱20,333,823
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 23)	**10,511,432**	8,155,330	6,535,243
Depreciation and amortization (Note 23)	**8,643,905**	7,195,902	7,217,033
Cost of share-based payments (Note 28)	**199,301**	217,333	212,841
Provision for impairment on:			
Available-for-sale financial assets (Note 23)	**228,580**	61,076	157,314
Property, plant and equipment (Note 23)	**222**	11,575	–
Investment properties (Note 23)	**400**	19,500	–
Intangible assets (Note 23)	**31,830**	–	139,170
Gain on sale of:			
Investments (Note 23)	**(190,296)**	(67,847)	(539,713)
Other assets (Note 23)	**(19,382)**	(26,588)	(131,078)
Other investment income (Note 23)	**(879,951)**	(531,714)	(572,012)
Interest income	**(3,435,948)**	(4,632,453)	(3,317,343)
Share of profit of associates and joint ventures	**(10,091,139)**	(7,681,899)	(7,046,223)
Remeasurement gain arising from business combinations - net (Notes 23 and 24)	**–**	(593,853)	–
Loss on derecognition of derivative asset (Note 23)	**–**	–	229,613
Bargain purchase gain (Note 23)	**–**	–	(558,233)
Operating income before changes in working capital	**35,777,863**	26,602,057	22,660,435
Decrease (increase) in:			
Accounts and notes receivable - trade	**(8,361,297)**	(9,005,266)	(6,792,198)
Inventories	**(2,285,580)**	(1,861,119)	(6,886,072)
Service concession asset	**(5,457,889)**	(5,686,589)	(8,419,716)
Other current assets	**(2,895,043)**	(10,253,547)	(2,182,147)
Increase (decrease) in:			
Accounts payable and accrued expenses	**19,236,450**	13,058,649	11,982,192
Net pension liabilities	**169,723**	149,365	848,626
Other current liabilities	**4,021,260**	4,964,574	2,752,148
Net cash generated from operations	**40,205,487**	17,968,124	13,963,268
Interest received	**3,227,749**	4,207,527	3,336,277
Interest paid	**(10,056,631)**	(8,398,754)	(5,070,594)
Income tax paid	**(7,849,804)**	(4,983,373)	(3,955,793)
Net cash provided by operating activities	**25,526,801**	8,793,524	8,273,158

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of available-for-sale financial assets	**₱653,327**	₱1,281,413	₱1,591,464
Sale/maturities of financial assets at fair value through profit or loss	**1,046,783**	449,557	560,973
Sale/redemptions of investments in associates and joint ventures	**681,120**	113,858	5,329,179
Disposals of:			
Property, plant and equipment (Note 14)	**101,797**	213,612	246,408
Investment properties (Note 13)	**131,781**	1,653	148,823
Land and improvements (Note 11)	**–**	1,613	–
Maturities of short-term investments	**177,159**	1,316,555	2,380,475
Additions to:			
Service concession assets (Note 15)	**–**	(907,753)	–
Investments in associates and joint ventures	**(18,574,892)**	(18,776,599)	(6,152,019)
Property, plant and equipment (Note 14)	**(6,838,751)**	(6,768,129)	(3,751,864)
Investment properties (Note 13)	**(12,086,027)**	(9,232,788)	(10,427,870)
Land and improvements (Note 11)	**(29,446,957)**	(31,882,873)	(3,959,279)
Accounts and notes receivable - non trade	**(2,607,547)**	(7,580,428)	(2,734,569)
Financial assets at fair value through profit or loss	**(13,823,514)**	(797,175)	(870,240)
Available-for-sale financial assets	**(1,119,885)**	(647,266)	(848,217)
Intangible assets (Note 16)	**(175,883)**	(41,538)	(86,250)
Dividends received from associates, joint ventures and available-for-sale financial assets	**6,131,475**	6,648,576	4,484,010
Acquisitions through business combinations - net of cash acquired (Note 24)	**2,766**	(1,096,432)	(2,023,820)
Decrease (increase) in other noncurrent assets	**(4,906,765)**	(2,127,413)	(6,982,803)
Net cash used in investing activities	**(80,654,013)**	(69,831,557)	(23,095,599)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term and long-term debt	**76,845,127**	83,427,558	53,830,372
Payments of short-term and long-term debt	**(45,973,965)**	(21,234,866)	(27,804,022)
Reissuance of treasury shares (Note 22)	**13,256,203**	6,382,820	–
Dividends paid	**(6,640,418)**	(5,777,400)	(5,304,555)
Redemption of preferred shares (Note 22)	**(5,750,000)**	–	(5,800,000)
Service concession obligation paid (Note 15)	**(924,936)**	(356,385)	(305,597)
Collections of subscriptions receivable	**112,453**	448,040	100,928
Acquisition of treasury shares (Note 22)	**–**	–	(1,776,624)

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
Increase (decrease) in:			
Other noncurrent liabilities	**₱2,044,949**	₱9,521,838	(₱216,743)
Non-controlling interests in consolidated subsidiaries	**7,526,493**	12,616,280	5,252,408
Net cash provided by financing activities	**40,495,906**	85,027,885	17,976,167
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(14,631,306)**	23,989,852	3,153,726
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**80,286,355**	56,296,503	53,142,777
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱65,655,049**	₱80,286,355	₱56,296,503

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Corporation (the Company) is incorporated in the Republic of the Philippines on January 23, 1968. The Company's registered office address and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company is a publicly listed company which is 50.66% owned by Mermac, Inc., 10.52% owned by Mitsubishi Corporation and the rest by the public.

The Company is the holding company of the Ayala Group of Companies, with principal business interests in real estate and hotels, financial services and insurance, telecommunications, water distribution and wastewater services, electronics, information technology, business process outsourcing (BPO) services, automotive, infrastructure, power, international and others.

2. Group Information

The consolidated financial statements comprise the financial statements of the Company and the following subsidiaries of the Group:

		% of Ownership Interest held by the Group	
Subsidiaries	**Nature of Business**	**2013**	2012
AC Energy Holdings, Inc. (ACEHI)	Power	**100.0%**	100.0%
AC Infrastructure Holdings Corporation (AC Infra)	Transport Infrastructure	**100.0**	100.0
AC International Finance Limited (ACIFL)*	Investment Holding	**100.0**	100.0
AG Counselors Corporation (AGCC)	Legal Services	**100.0**	100.0
Ayala Automotive Holdings Corporation (AAHC)	Automotive	**100.0**	100.0
Ayala Aviation Corporation (AAC)	Air Charter	**100.0**	100.0
Ayala Land, Inc. (ALI)	Real Estate and Hotels	**48.9**	50.4
AYC Finance Ltd. (AYCFL)*	Investment Holding	**100.0**	100.0
Azalea International Venture Partners Limited (AIVPL)**	BPO	**100.0**	100.0
Azalea Technology Investments, Inc. (Azalea Technology)	Information Technology	**100.0**	100.0
Bestfull Holdings Limited (BHL)***	International	**100.0**	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	**100.0**	100.0
Integrated Microelectronics, Inc. (IMI)	Electronics Manufacturing	**57.8**	57.8
LiveIt Global Services Management Institute, Inc. (LGSMI)	Education	**100.0**	100.0
Manila Water Company, Inc. (MWC)	Water Distribution and Wastewater Services	**48.8**	42.9
Michigan Holdings, Inc. (MHI)	Investment Holding	**100.0**	100.0
MPM Noodles Corporation	Investment Holding	**100.0**	100.0
Philwater Holdings Company, Inc. (Philwater)	Investment Holding	**100.0**	100.0
Purefoods International, Ltd. (PFIL)**	Investment Holding	**100.0**	100.0
Technopark Land, Inc. (TLI)	Real Estate	**78.8**	78.8
Water Capital Works, Inc. (WCW)	Investment Holding	**100.0**	100.0

**Incorporated in Cayman Islands*
***Incorporated in British Virgin Islands*
****Incorporated in Hong Kong*

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's investments in subsidiaries is the Philippines.

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in subsidiaries are in proportion to its ownership interest.

Equity transactions with subsidiaries

ALI
In July 2012, ALI redeemed all of its outstanding preferred shares from the shareholders of record as of June 4, 2012. As of June 4, 2012, the Company held 12.8 billion outstanding preferred shares. Such shares were redeemed at ₱0.10 per share plus a cash dividend of ₱0.003 per share. Total consideration received including cash dividends amounted to ₱1.3 billion. Subsequently, the Company subscribed to 12.2 billion of ALI's voting preferred shares for ₱0.10 per share.

ALI shares with carrying value of ₱301.2 million and ₱305.5 million facility as of December 31, 2013 and 2012, respectively were collateralized to secure the Company's loan. Fair value of ALI shares collateralized amounted to ₱9.8 billion and ₱10.6 billion as of December 31, 2013 and 2012, respectively.

The Company owns 93.1% and 93.3% of the total preferred shares of ALI as of December 31, 2013 and 2012, respectively. The voting rights held by the Group in ALI as of December 31, 2013 is equal to 70.1%.

AAHC
In July 2013, the Company subscribed to 3.0 million common shares of AAHC amounting to ₱300 million. The proceeds was used by AAHC to fund the 2013 operating requirements of the Volkswagen brand project.

On February 2, 2012, the Company received excess deposits over unissued authorized common shares in AAHC amounting to ₱84.6 million.

ACEHI
In January 2012, the Company converted its subscription and advances to ACEHI with an aggregate amount of ₱2,178.0 million into additional equity for 21.8 million common shares.

In September 2013 and November 2012, the Company converted its subscription to ACEHI amounting to ₱3.4 billion and ₱1.4 billion, respectively, into additional equity for 34.6 million and 14.4 million common shares, respectively.

On various dates in 2013 and 2012, the Company infused additional capital to ACEHI in the form of subscription which amounted to ₱3.4 billion and ₱1.1 billion, respectively. The proceeds were used to finance the various energy projects of ACEHI.

AC Infra
In 2012, the Company subscribed to 1.5 million common shares of AC Infra amounting to ₱150.0 million. In 2013, the Company partially paid the subscription amounting to ₱50.0 million.

BHL
In December 2012, the Company converted advances to BHL amounting to ₱110.8 million by subscribing 0.3 million redeemable preferred shares of BHL.

ACIFL
On January 11, 2012, the Company subscribed to 2.0 million shares of common stock of ACIFL with a par value of US$1 per share. Payment for the total subscribed shares was made through conversion of the Company's existing deposits for future subscription which amounted to ₱91.3 million.

As of December 31, 2013 and 2012, ACIFL, through its wholly-owned subsidiary, AYC Holdings, Ltd., owns 57.8% of IMI. The voting rights held by the Group in IMI as of December 31, 2013 is equal to 70.2%.

AAC
In 2013 and 2012, the Company infused additional capital to AAC amounting to ₱40.6 million and ₱30.1 million, respectively.

AGCC
In 2012, the Company subscribed to 2.0 million shares of common stock of AGCC amounting to ₱20.0 million.

LGSMI
On September 14, 2012, the Company incorporated LGSMI to provide services oriented towards the promotion of service management, including but not limited to the design, marketing, management and/or conduct of seminars, conventions, courses, conferences, special programs, symposia for service management excellence, by itself or in partnership with other entities or institutions except management of funds, securities portfolios or similar assess of managed entity, without operating a school.

On various dates in 2012, the Company provided initial equity funding to LGSMI amounting to ₱37.6 million.

In 2013, the Company infused additional capital to LGSMI amounting to ₱57.1 million.

<u>Movements in ownership interest in subsidiaries</u>

Real Estate and Hotels
In March 2013 and July 2012, the Company participated in the placement and subscription of 399.5 million and 680.0 million common shares of stock in ALI, respectively, whereby the Company sold its listed ALI common shares through a private placement and infused the proceeds into ALI as subscription for the same number of new ALI shares at the same price. This transaction supports ALI's fund raising initiatives to acquire assets for its next phase of expansion.

Following these transactions, the Company's ownership interest in ALI's common stock was reduced from 53.2% to 50.4% as of July 2012 and further reduced to 48.9% as of March 2013. The Company maintained the same number of common shares it held in ALI prior to the transaction. The transaction increased the equity reserve account by ₱2.7 billion and ₱5.3 billion in 2013 and 2012, respectively.

Electronics
ACIFL's ownership interest in IMI was reduced from 67.4% to 59.1% as result of IMI Philippines' share exchange with IMI Singapore (see Note 24). On December 19, 2012, ACIFL sold 12.0 million IMI common shares at ₱3.5 per share or for a total consideration of ₱42.0 million. Accordingly, the Group's ownership interest in IMI's common stock was reduced from 59.1% to 57.8%. The transaction decreased the equity reserve account by ₱179.9 million and ₱613.0 million in 2013 and 2012, respectively.

Water Distribution and Wastewater Services
In August and December 2013, the Company acquired 0.05 million and 140.0 million MWC common shares, respectively, for a total consideration of ₱2.8 billion. The combination of the transactions resulted to an increase in ownership interest in MWC from 43.1% to 48.8%. The transaction decreased the equity reserve account by ₱1.1 billion in 2013.

The voting rights held by the Group in MWC as of December 31, 2013 is equal to 79.3%.

Material partly-owned subsidiaries
Information of subsidiaries that have material non-controlling interests is provided below:

	Accumulated Balances of Non-controlling Interest		**Profit (Loss) Allocated to Non-controlling Interest**	
Subsidiary	**2013**	2012	**2013**	2012
		(In Thousands)		
ALI	**₱62,779,490**	₱49,259,197	**₱8,150,756**	₱6,368,764
IMI	**3,100,466**	3,247,728	**155,840**	(21,296)
MWC	**25,631,434**	25,168,712	**2,917,444**	2,815,231

The summarized financial information of these subsidiaries is provided below. These information is based on amounts before inter-company eliminations.

2013	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱146,986,957	₱9,069,404	₱15,017,182
Noncurrent assets	178,486,728	63,788,120	6,657,736
Current liabilities	101,623,207	8,072,931	9,824,702
Noncurrent liabilities	111,752,912	33,730,537	3,413,147
Dividends paid to non-controlling interests	1,109,467	–	–
Statement of comprehensive income			
Revenue	₱81,523,070	₱15,925,817	₱33,075,690
Profit (loss) attributable to:			
Equity holders of the parent	11,741,764	5,752,362	464,949
Non-controlling interests	2,562,929	28,199	(56,691)
Total comprehensive income attributable to:			
Equity holders of the parent	11,466,162	5,793,305	310,910
Non-controlling interests	2,557,938	28,102	(56,691)
Statement of cash flows			
Operating activities	₱27,238,649	₱4,345,087	₱667,817
Investing activities	(69,952,151)	15,820	(749,138)
Financing activities	38,557,555	(3,121,277)	(233,233)
Effect of changes in foreign exchange on cash and cash equivalents	–	–	(3,038)
Net increase (decrease) in cash and cash equivalents	(₱4,155,947)	₱1,239,630	(₱317,592)

2012	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱111,055,354	₱8,217,497	₱12,337,004
Noncurrent assets	143,060,326	58,909,532	6,273,132
Current liabilities	78,671,224	9,899,094	7,888,700
Noncurrent liabilities	79,904,242	30,473,666	3,006,112
Dividends paid to non-controlling interests	1,034,264	–	635
Statement of comprehensive income			
Revenue	₱59,932,162	₱14,553,068	₱27,168,931
Profit (loss) attributable to:			
Equity holders of the parent	9,038,328	5,490,443	229,248
Non-controlling interests	2,038,158	12,849	(190,972)
Total comprehensive income attributable to:			
Equity holders of the parent	8,875,391	5,372,724	450,370
Non-controlling interests	2,045,135	11,530	(190,972)
Statement of cash flows			
Operating activities	₱8,422,529	₱3,163,912	₱376,064
Investing activities	(54,914,554)	(663,375)	(511,654)
Financing activities	51,328,434	(2,195,527)	237,331
Effect of changes in foreign exchange on cash and cash equivalents	–	–	(14,419)
Net increase in cash and cash equivalents	₱4,836,409	₱305,010	₱87,322

2011	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱79,783,136	₱7,819,348	₱12,266,488
Noncurrent assets	86,615,862	53,077,794	7,105,769
Current liabilities	48,504,579	6,288,023	8,109,178
Noncurrent liabilities	41,914,092	31,896,727	3,186,833
Dividends paid to non-controlling interests	857,040	–	867
Statement of comprehensive income			
Revenue	₱47,667,610	₱12,003,913	₱25,227,899
Profit (loss) attributable to:			
Equity holders of the parent	7,140,308	4,270,205	142,693
Non-controlling interests	1,448,561	11,955	(87,584)
Total comprehensive income			
Equity holders of the parent	7,122,155	4,181,819	(164,778)
Non-controlling interests	1,450,525	11,704	(87,584)
Statement of cash flows			
Operating activities	₱9,913,005	₱529,128	₱704,417
Investing activities	(15,026,185)	(2,455,121)	(259,692)
Financing activities	12,790,907	4,748,222	254,999
Effect of changes in foreign exchange on cash and cash equivalents	–	–	(1,158)
Net increase in cash and cash equivalents	₱7,677,727	₱2,822,229	₱698,566

**Translated using the exchange rate at the reporting date (US$1:₱44.395 in December 31, 2013, US$1:₱41.05 in December 31, 2012 and US$1:₱43.84 in January 1, 2012).*

3. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
b. Exposure, or rights, to variable returns from its involvement with the investee, and
c. The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
a. The contractual arrangement with the other vote holders of the investee
b. Rights arising from other contractual arrangements
c. The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Company. Any equity instruments issued by a subsidiary that are not owned by the Company are non-controlling interests including preferred shares and options under share-based transactions.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Company. If the Group losses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities.

<u>Changes in Accounting Policies</u>
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2013. The nature and the impact of each new standards and amendments is described below:

New and amended standards and interpretations
The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PAS 19, *Employee Benefits* (Revised 2011), and amendments to PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 12, *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements.

Several other amendments apply for the first time in 2013. The nature and the impact of each new standards and amendments are described below:

PFRS 7*, Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;

d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 32 to the financial statements.

PFRS 10, *Consolidated Financial Statements*
The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

The application of PFRS 10 affected the accounting for ALI Group's interests in North Triangle Depot Commercial Corporation (NTDCC), Cebu Holdings, Inc. (CHI), Alabang Commercial Corporation (ACC), BG West Properties, Inc. (BGW), BG South Properties, Inc. (BGS), BG North Properties, Inc. (BGN). For all financial years up to December 31, 2012, NTDCC, CHI and ACC were considered to be associates under the previously existing PAS 28, *Investments in Associates* while BGW, BGS and BGN were considered to be jointly controlled entities under the previously existing PAS 31, *Interests in Joint Ventures*. These entities were accounted for using the equity method. At the date of initial application of PFRS 10, the Group assessed that it controls these companies based on the factors explained in Note 4, Judgments and Estimates.

The Group consolidated the financial statements of NTDCC, CHI, ACC, BGW, BGS and BGN based on its equity interest as follows:

Entity Name	Equity Interest of the Group	Non-controlling Interest (In Thousands)
NTDCC	49.3%	₱1,137,387
CHI	49.8	3,324,225
ACC	50.0	481,261
BGW	50.0	526,553
BGS	50.0	630,792
BGN	50.0	587,887
		₱6,688,105

The assets, liabilities and equity of these entities have been retrospectively consolidated in the financial statements of the Group. Non-controlling interests have been recognized at a proportionate share of the net assets of the subsidiaries. The opening balances at January 1, 2012 and comparative information for years ended December 31, 2012 and 2011 have been restated in the consolidated financial statements.

The quantitative impact on the financial statements is provided below.

Impact on the consolidated statements of income (increase/(decrease) in net equity):

	Years ended December 31	
	2012	2011
	(In Thousands)	
Income		
Sale of goods	₱5,850,603	₱3,607,150
Interest income	502,218	35,748
Share of profit of associates and joint ventures	(798,344)	(509,586)
Other income	(147,130)	328,765
	5,407,347	3,462,077
Cost and Expenses		
Cost of sales	3,586,671	2,049,986
General and administrative	283,578	284,282
Interest and other financing charges	214,141	219,106
Other charges	1,846	22,698
	4,086,236	2,576,072
Income Before Income Tax	1,321,111	886,005
Provision for Income Tax		
Current	1,057,109	419,738
Deferred	(478,097)	(32,021)
	579,012	387,717
Net Income	₱742,099	₱498,288
Attributable to:		
Equity holders of the parent	₱–	₱–
Non-controlling interests	742,099	498,288
	₱742,099	₱498,288

Impact on equity (increase/(decrease) in net equity):

	December 31, 2012	**January 1, 2012**
Assets		
Current Assets		
Cash and cash equivalents	₱3,525,687	₱2,681,963
Short-term investments	–	3,456
Accounts and notes receivables	561,637	620,044
Inventories	3,252,358	1,026,107
Other current assets	3,284,651	134,924
Total Current Assets	10,624,333	4,466,494
Noncurrent Assets		
Noncurrent accounts and notes receivables	5,022,942	1,245,660
Investments in bonds and other securities	18,645	(4,988)
Land and improvements	1,105,291	–
Investment in associates and joint ventures	(5,272,656)	(4,617,973)
Investment properties	11,666,598	10,410,347
Property, plant and equipment	182,406	201,454
Deferred tax assets - net	591,548	136,323
Other noncurrent assets	46,642	(12,611)
Total Noncurrent Assets	13,361,416	7,358,212
	₱23,985,749	₱11,824,706

(Forward)

	December 31, 2012	January 1, 2012
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	₱5,699,530	₱1,370,443
Short-term debt	496,315	668,000
Income tax payable	180,771	87,482
Current portion of long-term debt	204,520	305,000
Other current liabilities	1,326,289	444,376
Total Current Liabilities	7,907,425	2,875,301
Noncurrent Liabilities		
Long-term debt - net of current portion	4,626,777	3,614,426
Pension liabilities - net	54,636	19,621
Deferred income tax liabilities - net	82,703	17,824
Other noncurrent liabilities	6,984,025	1,184,762
Total Noncurrent Liabilities	11,748,141	4,836,633
Total Liabilities	19,655,566	7,711,934
Net Impact on Equity	₱4,330,183	₱4,112,772

Impact on statements of cash flows (increase/(decrease) in cash flows):

	Years ended December 31	
	2012	**2011**
Operating Activities	(₱2,057,579)	₱1,154,150
Investing Activities	(2,535,305)	(93,637)
Financing Activities	5,436,108	32,808
Net increase in cash and cash equivalents	₱843,224	₱1,093,321

PFRS 11, *Joint Arrangements*
PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group has concluded that existing jointly controlled entities as of December 31, 2012 meet the definition of joint venture as set forth in the Standard. Likewise, this Standard has no impact in the Group's financial statements as the Group already accounts for its investments in jointly controlled entities under the equity method of accounting.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. Additional disclosures required under PFRS 12 are disclosed in Notes 2 and 12 to the consolidated financial statements.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 33.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments resulted to the modification of the presentation of items of OCI and have no impact on the Group's financial position or performance. .

PAS 19, *Employee Benefits* (Revised 2011)
For defined benefit plans, the revised standard requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the revised standard, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised standard, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The revised standard replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.
The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the revised standard modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

	As at 31 December 2012	As at 1 January 2012
	In Thousands	
(Increase) decrease in Statement of financial position		
Net defined benefit asset (liability)	(₱129,383)	(₱808,840)
Deferred tax liability (asset)	(62,634)	(148,068)
Investments in associates and joint ventures	(582,640)	(256,488)
Retained earnings	–	39,189
Other comprehensive income	487,107	456,254
Non-controlling interest	137,949	230,731

	For the Year Ended December 31	
	2012	2011
Statement of comprehensive income		
Equity in net earnings	₱48,991	₱171,406
Retirement costs	(70,765)	65,085
Other financing charges	64,922	113,734
Deferred income tax	(18,815)	(28,968)

The adoption did not have impact on consolidated statement of cash flows.

Change of presentation
Upon adoption of the revised standard, the presentation of the consolidated statement of income was updated to reflect these changes. Net interest is now shown under the interest income/ interest and other financing charges line item (previously under personnel costs under general and administrative expenses). This presentation better reflects the nature of net interest since it corresponds to the compounding effect of the long-term net defined benefit liability (net defined benefit asset). In the past, the expected return on plan assets reflected the individual performance of the plan assets, which were regarded as part of the operating activities.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate financial statements of the entities in the Group.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, Joint Arrangements, and PFRS 12, Disclosure of Interests in Other Entities, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

PFRS 1, First-time Adoption of International Financial Reporting Standards – *Government Loans* (Amendments)
The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, Financial Instruments: *Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.

Annual Improvements to PFRSs (2009-2011 cycle)
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in

accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Group's financial position or performance.

PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Standards and interpretation issued but not yet effective
The Group will adopt the following new and amended Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

Effective 2014

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to have a significant impact on the Group's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective 2015

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2*, Share-based Payment – Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted) The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The amendment will not have any impact on the Group's financial position or performance.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1*, First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

PFRS 3*, Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13*, Fair Value Measurement – Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

PAS 40*, Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

Standard with No Mandatory Effective Date

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Interpretation with Deferred Effectivity Date

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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 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 stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

Short-term Investments
Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. In the case of derivatives, the Group follows trade date accounting.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

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

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include derivatives, financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income or expense accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges". Interest earned or incurred is recorded in "Interest income" or "Interest and other financing charges" while dividend income is recorded in "Other income" when the right to receive payment has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met:

- (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- (ii) the assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial assets and financial liabilities at FVPL pertain to government securities, other investment securities, derivatives not designated as accounting hedges and embedded derivative arising from the acquisition of PSi.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that otherwise would be required under the contract.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted or reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. The amortization is included in “Interest income” in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of income under “Provision for impairment losses” account. HTM investments are included under “Other current assets” if the maturity falls within 12 months from reporting date.

As of December 31, 2013 and 2012, the Group has no outstanding HTM investments.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVPL. This accounting policy relates to the consolidated statement of financial position captions “Cash and cash equivalents”, “Short-term investments” and “Accounts and notes receivable” (except for Advances to contractors and suppliers).
After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in the “Interest income” account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under “Provision for doubtful accounts” in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent assets.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in other comprehensive income and are reported as “Net unrealized gain (loss) on available-for-sale financial assets” (net of tax where applicable) in equity. The Group’s share in its associates’ or joint ventures’ net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under “Other income” or “Other charges”. Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under “Other income” in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under “Provision for impairment losses” in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group’s AFS financial assets pertain to investments in debt and equity securities included under “Investments in bonds and other securities” in the consolidated statement of financial position. AFS financial assets are included under “Other current assets” if expected to be realized within 12 months from reporting date.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group’s short-term and long-term debt, accounts payable and accrued expenses, and other current and noncurrent liabilities and obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Other financial liabilities are included in current liabilities if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent liabilities.

Deposits and retentions payable
Deposits and retentions payable are initially measured at fair value. After initial recognition, deposits and retentions payable are subsequently measured at amortized cost using the effective interest rate method.

For deposits, the difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position) and amortized using the straight-line method with the amortization included under the "Rendering of services" account in the consolidated statement of income.

Customers' guaranty and other deposits
Customers' guaranty and other deposits are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest rate method. Amortization of customers' guaranty and other deposits are included under "Interest and other financing charges" in the consolidated statement of income. The difference between the cash received and its fair value is recognized as "Deferred credits". Deferred credits are amortized over the remaining concession period using the effective interest rate method.

Financial guarantee contracts
Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the assets have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
- the Group has transferred its 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 the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset 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 the 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 or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is

measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to the consolidated statement of income under "Provision for doubtful accounts". Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Financial assets carried at cost
If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair

value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income under “Other charges.” Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently 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.

Inventories
Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and conditions are generally accounted for as follows:

Real estate inventories
- Land cost
- Land improvement cost
- Amounts paid to contractors for construction and development
- Borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

Club shares - cost is determined mainly on the basis of the actual development cost incurred plus the estimated development cost to complete the project based on the estimates as determined by the in-house engineers, adjusted with the actual costs incurred as the development progresses, including borrowing costs during the development stage.

Vehicles - purchase cost on specific identification basis.
Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis.

NRV for real estate inventories, vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of income.

The cost of real estate inventory recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property and allocated to saleable area based on relative size.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for commissions, marketing fees and promotion, taxes and licenses, rentals and insurance.

Creditable Withholding Tax
This pertains to the tax withheld at source by the Group's customer and is creditable against the income tax liability of the Group.

Value-Added Tax (VAT)
The input VAT pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the local sale of goods or services by the Group.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Other current liabilities" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under "Other current asset" account.

Noncurrent Assets Held for Sale
Noncurrent assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. At reporting date, the Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Land and Improvements
Land and improvements consist of properties for future development and are carried at the lower of cost and NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes cost of purchase and those costs incurred for improvement of the properties.

Investments in Associates and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in associates or joint ventures is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of these investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as "Share of profit of associates and joint ventures" in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Interest in a Joint Operation
Makati Development Corporation (MDC), an ALI subsidiary, has an interest in a joint operation, whereby the venturers have a contractual arrangement that establishes joint control. MDC recognizes its share of jointly held assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of the Group.

Investment Properties
Investment properties comprise completed property and property under construction or re-development that are held to earn rentals and for capital appreciation, and are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Construction-in-progress (including borrowing cost) are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of buildings range from 20 to 40 years.

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 gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Property, Plant and Equipment

Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use.

Construction-in-progress is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and computed on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	3 to 40 years
Machinery and equipment	3 to 10 years
Hotel property and equipment	20 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Transportation equipment	3 to 5 years

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

When property, plant and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Assets and Obligations

The Group accounts for its concession arrangements with Department of Public Works and Highways (DPWH), Metropolitan Waterworks and Sewerage System (MWSS), Province of Laguna (POL), Tourism Infrastructure and Enterprise Zone Authority (TIEZA) and Clark Development Corporation (CDC) under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Group's concession agreements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide the public water services. The legal title to these assets shall remain with DPWH, MWSS, POL, TIEZA and CDC at the end of the concession period.

On the other hand, the concession arrangements with the Provincial Government of Cebu are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement, Cebu Manila Water Development, Inc. (CMWD) (a subsidiary of MWC) is awarded the right to deliver Bulk Water supply to the grantor for a specific period of time under the concession period.

The "Service concession assets" (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group and other local component costs and cost overruns paid by the Group. These are amortized using the straight-line method over the life of the related concession.

In addition, the Parent Company and MWC recognize and measure revenue from rehabilitation works in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. Recognition of revenue is by reference to the 'stage of completion method', also known as the 'percentage of completion method' as provided under PAS 11. Contract revenue and costs from rehabilitation works are recognized as "Revenue from rehabilitation works" and "Cost of rehabilitation works" in the consolidated statement of income in the period in which the work is performed.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful life of intangible assets is assessed as either finite or indefinite.

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful lives of intangible assets follow:

Developed software	15 years
Customer relationships	7 years
Order backlog	6 months
Unpatented technology	5 years
Licenses	3 years
Technical service agreement	3 years
Technology and trade name	3-5 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

As of December 31, 2013, 2012 and January 1, 2012, intangible asset pertaining to leasehold right is included under “Other noncurrent assets”.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:
- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and,
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included under "Remeasurement gain/loss arising from business combination" in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain. The Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Asset Acquisitions
If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as non-controlling interests.

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Investments in associates and joint ventures
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each reporting date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount as a reduction of the "Share of profit of associates and joint ventures" account in the consolidated statement of income.

Impairment of goodwill
For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Fair Value Measurement
The Group measures financial instruments such as financial assets at FVPL, derivative instruments and AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and nonfinancial assets such as investment properties are disclosed in Note 33 to the consolidated financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to “Additional paid-in capital” account. Direct costs incurred related to equity issuance are chargeable to “Additional paid-in capital” account. If additional paid-in capital is not sufficient, the excess is charged against 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.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and is presented as reduction from equity.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost 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, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer’s commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC), Q&A 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished, and the costs incurred or to be incurred can be measured reliably). Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included under “Other current liabilities” in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the “Other current liabilities” account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group’s in-house technical staff.

The cost of real estate inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Revenue from construction contracts are recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Rooms revenue from hotel and resort operations are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. A certain percentage of the water revenue are recognized as environmental charges as provided for in the concession agreement. Other customer related fees such as reconnection and disconnection fees are recognized when these services have been rendered.

Revenue from rehabilitation works is recognized and measured by the Group in accordance with PAS 11 and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

When MWC Group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. MWC Group accounts for revenue and costs relating to operation services in accordance with PAS 18.

Revenue from sales of electronic products and vehicles and related parts and accessories are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, returns, rebates and sales taxes.

Marketing fees, management fees from administrative and property management and revenue from vehicle repairs are recognized when services are rendered.

Revenue from digitizing and document creation services are recognized when the service is completed and electronically sent to the customer. Provision for discounts and other adjustments are provided for in the same period the related sales are recorded.

Revenue from implementation of human resource outsourcing services arising from stand-alone service contracts that require significant modification or automization of software is recognized based on percentage-of-completion method.

Revenue from run and maintenance of human resource outsourcing services arising from a stand-alone post contract customer support or services is recognized on a straight-line basis over the life of the contract.

Revenue from implementation and run and maintenance of finance and accounting outsourcing services arising from multiple deliverable software arrangements is recognized on a straight-line basis over the life of the contract.

Interest income is recognized as it accrues using the effective interest method.

Dividend income is recognized when the right to receive payment is established.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the 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) and at the date of renewal or extension period for scenario (b).

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the consolidated asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

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

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Group as lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

Commissions
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage-of-completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Costs of sales" account in the consolidated statement of income.

Expenses
Costs of rendering services and general and administrative expenses, except for lease agreements, are recognized as expense as they are incurred.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in "Inventories", "Investment properties", "Property, plant and equipment" and "Service concession assets" accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined contribution plans
Certain foreign subsidiaries participate in their respective country's pension schemes which are considered as defined contribution plans. A defined contribution plan is a pension plan under which the subsidiary pays fixed contributions. These subsidiaries have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all the benefits relating to employee service in the current and prior periods. The required contributions to the national pension schemes are recognized as pension cost as accrued.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting 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 tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences, with certain exceptions, 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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 at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

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

For periods where the income tax holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the subsidiary neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Foreign Currency Transactions

The functional and presentation currency of Ayala Corporation and its subsidiaries (except for AYCF, ACIFL, PFIL, BHL, AIVPL and IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of AYCF, ACIFL, PFIL, BHL, AIVPL and IMI is the US Dollar (US$). As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity as “Cumulative Translation Adjustment”. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity’s net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

The Group’s share in the associates’ translation adjustments are likewise included under the “Cumulative translation adjustments” account in the consolidated statement of comprehensive income.

MWC
As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement, the following will be recovered through billings to customers:

a. Restatement of foreign currency-denominated loans;
b. Excess of actual Concession Fee payment over the amounts of Concession Fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱44.0:US$1.0 based on the last rate rebasing exercise effective on January 1, 2008;
c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

In view of the automatic reimbursement mechanism, MWC recognizes deferred foreign currency differential adjustment (FCDA) (included as part of “Other noncurrent assets” in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by MWSS-RO during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Share-based Payments
The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Black-Scholes model, further details of which are provided in Note 28 to the consolidated financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards (‘vesting date’). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 26).

Employee share purchase plans
The Company and some of its subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Company’s and its respective subsidiaries’ shares at a discounted price. The Group recognizes stock compensation expense over the holding period. The Group treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the PFRS 2 options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. Calculation of diluted EPS considers the potential ordinary shares of subsidiaries, associates and joint ventures that have dilutive effect on the basic EPS of the Company. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share. Basic and diluted EPS are adjusted to give retroactive effect to any stock dividends declared during the period.

Assets Held in Trust
Assets which are owned by MWSS, POL, TIEZA and CDC but are operated by the MWC Group under the concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 39).

Operating Segments
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 29 to the consolidated financial statements.

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

Events after the Reporting Period
Post year-end events that provide additional information about the 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 consolidated financial statements when material.

4. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

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:

Investment in Subsidiaries
The Group determined that it has control over its subsidiaries (see Note 2) by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

- The contractual arrangement with the other vote holders of the investee

- Rights arising from other contractual agreements
- The Group's voting rights and potential voting rights

Consolidation of entities in which the Group holds only 50% or less than majority of voting rights
ALI Group determined that it controls certain entities even tough it owns 50% or less than majority of the voting rights. The factors considered include, among others, the size of its block of voting shares, the relative size and dispersion of holdings of other shareholders, and contractual agreements to direct the relevant activities of the entities.

Investment in Associates
The Group determined that it exercises significant influence over its associates (see Note 12) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee), board representation and participation on board sub-committees, and other contractual terms.

Classification of joint arrangements
The Group's investments in joint ventures (see Note 12) are structured in separate incorporated entities. Even though the Group holds various percentage of ownership interest on these arrangements, their respective joint arrangement agreements requires unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements.

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements qualify under the Intangible Asset and Financial Asset model. The accounting policy on the Group's SCA under the Intangible Asset and Financial model is discussed in Note 3.

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the estimated useful life of the assets.

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases and the rest are cancellable. In determining whether a lease contract is cancellable or not, the Group considers among others, the significance of the penalty, including the economic consequence to the lessee.

Operating lease commitments - Group as lessee
The Group has entered into contracts with various parties to develop commercial or retail properties. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Finance lease commitments - Group as lessee
Certain subsidiaries have entered into finance lease agreements related to office equipment, machineries and production equipment. They have determined, based on the evaluation of the terms and conditions of the arrangement, that they bear substantially all the risks and rewards incidental to ownership of the said machineries and equipment and so account for the contracts as finance leases.

Classification of property as investment property or real estate inventories
The Group determines whether a property is classified as investment property or real estate inventory as follows:

- Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Real estate inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential, commercial and industrial property that the Group develops and intends to sell before or on completion of construction.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, not for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Distinction between real estate inventories and land and improvements
The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land and improvements).
Property acquisitions and business combinations
The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

Collectibility of the sales price
For real estate sales, in determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Recognition of implementation revenue using straight-line and percentage-of-completion method
The Group determines the appropriate revenue recognition policy for implementation revenue from software arrangements. In making its judgment, the Group considers whether the implementation revenue is rendered under a stand-alone service contract, which is being recognized based on the percentage of work that is being recognized using percentage-of-completion over the life of the contract or a multiple deliverable software arrangement that is tightly linked and inseparable from other service contracts.

Impairment of AFS equity investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position (see Note 38).

Management's Use of Estimates
The key assumptions concerning the future and other 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.

Revenue and cost recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from real estate, pipeworks, construction, management contracts and human resource outsourcing services are recognized based on the percentage-of-completion measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project.

Estimating allowance for impairment losses
The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate.

Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As of December 31, 2013, 2012 and January 1, 2012, allowance for impairment losses amounted to ₱1.8 billion, ₱1.5 billion and ₱1.2 billion, respectively. Accounts and notes receivable, net of allowance for doubtful accounts, amounted to ₱74.6 billion, ₱60.4 billion and ₱41.4 billion as of December 31, 2013, 2012 and January 1, 2012, respectively (see Note 7).

Evaluation of net realizable value of inventories and land and improvements
Inventories and land and improvements are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' and land and improvements' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories and land and improvements, the Group adjusts the cost of its real estate inventories and land and improvements to net realizable value based on its assessment of the recoverability of the real estate inventories and land and improvements. In determining the recoverability of the inventories and land and improvements, management considers whether those inventories and land and improvements are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased.

In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Inventories carried at cost amounted to ₱47.3 billion, ₱30.9 billion and ₱26.9 billion as of December 31, 2013, 2012 and January 1, 2012 respectively. Inventories carried at NRV amounted to ₱2.9 billion, ₱2.4 billion and ₱1.9 billion as of December 31, 2013, 2012 and January 1, 2012 respectively (see Note 8).

Evaluation of impairment of nonfinancial assets
The Group reviews investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. For investments in associates and joint ventures, fair value less costs to sell pertain to quoted prices (listed equities) and to fair values determined using discounted cash flows or other valuation technique such as multiples. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets amounted to ₱286.8 billion, ₱253.7 billion and ₱203.0 billion as of December 31, 2013, 2012 and January 1, 2012, respectively (see Notes 12, 13, 14, 15 and 16).

Estimating useful lives of investment properties, property, plant and equipment, and intangible assets

The Group estimated the useful lives of its investment properties, property, plant and equipment and intangible assets with finite useful lives based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and intangible assets are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives would increase depreciation and amortization expense and decrease noncurrent assets.

Investment properties, property, plant and equipment, and intangible assets with finite useful lives amounted to ₱89.6 billion, ₱76.0 billion and ₱58.3 billion as of December 31, 2013, 2012 and January 1, 2012, respectively (see Notes 13, 14, 15 and 16).

Deferred FCDA

Under the concession agreements entered into by the MWC Group, MWC and Boracay Island Water Company (BIWC) are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. MWC and BIWC recognized deferred FCDA (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by MWC and BIWC as a result of past events and from which future economic benefits are expected to flow to MWC and BIWC. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability. As of December 31, 2013, MWC and BIWC's deferred FCDA classified under "Other noncurrent assets" amounted to ₱55.4 million (see Note 17). As of December 31, 2012, MWC and BIWC's deferred FCDA included in "Other noncurrent liabilities" amounted to ₱544.44 million (see Note 21).

Deferred tax assets

The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

As of December 31, 2013, 2012 and January 1, 2012, the Group has net deferred tax assets amounting to ₱6.5 billion, ₱4.5 billion and ₱3.4 billion, respectively, and net deferred tax liabilities amounting to ₱6.3 billion, ₱6.3 billion and ₱6.1 billion, respectively (see Note 25).

Recognition and measurement of taxes

The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the profit and loss in the period in which such determination is made.

The carrying amount of the Group's income taxes payable as of December 31, 2013, 2012 and January 1, 2012 amounted to ₱1.7 billion, ₱1.5 billion and ₱483.3 million, respectively.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group.

Total expense arising from share-based payments recognized by the Group amounted to ₱483.5 million, ₱500.6 million and ₱447.6 million in 2013, 2012 and 2011, respectively (see Note 28).

Defined benefit plans (pension benefits)
The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The net benefit liability as at December 31, 2013, 2012 and January 1, 2012 amounted to ₱1.9 billion, ₱1.6 billion and ₱1.0 billion, respectively. Further details are provided in Note 27.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 27.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow methodology. See Note 33 for the related balances.

Fair value of put and call options
The acquisition of PSi on October 6, 2010 gave rise to a long equity call option and written equity put option for IMI. The call and put options were valued using the binomial option pricing model. This valuation technique considers the probability of the value of PSi's shares price determined based on a five-year discounted cash flow model to move up or down depending on the volatility, risk free rate and exercise price. As of December 31, 2013 and 2012 and January 1, 2012, the call option has a zero value and positive value of US$2.86 million (₱117.3 million) and US$2.74 million (₱119.9 million), respectively, while the put option has zero value.

5. Cash and Cash Equivalents

This account consists of the following:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
Cash on hand and in banks (Note 31)	**₱22,728,761**	₱18,431,524	₱8,136,819
Cash equivalents (Note 31)	**42,926,288**	61,854,831	48,159,684
	₱65,655,049	₱80,286,355	₱56,296,503

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term rates.

6. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months but less than one year and earn interest at the respective short-term investment rates. The ranges of interest rates of the short-term investments follow:

	December 31		January 1
	2013	2012	2012
PHP	**3.0% to 5.0%**	2.2% to 4.6%	1.3% to 5.0%
USD	**–**	–	0.2% to 2.0%

7. Accounts and Notes Receivable

This account consists of the following:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
Trade:			
Real estate	**₱39,832,997**	₱30,815,940	₱19,553,267
Electronics manufacturing	**7,286,792**	6,051,898	5,628,560
Water distribution and wastewater services	**1,645,476**	1,707,290	1,086,389
Automotive	**985,390**	968,156	534,975
Information technology and BPO	**194,584**	163,335	117,305
International and others	**3,618**	6,507	2,493
Advances to other companies	**10,912,046**	7,178,807	5,250,615
Advances to contractors and suppliers	**8,837,924**	9,873,307	3,550,498
Related parties (Note 31)	**3,145,472**	2,588,857	2,527,580
Dividend receivable (Note 31)	**1,412,577**	36,636	815,220
Investment in bonds classified as loans and receivables	**1,000,000**	1,000,000	200,000

(Forward)

	December 31		January 1
	2013	2012	2012
		(In Thousands)	
Receivable from BWC	**₱544,374**	₱572,878	₱599,342
Receivable from officers and employees (Note 31)	**507,042**	580,621	758,357
Others (Note 31)	**92,093**	432,312	2,033,373
	76,400,385	61,976,544	42,657,974
Less allowance for doubtful accounts	**1,776,400**	1,545,929	1,221,212
	74,623,985	60,430,615	41,436,762
Less noncurrent portion	**18,282,941**	17,880,961	8,551,382
	₱56,341,044	₱42,549,654	₱32,885,380

The classes of trade receivables of the Group follow:

Real estate
Real estate receivables are receivables relating to residential development which pertain to receivables from the sale of high-end; upper middle-income and affordable residential lots and units, economic housing development and leisure community developments; construction contracts which pertain to receivables from third party construction projects; shopping centers which pertain to lease receivables of retail space; corporate business which pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots; and management fees which pertain to facility management fees receivable.

The sales contracts receivable, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) years and bear annual interest rates ranging from 2.15% to 18.00% computed on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made.

Receivables from construction contracts, shopping centers and management fee are due within 30 days upon billing. Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease.

Electronics manufacturing
Pertains to receivables arising from manufacturing and other related services for electronic products and components and billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These are collectible within 30- to 60- days from invoice date.

As of December 31, 2013 and 2012, IMI Bulgaria, a subsidiary of IMI, has pledged receivables with UniCredit Bulbank and BNP Paribas as follows (see Note 21) (amounts in thousands):

	In U.S. Dollar		In Philippine Peso*	
	2013	2012	**2013**	2012
UniCredit Bulbank	**$7,010**	$10,060	**₱311,209**	₱412,963
BNP Paribas	**–**	430	**–**	17,652
	$7,010	$10,490	**₱311,209**	₱430,615

**Translated using the exchange rate at the reporting date (US$1:₱44.395 in 2013, US$1:₱ 41.05 in 2012)*

Water distribution and wastewater services
Water distribution and wastewater services receivables arise from water and sewer services rendered to residential, commercial, semi-business and industrial customers of MWC Group and are collectible within 30 days from bill generation.

Automotive
Automotive receivables are receivables relating to sale of passenger cars and commercial vehicles and are collectible within 30- to 90- days from date of sale.

Information technology and BPO
Information technology and BPO receivables arise from venture capital for technology businesses; provision of value-added content for wireless services, online business-to-business and business-to-consumer services; electronic commerce; technology infrastructure sales and technology services; and onshore- and offshore-BPO services and are normally collected within 30- to 60- days of invoice date.

International and others
International and other receivables arose from investments in overseas property companies and projects, charter services, agri-business and others and are generally on 30- to 60- day terms.

The nature of the Group's other receivables follows:

Advances to other companies
Advances to other companies mainly pertain to ALI's advances to third party joint venture partners. These are non-interest bearing and are due and demandable. This also includes MWCI's receivable from SAWACO which pertains to the unpaid portion of services rendered by MWC in relation to its management contract with SAWACO. These are offset against the management billings made by MWC.

Advances to contractors and suppliers
Advances to contractors and suppliers are recouped every progress billing payment date depending on the percentage of accomplishment.

Receivables from officers and employees
Receivable from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction. These are interest bearing ranging from 6.0% to 13.5% per annum and have various maturity dates ranging from 2014 to 2026.

Investment in bonds classified as loans and receivables
Investment in bonds classified as loans and receivables pertain to ALI's investments in various notes and bonds as follows:

- ₱200 million investment in 7.25% unsecured subordinated notes of Land Bank of the Philippines (LBP) due 2019, callable with step-up interest in 2014.
- ₱100 million investment in 5.88% unsecured subordinated notes of Land Bank of the Philippines due 2022, callable in 2017.
- ₱200 million investment in 5.75% unsecured subordinated notes of Development Bank of the Philippines due 2022, callable in 2017.
- ₱500 million investment in 5.75% collateralized bonds of First Metro Investment Corp. due 2019, callable in 2017.

Others
Other receivables include accrued interest receivable and other nontrade receivables which are non-interest bearing and are due and demandable.

Other receivables also include IMI's insurance claim amounting to US$1.2 million (₱52.3 million and ₱48.4 million as of December 31, 2013 and 2012, respectively) for damages to equipment and inventories caused by a fire incident in IMI's plant in Cebu, Philippines in May 2009.

Movements in the allowance for doubtful accounts follow (in thousands):

	2013							
	Real Estate and Hotels	**Electronics**	**Water Distribution and Wastewater Services**	**Automotive**	**Information Technology and BPO Services**	**International and Others**	**Others**	**Total**
At January 1	**₱324,197**	**₱100,949**	**₱493,646**	**₱23,542**	**₱9,963**	**₱–**	**₱593,632**	**₱1,545,929**
Provisions during the year (Note 23)	**235,596**	**(5,364)**	**47,073**	**–**	**2,150**	**–**	**406,639**	**686,094**
Write-offs	**(51,028)**	**–**	**–**	**–**	**–**	**–**	**–**	**(51,028)**
Reversals	**(1,258)**	**812**	**–**	**–**	**(12,113)**	**–**	**(392,036)**	**(404,595)**
At December 31	**₱507,507**	**₱96,397**	**₱540,719**	**₱23,542**	**₱–**	**₱–**	**₱608,235**	**₱1,776,400**
Individually impaired	**203,828**	**96,397**	**33,829**	**1,688**	**–**	**–**	**271,896**	**607,638**
Collectively impaired	**303,679**	**–**	**506,890**	**21,854**	**–**	**–**	**336,339**	**1,168,762**
Total	**₱507,507**	**₱96,397**	**₱540,719**	**₱23,542**	**₱–**	**₱–**	**₱608,235**	**₱1,776,400**
Gross amount of loans and receivables individually determined to be impaired	**₱203,828**	**₱96,397**	**₱33,829**	**₱1,688**	**₱–**	**₱–**	**₱271,896**	**₱607,638**

	2012							
	Real Estate and Hotels	Electronics	Water Distribution and Wastewater Services	Automotive	Information Technology and BPO Services	International and Others	Others	Total
At January 1	₱326,600	₱92,797	₱419,268	₱36,003	₱29,019	₱67	₱317,458	₱1,221,212
Provisions during the year (Note 23)	52,621	14,666	75,425	–	3,695	–	572,991	719,398
Write-offs	(8,212)	–	(1,047)	–	–	–	(18,007)	(27,266)
Reversals	(46,812)	(6,514)	–	(12,461)	(22,751)	(67)	(278,810)	(367,415)
At December 31	₱324,197	₱100,949	₱493,646	₱23,542	₱9,963	₱–	₱593,632	₱1,545,929
Individually impaired	₱204,781	₱100,949	₱59,133	₱1,688	₱–	₱–	₱115,885	₱482,436
Collectively impaired	119,416	–	434,513	21,854	9,963	–	477,747	1,063,493
Total	₱324,197	₱100,949	₱493,646	₱23,542	₱9,963	₱–	₱593,632	₱1,545,929
Gross amount of loans and receivables individually determined to be impaired	₱204,781	₱100,949	₱59,133	₱1,688	₱–	₱–	₱115,885	₱482,436

	2011							
	Real Estate and Hotels	Electronics	Water Distribution and Wastewater Services	Automotive	Information Technology and BPO Services	International and Others	Others	Total
At January 1	₱307,355	₱28,183	₱479,524	₱36,516	₱7,330	₱67	₱363,549	₱1,222,524
Provisions during the year (Note 23)	27,812	83,763	53,729	1,513	25,240	–	154,258	346,315
Write-offs	(4,348)	(590)	(18,516)	–	–	–	(109,147)	(132,601)
Reversals	(4,219)	(18,559)	(95,469)	(2,026)	(3,551)	–	(91,202)	(215,026)
At December 31	₱326,600	₱92,797	₱419,268	₱36,003	₱29,019	₱67	₱317,458	₱1,221,212
Individually impaired	₱221,260	₱92,797	₱42,992	₱36,003	₱25,148	₱67	₱177,192	₱595,459
Collectively impaired	105,340	–	376,276	–	3,871	–	140,266	625,753
Total	₱326,600	₱92,797	₱419,268	₱36,003	₱29,019	₱67	₱317,458	₱1,221,212
Gross amount of loans and receivables individually determined to be impaired	₱221,260	₱92,797	₱42,992	₱36,003	₱25,148	₱67	₱177,192	₱595,459

As of December 31, 2013, 2012 and January 1, 2012, certain real estate receivables and receivables from officers and employees with a nominal amount of ₱46.7 billion, ₱34.5 billion and ₱21.4 billion, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of the Group's receivables as of December 31, 2013, 2012 and January 1, 2012 follow:

	December 31		January 1
	2013	2012	2012
		(In Thousands)	
Balance at beginning of the year	**₱2,524,764**	₱2,763,006	₱1,289,479
Additions during the year	**3,575,225**	1,549,954	2,397,937
Accretion for the year	**(1,712,182)**	(1,341,167)	(924,410)
Acceleration of accretion	**–**	(447,029)	–
Balance at end of the year	**₱4,387,807**	₱2,524,764	₱2,763,006

In 2013, the Company sold to BPI Family Savings Bank (BPI Family Bank) its notes receivable from officers and employees amounting to ₱74.6 million.

In 2012, ALI sold real estate receivables on a without recourse basis to BPI Family Bank and RCBC Savings amounting to ₱3.0 billion and ₱1.4 billion, respectively. These were sold for a total average discount rate of 6.0% or ₱2.6 billion to BPI Family Bank and ₱1.2 billion to RCBC Savings. The total discounting cost on these receivables amounted to ₱498.0 million recognized under "Interest and other financing charges" in the consolidated statements of income (see Note 23).

In 2011, the Company and ALI sold to Bank of the Philippine Islands (BPI) its loans receivable from officers and employees and real estate receivables without recourse amounting to ₱452.5 million and ₱322.8 million, respectively. The discount on these receivables amounting to ₱37.3 million has been included under "Interest and other financing charges" in the consolidated statement of income (see Note 23).

Also in 2011, ALI entered into an agreement with BPI for the sale of interest bearing loans receivables from employees without recourse amounting to ₱306.0 million with 12% interest rate which resulted to no gain or loss.

On April 29, 2011, LIL granted promissory notes to its two IQ Backoffice officers. The notes have an aggregate amount of US$0.66 million (₱28.9 million) which bear interests at four percent (4%) per annum and will mature on April 29, 2016. On the same date, the parties to the notes simultaneously entered into a Pledge Agreement where the officers (Pledgor), who are also shareholders of LIL (Pledgee), pledge their entire 3.9 million shares on LIL as collateral for the notes they have availed.

8. Inventories

This account consists of the following:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
At cost:			
Condominium, residential and commercial units	**₱26,920,259**	₱18,511,527	₱13,392,325
Subdivision land for sale	**16,854,931**	9,375,051	10,574,566
Vehicles	**1,171,478**	740,668	472,230
Finished goods	**354,134**	216,896	273,178
Work-in-process	**432,008**	144,757	277,452
Materials, supplies and others	**1,544,821**	1,915,057	1,880,354
	47,277,631	30,903,956	26,870,105
At NRV:			
Subdivision land for sale	**524,158**	524,158	524,158
Finished goods	**316,576**	243,502	191,481
Work-in-process	**176,749**	305,001	82,227
Parts and accessories	**168,451**	149,885	140,461
Materials, supplies and others	**1,714,921**	1,142,526	988,744
	2,900,855	2,365,072	1,927,071
	₱50,178,486	₱33,269,028	₱28,797,176

A summary of the movement of real estate inventories is set out below.

2013

	Subdivision land for sale	**Condominium, residential and commercial units**	**Total**
		(In Thousands)	
Opening balances at January 1	**₱9,899,209**	**₱18,511,527**	**₱28,410,736**
Land cost transferred from land and improvements	**7,454,628**	**7,271,578**	**14,726,206**
Construction/development costs incurred	**10,551,863**	**25,087,265**	**35,639,128**
Disposals (recognized as cost of sales)	**(10,498,850)**	**(23,938,638)**	**(34,437,488)**
Transfers from / to investment properties and other assets	**(26,138)**	**9,831**	**(16,307)**
Other adjustments/reclassifications	**(1,623)**	**–**	**(1,623)**
Exchange differences	**–**	**(21,304)**	**(21,304)**
	₱17,379,089	**₱26,920,259**	**₱44,299,348**

2012

	Subdivision land for sale	Condominium, residential and commercial units	Total
		(In Thousands)	
Opening balances at January 1	₱11,098,724	₱13,392,325	₱24,491,049
Land acquired during the year	228,291	176,519	404,810
Land cost transferred from land and improvements	1,194,843	–	1,194,843
Construction/development costs incurred	3,675,348	24,966,445	28,641,793
Disposals (recognized as cost of sales)	(5,659,877)	(20,445,723)	(26,105,600)
Write-down of inventories	–	(250,607)	(250,607)
Transfers from investment properties	76,726	25,252	101,978
Other adjustments/reclassifications	(714,846)	768,459	53,613
Exchange differences	–	(121,143)	(121,143)
	₱9,899,209	₱18,511,527	₱28,410,736

2011

	Subdivision land for sale	Condominium, residential and commercial units	Total
		(In Thousands)	
Opening balances at January 1	₱8,703,073	₱7,397,575	₱16,100,648
Land acquired during the year	164,569	–	164,569
Land cost transferred from land and improvements	927,756	445,261	1,373,017
Construction/development costs incurred	5,289,050	15,910,200	21,199,250
Disposals (recognized as cost of sales)	(3,939,515)	(10,408,714)	(14,348,229)
Write-down of inventories	(87,081)	(19,503)	(106,584)
Transfers to investment properties	(55,366)	–	(55,366)
Other adjustments/reclassifications	96,238	67,506	163,744
	₱11,098,724	₱13,392,325	₱24,491,049

Inventories recognized as cost of sales amounted to ₱66.5 billion, ₱55.3 billion and ₱44.1 billion in 2013, 2012 and 2011, respectively, and were included under “Costs of sales” in the consolidated statement of income.

The Group recorded provision for impairment losses on inventories amounting to ₱105.7 million, ₱150.4 million and ₱142.7 million in 2013, 2012 and 2011, respectively. The provision is included under “Other charges” in the consolidated statement of income (see Note 23).

The Group recognized gain from sale of scrapped packaging supplies amounting to US$0.92 million (₱39.0 million), loss amounting to US$1.82 million (₱72.8 million) and a gain of US$0.70 million (₱30.1 million) in 2013, 2012 and 2011, respectively. These gains and losses are included under “Other income” in the consolidated statement of income (see Note 23).

As of December 31, 2013 and 2012, IMI BG’s pledged inventories with UniCredit Bulbank and BNP Paribas amounted to €8.0 million (₱486.5 million) and €8.3 million (₱506 million), respectively. Further details are as follows (see Note 20) (amounts in thousands):

	In Euro		In U.S. Dollar	
	2013	2012	**2013**	2012
UniCredit Bulbank	**€8,000**	€8,000	**$11,039**	$10,600
BNP Paribas	**–**	320	**–**	430
	€8,000	€8,320	**$11,039**	$11,030

9. Other Current Assets

This account consists of the following:

	December 31		January 1
	2013	2012	2012
		(In Thousands)	
Financial assets at FVPL	**₱17,916,513**	₱4,532,323	₱1,470,829
Prepaid expenses	**7,708,414**	5,088,553	3,183,087
Deposits in escrow	**6,743,298**	5,317,448	147,529
Input VAT	**3,660,057**	5,024,280	1,897,899
Creditable withholding tax	**2,068,934**	1,793,961	2,279,769
Derivative assets (Note 32)	**456,768**	184,276	122,704
Concession financial receivable	**77,459**	–	–
Others	**562,577**	710,993	283,270
	₱39,194,020	₱22,651,834	₱9,385,087

Financial Assets at FVPL

TRG Investments

Financial assets at FVPL includes the Group's investment in The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments), which have a combined fair value of US$36.2 million and US$33.4 million as of December 31, 2013 and 2012, respectively.

These investments are accounted for at FVPL. There is no change in management's intention to hold the investments for trading purpose. It was concluded in the past that there was no appropriate valuation method to value these unquoted investments and reference to equity transactions by external party would be the best approximation to fair value. Unrealized gains recognized on this investment amounted to nil in 2013 and 2012 and US$3.0 million (₱132.2 million) in 2011 (see Note 23).

On March 7, 2011, the Group entered into a Contribution and Exchange Agreement with TRG for the exchange of ownership interests in ARCH Capital and ARCH Capital Asian Partners G.P. (a Cayman Islands company) which resulted to a gain amounting to US$9.4 million (₱407.1 million). The gain on the exchange is recorded as part of "Other income" in the consolidated statement of income (see Note 23). The exchange of ownership interest with a cash consideration of US$13.3 million resulted in TRG acquiring BHI's 33% and ALI's 17% interest in ARCH Capital and increase in ownership interest in the TRG Investments to 10%.

In the absence of equity transaction at reporting date, the Group uses the last transaction price as the fair value as of reporting date.

In 2013, the Group made additional investment inTRG amounting to US$2.8 million representing capital call for the year.

In December 2012, the Group amended its partnership agreement for the TRG investments to include a clause on how much the Group will receive (Distributable Amount) in connection with a liquidation of the Partnership or a sale or other disposition of all or substantially all of the assets of the Partnership that leads to a liquidation of the Partnership of a Sale of Business. The Distributable Amount available to the Group will vary as follows:

a. if Distributable Amount is less than US$150 million, the Group and the other strategic partner would be entitled to receive 2 times the original equity interest, and after that, the remaining would be divided on a pro-rata basis among the remaining equity interest holders;
b. if the Distributable Amount is between US$150 million and US$334 million, then the first US$66.8 million would be divided between the Group and the other strategic partner on a pro-rata basis and after that, the rest would be divided among all the remaining equity interest holders; and,
c. if the Distributable Amount is above US$334 million, then the Distributable Amount should be divided among all the equity interest holders, including the Group and the other strategic partner on a pro-rata basis.

As of December 31, 2013 and 2012, the Group's remaining capital commitment with the TRG Investments amounted to US$7.3 million and US$10.0 million, respectively.

UITF investments

The Group started investing in the BPI Short Term Fund (the Fund) in July 2013. The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. It has no minimum holding period and the Bangko Sentral ng Pilipinas (BSP) Special Deposit Account accounted for close to 70% of the Fund. As of December 31, 2013, the fair value of the Group's total investment in the Fund amounted to ₱12.8 billion.

ARCH Fund
As of December 31, 2012, investment securities include the Group's investment in ARCH Fund which was previously classified as an investment in associate accounted for under equity method of accounting by virtue of the Group's interest in the general partner. The reclassification was due to an exchange consummated in 2011, wherein the Group gave up their interest in the general partner. The investment in ARCH Fund is no longer an equity investment but a monetary interest in the fund. Net changes in fair value of financial assets at FVPL is included under "Other income" in the consolidated statement of income (see Note 23).

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (the Fund) was established. The Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million in 2007. On various dates in 2013 and 2012, the Fund made capital calls where the Group's share amounted to US$0.1 million as of December 31, 2013 and 2012.

As of December 31, 2013 and 2012, the Group's remaining capital commitment with the Fund amounted to US$9.0 million and US$9.1 million, respectively.

In 2011, the Company, through one of its subsidiaries, committed to invest US$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P., which had its first closing on June 30, 2011. As of December 31, 2013 and 2012, the Company had contributed US$21.7 million (₱890.8 million) into the fund.

Prepaid expenses
Prepaid expenses mainly include prepayments for commissions, marketing fees and promotion, taxes and licenses, rentals and insurance.

Deposits in escrow
Deposits in escrow include the proceeds from the sale of real estate of an ALI subsidiary. Under its temporary license to sell, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

The deposits in escrow account also include cash deposit of Summerhill E-Office, Inc. (Buyer) amounting to ₱1,175.2 million with an Escrow Agent on August 15, 2012 in relation to the Buyer's purchase of parcels of land from a third party with an aggregate area of approximately 47,952 square meters located in Pasig City. The amount and document will be released only upon presentation of the Certificate Authorizing Registration duly issued by the Bureau of Internal Revenue authorizing the transfer of the Parcels from the Seller to the Buyer. The amount will be net of capital gains tax on the sale but will include accrued interests in the escrow account.

On October 18, 2012, MWC entered into a share purchase agreement (SPA) with Suez Environment to acquire 51% of PT PAM Lyonnaise Jaya (PALYJA), the water concessionaire for the West Zone of Jakarta, Indonesia. The payment for the shares is subject to the fulfillment of certain conditions precedent. To secure the fulfillment of these conditions, a deposit of 15% of the purchase price was required and held by an escrow agent amounting to ₱482.7 million.
In 2013, MWC failed to obtain written consent from City council and Perusahaan Daerah Air Minum Daerah Khusus Ibukota Jakarta ("PAM Jaya"), the water concessionaire for the East Zone of Jakarta, Indonesia, for the controlling stake in PALYJA. Accordingly, the deposit in escrow was returned to MWC in August 2013.

Input VAT
Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Creditable withholding tax
The Group will be able to apply the creditable withholding taxes against income tax payable.

Derivative assets
This account consists of:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
Conversion option	**₱456,768**	₱66,996	₱–
Call option	**–**	117,280	119,939
Currency forwards	**–**	–	2,765
	₱456,768	₱184,276	₱122,704

Concession financial receivable
On December 13, 2013, CMWD received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). In relation to this, CMWD and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18 million liters per day of water for the first year and 35 million liters per day of water for years 2 up to 20. Initial delivery of water is expected to occur after six months from the signing of the Bulk Water Supply Contract.

Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between CMWD and MCWD whereby potable and treated water shall be delivered by CMWD at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to 20 years in the amount of ₱24.59 per cubic meter or for the total amount of ₱161.6 million, to be injected directly to the pre-determined delivery/drop-off points which should be provided with metering devices to accurately monitor the volume delivered.

10. Investments in Bonds and Other Securities

This account consists of investments in:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
AFS financial assets			
Quoted equity investments	**₱1,241,869**	₱1,790,043	₱923,563
Unquoted equity investments	**1,439,637**	1,117,965	1,508,373
	2,681,506	2,908,008	2,431,936
Quoted debt investments	**103,301**	99,501	874,161
Unquoted debt investments	**–**	236,411	439,071
	₱2,784,807	₱3,243,920	₱3,745,168

Quoted Equity Investments
Quoted equity instruments consist mainly of investments in listed equity securities and golf club shares. It also includes the following quoted equity investments:

Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII)
CII is a leading player in the infrastructure sector in Vietnam with a solid track record in sourcing, implementing and operating infrastructure assets. CII has a portfolio of strategic infrastructure assets, including water treatment plants and toll roads serving Ho Chi Minh City and surrounding areas. CII previously held a stake in Thu Duc Water B.O.O. Corporation (TDW), a water treatment company which is now 49%-owned by MWC (see Note 12). CII was established in December 2001 and is listed in the Ho Chi Minh Stock Exchange.

The carrying amount of the investment in CII amounted to US$10.3 million (₱459.2 million) and US$12.7 million (₱522.6 million) as of December 31, 2013 and 2012, respectively. In 2013, the Group recognized a provision for probable impairment loss amounting to US$5.4 million (₱228.58 million), including the unrealized loss on this investment amounting to US$3.3 million as of December 31, 2012, due to the prolonged decline in the value of CII's share price (see Note 23).

Asia Standard International (ASI)
In 2012, BHL disposed its quoted AFS equity investment in shares of stocks of ASI, a property development and investment company publicly listed in the Hong Kong Stock Exchange. This quoted equity investment was disposed for a consideration of US$1.5 million (₱61.6 million) with a gain of US$0.8 million (₱33.8 million) recognized in profit or loss.

Unquoted Equity Investments
Unquoted equity investments include unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects, water utilities projects, and to its other operations. It also includes the following unquoted equity investments:

TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF)
The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity. In 2013, the Group received a return of capital from SOF amounting to US$4.1 million.

On February 29, 2012, the Group received US$2.2 million from the partial redemption of its GOF investment. On March 28, 2012, the proceeds arising from the GOF redemption was reinvested in the TRG-Merrill Lynch Investment Solutions Global Emerging Markets ("GEM") UCITS. The GEM-UCITS is a fund managed by TRG using the same strategy as GOF and distributed by Merrill Lynch in Europe. The Group subsequently opted to have its investment in the GEM-UCITS redeemed. The Group received US$2.05 million at end of October 2012.

Red River Holdings
The Red River Holdings is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies. In 2010, a final capital call was made amounting to US$1.9 million bringing the total investment in Red River Holdings to US$10.0 million. The carrying amount of the investment in Red River Holdings amounted to US$10.4 million (₱460.4 million) and US$9.7 million (₱296.9 million) as of December 31, 2013 and 2012, respectively.

The Group recorded a provision for impairment loss included under "Other charges" in the consolidated statement of income amounting to ₱61.1 million in 2012 and ₱157.3 million in 2011. The impairment is due to prolonged decline in net asset value of Red River Holdings (see Note 23).

Victoria 1522 Investments, LP (Victoria)
In 2010, AIVPL invested US$0.5 million out of US$1.0 million commitment to invest in Preferred C units of Victoria. Victoria is an investment management firm exclusively focused on the emerging markets of Asia, Latin America, Europe, Middle East and Africa. In 2012 and 2011, capital calls amounting to US$0.1 million and US$0.3 million, respectively, were made, bringing the total investments in Victoria to US$0.9 million as of December 31, 2013 and 2012.

Quoted Debt Investments
Quoted debt investments consist mainly of government securities such as retail treasury bonds. These bonds earn interest ranging from 6.25% to 8.25% in 2013, 2012 and 2011 with maturity dates up to 5 years.

In 2012, ALI and MWC sold ₱224.2 million and ₱597.1 million worth of treasury bonds and quoted debt investments, recognizing gain on disposals amounting to ₱7.3 million and loss on disposals amounting to ₱13.1 million, respectively.

The net unrealized gain (loss) on AFS financial assets as reflected in the equity section is broken down as follows:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
Net unrealized gain (loss) on AFS financial assets of the Company and its consolidated subsidiaries	**(₱421,595)**	₱469,519	₱697,823
Share in the net unrealized gain on AFS financial assets of associates and joint ventures	**699,443**	1,329,445	1,027,571
	₱277,848	₱1,798,964	₱1,725,394

The rollforward of unrealized gain (loss) on AFS financial assets of the Company and its consolidated subsidiaries is as follows:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
At January 1	**₱469,519**	₱697,823	₱676,094
Changes in fair value recognized in equity	**(873,047)**	2,725,063	(135,585)
Recognized in profit and loss	**(18,067)**	(2,953,367)	157,314
At December 31	**(₱421,595)**	₱469,519	₱697,823

11. Land and Improvements

The rollforward analysis of this account follows:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
Cost			
At January 1	**₱49,728,125**	₱19,041,040	₱16,943,823
Additions	**29,446,957**	31,882,873	3,959,279
Transfers*	**(16,190,155)**	(1,194,843)	(1,846,886)
Disposals	**–**	(945)	(15,176)
At December 31	**62,984,927**	49,728,125	19,041,040
Allowance for decline in value			
At January 1 and December 31	**(510,125)**	(510,125)	(510,125)
	₱62,474,802	₱49,218,000	₱18,530,915

**Transfers pertain to land to be developed for sale and included under "Real estate inventories" account.*

In 2012, ALI won the public bidding for the purchase of the 74-hectare Food Terminal, Inc. (FTI) property in Taguig. ALI's bid was ₱24.3 billion. The bid was conducted in accordance with the Asset Specific Bidding Rules dated July 4, 2012 and in accordance with the provisions of Executive Order No. 323.

In October 2012, ALI entered into a Purchase Agreement wherein the Seller (FTI) agrees to sell, convey, assign and transfer and deliver to the buyer, and the buyer agrees to purchase and acquire from the seller, all of the seller's rights and interests in the property. The property is designed to be a mixed-use development.

On August 27, 2009, ALI and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop the 29.1-hectare North Triangle Property in Quezon City as a priming project of the government and the private sector. The joint venture represents the conclusion of a public bidding process conducted by the NHA which began last October 3, 2008.

ALI's proposal, which has been approved and declared by the NHA as compliant with the Terms of Reference of the public bidding and the National Economic Development Authority (NEDA) Joint Venture Guidelines, features the development of a new Central Business District (CBD) in Quezon City. The CBD will be developed as the Philippines' first transit-oriented mixed-use central business district that will be a new nexus of commercial activity. The proposal also aims to benefit the NHA in achieving its mandate of providing housing for informal settlers and transforming a non-performing asset in a model for urban renewal. The development will also generate jobs and revenues both for the local and national governments.

ALI's vision for the property is consistent with the mandate of the Urban Triangle Development (TriDev) Commission to rationalize and speed up the development of the East and North Triangles of Quezon City into well-planned, integrated and environmentally balanced, mixed-use communities. The joint venture also conforms to NHA's vision of a private sector-led and managed model for the development of the property, similar to the development experience in Fort Bonifacio.

The total project cost is estimated at ₱22.0 billion, inclusive of future development costs and the current value of the property, which ALI and the NHA will contribute as their respective equity share in the joint venture. The development of Phase 1 commenced in the second quarter of 2012.

12. Investments in Associates and Joint Ventures

This account consists of the following:

	December 31		January 1
	2013	2012	2012
		(In Thousands)	
Acquisition cost	**₱98,667,066**	₱88,628,821	₱60,666,599
Accumulated equity in earnings	**24,403,130**	14,872,952	13,622,014
Other comprehensive income (loss)	**(3,266,110)**	(562,876)	496,006
	₱119,804,086	₱102,938,897	₱74,784,619

Details of the Group's investments in associates and joint ventures and the related percentages of ownership are shown below:

	Percentage of Ownership			Carrying Amounts		
	December 31		January 1	December 31		January 1
	2013	2012	2012	**2013**	2012	2012
Domestic:					(In Millions)	
Bank of the Philippine Islands (BPI)	**32.6**	32.6	23.9	**₱52,635**	₱50,323	₱26,573
Ayala DBS Holdings, Inc. (ADHI)*	**73.8**	53.5	45.5	**29,072**	15,552	10,743
Globe Telecom, Inc. (Globe)*	**30.4**	30.5	30.5	**15,371**	16,869	17,353
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	50.0	**3,993**	3,964	3,682
South Luzon Thermal Energy Corp. (SLTEC)	**50.0**	50.0	50.0	**3,070**	1,931	1,489
Philippine Wind Holdings Corporation (PWHC)*	**75.0**	–	–	**2,180**	–	–
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	50.0	**1,955**	1,699	1,578
Bonifacio Land Corporation (BLC)	**10.0**	10.0	10.1	**1,395**	1,279	1,161
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	60.0	**1,097**	1,075	994

(Forward)

	Percentage of Ownership			Carrying Amounts		
	December 31		January 1	December 31		January 1
	2013	2012	2012	**2013**	2012	2012
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	**49.0**	–	–	**₱501**	₱–	₱–
Northwind Power Development Corp.* (Note 24)	**50.0**	50.0	50.0	**466**	433	458
Mercado General Hospital, Inc. (MGHI)	**33.0**	–	–	**360**	–	–
SIAL Specialty Retailers, Inc.*	**50.0**	50.0	–	**209**	54	–
SIAL CVS Retailers, Inc.*	**50.0**	50.0	–	**162**	84	–
Foreign:						
Stream Global Services, Inc. (Stream) (U.S. Company)	**28.9**	28.9	26.8	**3,329**	2,537	2,978
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	**49.0**	49.0	49.0	**2,200**	1,930	1,788
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	**47.4**	47.4	–	**1,863**	1,715	–
Integreon, Inc. (Integreon) (British Virgin Islands Company)*	**58.7**	58.7	56.2	**1,449**	1,776	1,515
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	**31.5**	–	–	**645**	–	–
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	**49.0**	49.0	–	**590**	875	–
Tianjin Eco-City Ayala Land Development Co., Ltd. (incorporated in China)	**40.0**	40.0	40.0	**543**	694	729
Others	**Various**	Various	Various	**48**	149	3,744
				123,133	102,939	74,785
Reclassification to noncurrent asset held for sale				**(3,329)**	–	–
				₱119,804	₱102,939	₱74,785

** Joint ventures*

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's investments in associates and joint ventures is in the Philippines.

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in associates and joint ventures are in proportion to its ownership interest.

Financial information on significant associates (amounts in millions, except earnings per share figures) follows:

	December 31		January 1
BPI	**2013**	2012 (As restated)	2012 (As restated)
Total resources	**₱1,195,364**	₱985,241	₱843,565
Total liabilities	**1,089,557**	887,119	755,249
Net interest income and other income	**52,498**	47,385	41,757
Total expenses	**33,504**	30,883	28,668
Net income	**18,994**	16,502	13,089
Other comprehensive income	**(4,638)**	1,594	840
Total comprehensive income	**14,356**	18,096	13,929
Net income attributable to:			
Equity holders of the bank	**18,811**	16,352	12,899
Non-controlling interests	**183**	150	190
Earnings per share:			
Basic	**5.19**	4.60	3.63
Diluted	**5.19**	4.60	3.63
Dividends received from BPI	**1,954**	2,062	1,395

TDW	2013	2012
Current assets	**₱104,451**	₱90,985
Noncurrent assets	**2,712,849**	2,327,618
Current liabilities	**352,739**	280,549
Noncurrent liabilities	**800,602**	865,496
Revenue	**655,427**	537,121
Net income	**441,449**	335,714
Dividends received from TDW	**87,749**	–

The conversion rates used was ₱0.0021 and ₱0.0020 to VND1 as of December 31, 2013 and 2012, respectively.

KDW	2013	2012
Current assets	**₱126,091**	₱150,115
Noncurrent assets	**2,383,454**	1,576,809
Current liabilities	**522,501**	158,033
Noncurrent liabilities	**1,115,527**	859,813
Revenue	**150,829**	153,436
Net income	**161,880**	89,259

The conversion rate used was ₱0.0021 and ₱0.0020 to VND1 as of December 31, 2013 and 2012, respectively.

BLC	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Current assets	**23,612,217**	8,706,725	12,494,845
Non-current assets	**21,013,477**	23,289,999	23,031,456
Current liabilities	**4,895,150**	2,587,605	2,019,519
Non-current liabilities	**3,693,719**	5,224,859	5,519,109
Revenue	**8,067,041**	7,154,345	4,064,943
Cost and expenses	**(5,511,372)**	(6,353,297)	(2,893,927)
Net income (continuing operations)	**2,555,669**	801,048	1,171,016

Financial information on significant joint ventures (amounts in millions, except earnings per share figures) follows:

	December 31		January 1
Globe	**2013**	2012 (As restated)	2012 (As restated)
Current assets, including cash and cash equivalents amounting to ₱7.4 billion in 2013, ₱6.8 billion in 2012 and ₱5.2 billion in 2011	**₱35,631**	₱34,028	₱23,564
Noncurrent assets	**123,448**	113,760	106,501
Current liabilities including financial liabilities* amounting to ₱15.2 billion in 2013, ₱15.4 billion in 2012 and ₱15.2 billion in 2011	**54,989**	45,826	38,986
Noncurrent liabilities, including financial liabilities* amounting to ₱62.5 billion in 2013, ₱54.2 billion in 2012 and ₱39.8 billion in 2011	**62,450**	56,487	43,494
Revenue	**95,141**	86,446	81,518

(Forward)

	December 31		January 1
	2013	2012	2012
Interest income	**₱688**	₱580	₱297
Costs and expenses			
Depreciation and amortization	**27,477**	23,583	18,941
Interest expense	**2,911**	2,363	2,510
Provision for income tax	**1,905**	2,906	4,254
Net income	**4,960**	6,845	9,805
Other comprehensive income	**213**	122	316
Total comprehensive income	**4,747**	6,723	9,489
Earnings per share:			
Basic	**37.25**	51.45	73.81
Diluted	**37.22**	51.38	73.57
Dividends received from Globe	**2,701**	2,620	2,499

**excluding trade and other payables and provisions*

In addition to the interest in associates and joint ventures discussed above, the Group also has interest in a number of individually immaterial associates and joint ventures. Below is a summary of certain financial information concerning these immaterial associates and joint ventures:

	2013	2012	2011
		(In Millions)	
Carrying amount	**17,268.0**	15,271.0	17,167.0
Equity in net earnings	**(181.1)**	(418.3)	(238.7)
Share in other comprehensive income	**828.9**	(125.7)	318.7

As of December 31, 2013 and 2012 and January 1, 2012, the Group had total commitments relating to the Group's interests in its associates and joint ventures amounting to ₱3,787.5 million and ₱2,259.0 million and ₱1,246.8 million, respectively (see Note 37).

As of December 31, 2013 and 2012 and January 1, 2012, the Group has no contingent liabilities incurred in relation to its investments in associates and joint ventures.

On certain investments in associates and joint ventures, the Group entered into shareholders' agreements with fellow shareholders. Such shareholders' agreements include, among others, restriction as to declaration and payment of dividend, incurrence of debt and transactions with related parties.

The following significant transactions affected the Group's investments in associates and joint ventures:

Investment in BPI

On November 6, 2013, the BOD of BPI approved the offering for subscription of up to 370 million common shares of BPI by way of a stock rights offering to eligible registered holders of common shares as of January 16, 2014 at the entitlement ratio of 1 rights share for every 9.602 existing common shares held by such eligible shareholders. The stock rights offer started on January 20, 2014 and ended on January 30, 2014 (see Note 41).

In October 2012, the Company entered into an agreement with DBS Bank, Ltd. (DBS) to acquire 8.69%, equivalent to 309.3 million of the outstanding common shares held by DBS in BPI for a total consideration of ₱21.6 billion. As of December 31, 2013 and 2012, outstanding payable to DBS in relation to the transaction amounted to ₱3.6 billion and ₱10.8 billion, respectively.

The fair value of BPI shares held by the Group amounted to ₱92.3 billion, ₱102.0 billion and ₱42.8 billion as of December 31, 2013, 2012 and January 2012, respectively.

As of December 31, 2013, 2012 and January 1, 2012, the notional goodwill resulting from the difference between the share in the net assets in BPI and its carrying value amounted to ₱18.6 billion, ₱18.9 billion and ₱5.8 billion, respectively.

Investment in Globe
The Company also holds 60% of Asiacom, which owns 158.5 million Globe preferred shares and 460.0 million AC preferred shares as of December 31, 2013. The Company does not exercise control over Asiacom since it is a joint venture with SingTel.

The fair value of the Globe shares held by the Group amounted to ₱65.5 billion and ₱44.0 billion as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, 2012 and January 1, 2012, the notional goodwill resulting from the difference of the share in the net assets in Globe and its carrying value amounted to ₱2.7 billion, ₱2.9 billion and ₱2.9 billion, respectively.

Investment in ADHI
In December 2013, DBS divested its 46.5% remaining ownership interest in ADHI of which the Company acquired 20.3%. Arran Investment Pte. Ltd. (GICSI), an entity managed and controlled by GIC Special Investments Pte. Ltd. acquired the remaining interest of 26.2% and replaced DBS as the new joint venture partner of the Company in ADHI. The total consideration paid by the Company for the additional 37.6 million ADHI Class B common shares amounted to ₱13.2 billion (see Note 18).

In October 2012, the Company purchased 15.0 million ADHI Class B common shares representing 1.7% indirect ownership in BPI for a total consideration of ₱3.98 billion (see Note 18).

As of December 31, 2013, 2012 and January 1, 2012, ADHI owns 757.8 million common shares of BPI. ADHI's direct ownership in BPI is equal to 21.3% as of December 31, 2013, 2012 and January 1, 2012.

The fair value of BPI shares held by ADHI amounted to ₱64.4 billion, ₱71.2 billion and ₱41.8 billion as of December 31, 2013, 2012 and January 1, 2012, respectively. The Group and GICSI, as joint venture partners, agreed to vote its BPI shares based on the common position reached jointly by them as shareholders.

Investment in ECHI and BHI
On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Metro Pacific Investment Corporation (MPIC) as amended:

(a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPIC, pursuant to which, Larouge extended MPIC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to ALI and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPIC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPIC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPIC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million. This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

In 2011, BLC redeemed its 3,485,050 preferred shares with an aggregate redemption price of ₱500.0 million.

ALI's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because ALI has significant influence over BLC.

Investment in SLTEC
On June 29, 2011, ACEHI entered into a 50-50 joint venture with Trans-Asia Oil and Energy Development Corporation to incorporate SLTEC which will undertake the construction and operation of a 135-megawatt power plant in Calaca, Batangas. The power plant will employ the environment-friendly Circulating Fluidized Bed boiler technology and is expected to start commercial operations by mid-2014.

In various dates in 2013 and 2012, the Group infused additional capital to SLTEC by way of deposits for further stock subscriptions, which were subsequently converted into shares of stock, amounting to ₱1,184.0 million and ₱458.0 million, respectively.

Investment in Stream
On August 14, 2009, a Share Exchange Agreement (the Agreement) was entered into by Stream, EGS, EGS Dutchco B.V. (EGS Dutchco), and NewBridge to combine in a stock-for-stock exchange. Under the Agreement:

- NewBridge shall contribute all its rights with respect to the US$35.8 million advances from EGS. These advances were originally borrowed by EGS from AYC Holdings. AYC Holdings assigned the advances to NewBridge;
- NewBridge shall transfer to Stream all the shares of EGS that it owns including shares that would result from the conversion of the US$35.8 million advances; and
- Stream shall issue and deliver to NewBridge an aggregate of 20,192,068 common shares with US$0.001 par value per share provided that at the election of Stream, Stream may pay an aggregate of US$5,994 in cash for an aggregate of 1,131 shares (at US$5.3 per share) of Stream Common Stock otherwise issuable to NewBridge.

On October 1, 2009 (the Closing Date), NewBridge received a total of 20,190,937 shares of Stream's capital stock representing 25.5% interest in Stream and cash amounting toUS$5,994 in lieu of 1,131 shares. As a result of the transaction, NewBridge:

- derecognized its Investment in and Loan receivable from EGS amounting to US$61.5 million and US$35.8 million, respectively;
- recognized an Investment in Stream amounting to US$107.0 million; and,
- recognized a gain from the transaction amounting to US$8.8 million.

After the Closing Date, Newbridge acquired additional 320,146 common shares of Stream at a total cost of US$1.9 million.

On October 5, 2009, the 5,880.0 million shares of non-voting common stock were converted into voting common stock.

In March 2010, NewBridge exercised its warrants in exchange for 13,187 additional shares in Stream at US$6.0 per share at a total cost of US$0.08 million.

In 2010, the Group recorded an adjustment for the excess of the carrying value over the fair value of its investment in Stream amounting to ₱365.6 million. The adjustment was recorded mainly due to the decline in the quoted share price of Stream. The recoverable amount of the investment in Stream is based on its quoted share price as of December 31, 2010. The adjustment is netted against the share of profit of associates and joint ventures in the consolidated statement of income.

On April 27, 2012, Stream's three majority shareholders namely Ares Management LLC (ARES), Providence Equity Partners, Inc. (PEP) and the Company (through AIVPL and LIL) completed a short-form merger in which they purchased all the remaining common stock outstanding of Stream. On the same date, Stream delisted its shares from the New York Stock Exchange and as such no longer has publicly traded equity.

On January 7, 2014, ARES, PEP and LiveIt Investments Ltd.entered into an agreement with Convergys Corporation to sell their 100% combined interest in Stream. Accordingly, the carrying amount of investment in Stream amounting to ₱3.4 billion as of December 31, 2013 is shown as Noncurrent Asset Held for Sale in the consolidated statement of financial position.

Investment in Integreon
On February 16, 2010, Actis LLP, an emerging markets private equity specialist, invested US$50.0 million to acquire a 37.68% stake in Integreon, a subsidiary of LIL. The transaction resulted in the Group losing control over Integreon. Integreon became a joint venture by LIL and Actis although LIL owns 56.36% of Integreon.

Thu Duc Water B.O.O. Corporation
On October 12, 2011, Thu Duc Water Holdings Pte. Ltd. (TDWH) (a subsidiary of MWC) and CII entered into a share sale and purchase agreement whereby CII will sell to TDWH its 49% interest (2,450,000 common shares) in TDW. On December 8, 2011, TDWH completed the acquisition of CII's interest in the common shares of TDW after which TDWH obtained significant influence in TDW.

The acquisition cost of the investment amounted to ₱1.80 billion (VND858 billion). Included within investment in associate account is a notional goodwill amounting to ₱1.21 billion arising from the acquisition of shares of stocks in TDW by the Group.
In 2012, TDWH finalized its purchase price allocation which resulted in a final notional goodwill amounting to ₱1.41 billion.

The share of the Group in the net income of TDW in 2013 and 2012 amounted to ₱216.3 million ₱164.5 million, respectively.

Kenh Dong Water Supply Joint Stock Company
On May 17, 2012, MWC, through its subsidiary Kenh Dong Water Holding Pte. Ltd. (KDWH), entered into a Share Purchase Agreement with CII for the purchase of 47.35% of CII's interest in Kenh Dong Water Supply Joint Stock Company (KDW). The payment for the shares will be done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent for a total purchase price of ₱1.7 billion.

As of December 31, 2012, consideration paid by MWC for its investment in KDW amounted to ₱1.6 billion (VND785.2 billion). Contingent consideration included in the purchase price allocation amounted to ₱89.0 million (VND44.5 billion). The share purchase transaction was completed on July 20, 2012 warranting KDWH to obtain significant influence in KDW.

In 2013, KDW finalized its purchase price allocation which resulted in a final notional goodwill amounting to ₱1.4 billion. The Group also received ₱62.90 million from KDWH as indemnification for the damages resulting from the delay in operations.

The share of the Group in the net income of KDW in 2013 and 2012 amounted to ₱76.5 million and ₱44.1 million, respectively.

Saigon Water Infrastructure Joint Stock Company
On October 8, 2013, MWC thru its subsidiary Manila Water South Asia Holdings Pte. Ltd (MWSAH) entered into a Share Purchase Agreement with Saigon Water to acquire a 31.47% interest in Saigon Water Infrastructure Joint Stock Company. The acquisition cost of the investment amounted to ₱627.9 million (VND310.5 billion). The share purchase transaction was completed on October 8, 2013 warranting MWSAH to have significant influence in Saigon Water.

Included within investment in associate account, is a notional goodwill amounting to ₱288.8 million arising from the acquisition of shares of stocks in Saigon Water by the MWC group as of December 31, 2013.

The share of the Group in the consolidated net income of Saigon Water for the period October to December 31, 2013 amounted to ₱1.0 million.

Investment in Tianjin Eco-City Ayala Land Development Co., Ltd.
Regent Wise, a wholly-owned subsidiary of ALI, signed an Equity Joint Venture Agreement with Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd for the development of a 9.78 hectare residential project in China. The project will be located in Tianjin Eco-City, a 3,000 hectare collaboration between the Chinese and Singaporean governments which will showcase future direction of urban planning and sustainable development.

Investment in VinaPhil
CII and the Group have entered into an agreement to jointly invest in VinaPhil Technical Infrastructure Investment JSC ("VinaPhil"), a corporation established under Vietnam law to invest in infrastructure projects in Vietnam. VinaPhil will be initially 49%-owned by the Group with the remainder owned by CII and other Vietnamese investors. VinaPhil will have an initial charter capital of VND 900 billion (approximately US$43 million).

In 2013, VinaPhil proportionately redeemed 30% of the outstanding shares issued to each shareholders wherein the Group's share amounted to VND 132.3 billiion (US$6.35 million). The redemption of the shares did not alter the ownership structure of VinaPhil.

Investment in PWHC
On July 12, 2013, ACEHI signed an Investment Framework Agreement and Shareholders' Agreement with UPC Philippines Wind Holdco I B.V., a wholly-owned company of UPC Renewable Partners and the Philippine Investment Alliance for Infrastructure fund, comprised of the Government Service Insurance System, Langoer Investments Holding B.V. and Macquarie Infrastructure Holdings (Philippines) Pte. Limited, to develop wind power projects in Ilocos Norte

through Northern Luzon UPC Asia Corporation (NLUPC) as their joint venture company. An initial equity investment has been agreed for the first 81MW project with an investment value of approximately US$220 million with ACEHI funding 64% of equity, PINAI 32% and UPC 4%.

The 81MW wind power project received a declaration of commerciality on June 17, 2013 from the Department of Energy. Accordingly, NLUPC has signed the Turbine Supply, Installation and Service Availability Agreements with Siemens Wind Power A/S and Siemens Inc. and has issued the Notice to Proceed.

As of December 31, 2013, ACEHI's total capital commitment pertaining to investments in PWHC amounted to ₱2.5 billion.

Investment in Rize-Ayalaland
Rize-Ayalaland (Kingsway) GP, Inc. was incorporated on January 25, 2013 under the laws of British Columbia, Canada. ALI's effective ownership is 49% through its Vancouver-based subsidiary, AyalaLand Real Estate Investments Inc.

Investment in MGHI
In July 2013, ALI entered into an agreement with the Mercado Family to acquire Whiteknight Holdings, Inc. (WHI), a 33% equity stockholder of MGHI. Its acquisition of WHI will allow ALI to build a strategic partnership with the Mercado Group and support MGHI's future growth. This partnership also enhances the potential of ALI's development of mixed-use communities by offering the critical component of medical services to complement the residential, shopping centers, office and hotel developments therein.

Interest in Limited Partnerships of Ayala International North America (AINA)
Other investments include AINA's interest in various Limited Partnerships. These investments are all incorporated in the United States of America (USA) and are mainly involved in developing properties in different states in the USA. Although the interest of AINA in certain limited partnerships exceeds 50%, these limited partnerships are accounted for under the equity method of accounting because AINA does not have control over the financial and operating policies of these partnerships. As of December 31, 2012, AINA's interest in limited partnership pertain to its investment in PRP Investors-Fontana, LLC (PRP Investors).

The Group's accumulated equity in net losses of the Limited Partnerships exceeded the cost of its investment amounting to US$6.1 million (₱249.7 million) in 2012. Accordingly, the excess is recorded as a liability under accounts payable and accrued expenses as of December 31, 2012 (see Note 18). In December 2013, AINA purchased the interest of the managing member in PRP Investors thereby enabling AINA to obtain control of PRP Investors (see Note 24).

13. Investment Properties

The movements in investment properties follow:

2013

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱5,968,510**	**₱53,452,688**	**₱6,045,271**	**₱65,466,469**
Additions	**3,246,941**	**3,247,461**	**5,591,625**	**12,086,027**
Transfers	**1,605,130**	**7,142,251**	**(7,502,509)**	**1,244,872**
Disposals	**(45,110)**	**(251,306)**	**(16,249)**	**(312,665)**
Balance at end of the year	**10,775,471**	**63,591,094**	**4,118,138**	**78,484,703**

(Forward)

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	**₱26,616**	**₱12,990,921**	**₱–**	**₱13,017,537**
Depreciation and amortization (Note 23)	**–**	**2,490,412**	**–**	**2,490,412**
Transfers	**–**	**415**	**–**	**415**
Disposals	**–**	**(180,884)**	**–**	**(180,884)**
Balance at end of the year	**26,616**	**15,300,864**	**–**	**15,327,480**
Net book value	**₱10,748,855**	**₱48,290,230**	**₱4,118,138**	**₱63,157,223**

2012

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	₱5,776,239	₱44,917,283	₱4,370,736	₱55,064,258
Additions	308,371	2,474,719	6,449,698	9,232,788
Transfers	(116,100)	6,067,748	(4,775,163)	1,176,485
Disposals	–	(7,062)	–	(7,062)
Balance at end of the year	5,968,510	53,452,688	6,045,271	65,466,469
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	26,616	11,492,337	–	11,518,953
Depreciation and amortization (Note 23)	–	1,484,493	–	1,484,493
Disposals	–	(5,409)	–	(5,409)
Impairment losses (Note 23)	–	19,500	–	19,500
Balance at end of the year	26,616	12,990,921	–	13,017,537
Net book value	₱5,941,894	₱40,461,767	₱6,045,271	₱52,448,932

2011

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	₱5,565,820	₱37,180,976	₱3,326,938	₱46,073,734
Additions	1,341,296	5,044,324	4,042,250	10,427,870
Transfers	(1,130,877)	2,697,643	(2,998,446)	(1,431,680)
Disposals	–	(5,660)	(6)	(5,666)
Balance at end of the year	5,776,239	44,917,283	4,370,736	55,064,258
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	26,616	9,531,417	–	9,558,033
Depreciation and amortization (Note 23)	–	1,964,764	–	1,964,764
Disposals	–	(3,844)	–	(3,844)
Balance at end of the year	26,616	11,492,337	–	11,518,953
Net book value	₱5,749,623	₱33,424,946	₱4,370,736	₱43,545,305

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its own use and benefit.

On March 5, 2011, Alveo Land Corporation, a subsidiary of ALI, acquired a landholding entity, by way of acquisition of 70% shares of stock of Solinea (formerly Bigfoot Palms, Inc.). Solinea is involved in developing properties located in Cebu Business Park. The value of the investment property arising from the acquisition amounted to ₱417.3 million.

The aggregate fair value of the Group's investment properties amounted to ₱232.9 billion in 2013, ₱228.9 billion in 2012 and ₱211.7 billion in 2011. The fair values of the investment properties were determined based on valuations performed by independent professional qualified appraisers.

The fair value of the investment properties was arrived using the Market Data Approach and Cost Approach for land and building, respectively.

In Market Data Approach, the value of the land is based on sales and listing of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Cost Approach is a comparative approach to the value of the building and improvements or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction cost (new) of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit/loss is commonly added.

The Company has determined that the highest and best use of the land and buildings leased to related parties is its current use. The Company owns certain parcels of idle land which is intended to be sold or developed in the future. The highest and best use of these parcels of land has been determined to be for commercial and agricultural land utilization.

As of December 31, 2012 and January 1, 2012, total commitments for investment properties amounted to ₱16.3 billion and ₱10.0 billion, respectively.

Interest capitalized amounted to ₱113.5 million, ₱189.9 million and ₱144.0 million and in 2013, 2012 and 2011, respectively.

Consolidated rental income from investment properties amounted to ₱13.3 billion in 2013, ₱13.2 billion in 2012 and ₱11.6 billion in 2011. Consolidated direct operating expenses arising from the investment properties amounted to ₱4.1 billion in 2013, ₱3.2 billion and ₱3.3 billion in 2011, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱2.5 billion, ₱1.5 billion and ₱2.0 billion in 2013, 2012 and 2011, respectively (see Note 23).

In 2012, the Group provided for allowance for impairment loss amounting to ₱19.5 million. The impairment loss is included under "Other charges" account in the consolidated statement of income (see Note 23).

14. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2013						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	**₱9,942,458**	**₱10,673,309**	**₱12,379,164**	**₱5,083,954**	**₱2,126,377**	**₱390,274**	**₱40,595,536**
Additions	**1,517,370**	**2,130,395**	**1,316,792**	**875,276**	**709,532**	**289,385**	**6,838,750**
Disposals	**(280,091)**	**(1,274,259)**	**(38)**	**(140,821)**	**(113,045)**	**(126)**	**(1,808,380)**
Transfers	**(1,566,473)**	**565,811**	**–**	**36,422**	**3,642**	**–**	**(960,598)**
Exchange differences	**(11,652)**	**56,592**	**–**	**18,957**	**1,371**	**4,249**	**69,517**
At December 31	**9,601,612**	**12,151,848**	**13,695,918**	**5,873,788**	**2,727,877**	**683,782**	**44,734,825**
Accumulated depreciation and amortization and impairment loss							
At January 1	**3,484,905**	**6,398,522**	**2,367,590**	**4,010,374**	**1,331,695**	**–**	**17,593,086**
Depreciation and amortization for the year (Note 23)	**350,877**	**1,315,165**	**381,968**	**644,088**	**268,581**	**–**	**2,960,679**
Impairment Loss (Note 23)	**–**	**222**	**–**	**–**	**–**	**–**	**222**
Disposals	**(266,192)**	**(1,232,804)**	**(38)**	**(140,821)**	**(113,045)**	**–**	**(1,752,900)**
Transfers	**(49)**	**15**	**–**	**375**	**–**	**–**	**341**
Exchange differences	**3,534**	**22,683**	**–**	**22,659**	**1,052**	**–**	**49,928**
At December 31	**3,573,075**	**6,503,803**	**2,749,520**	**4,536,675**	**1,488,283**	**–**	**18,851,356**
Net book value	**₱6,028,537**	**₱5,648,045**	**₱10,946,398**	**₱1,337,113**	**₱1,239,594**	**₱683,782**	**₱25,883,469**

	2012						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱8,473,169	₱9,359,936	₱5,126,514	₱4,737,658	₱2,067,963	₱81,919	₱29,847,159
Additions	1,698,424	2,108,337	1,835,824	484,311	221,098	420,135	6,768,129
Additions through business combination (Note 24)	–	–	5,421,000	–	–	–	5,421,000
Disposals	(15,372)	(564,028)	(4,174)	(104,080)	(156,964)	–	(844,618)
Transfers	3,207	175,603	–	12,709	–	(104,678)	86,841
Exchange differences	(216,970)	(406,539)	–	(46,644)	(5,720)	(7,102)	(682,975)
At December 31	9,942,458	10,673,309	12,379,164	5,083,954	2,126,377	390,274	40,595,536
Accumulated depreciation and amortization and impairment loss							
At January 1	3,209,418	5,826,389	2,180,400	3,417,662	1,160,880	–	15,794,749
Depreciation and amortization for the year (Note 23)	426,139	1,266,676	191,365	704,055	305,567	–	2,893,802
Impairment Loss (Note 23)	–	11,073	–	502	–	–	11,575
Disposals	(14,203)	(427,604)	(4,175)	(74,264)	(131,219)	–	(651,465)
Transfers	–	(1,665)	–	1,665	–	–	–
Exchange differences	(136,449)	(276,347)	–	(39,246)	(3,533)	–	(455,575)
At December 31	3,484,905	6,398,522	2,367,590	4,010,374	1,331,695	–	17,593,086
Net book value	₱6,457,553	₱4,274,787	₱10,011,574	₱1,073,580	₱794,682	₱390,274	₱23,002,450

	2011						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱7,229,400	₱8,576,352	₱4,094,610	₱4,159,803	₱2,103,820	₱21,743	₱26,185,728
Additions	755,042	1,035,227	1,200,744	512,482	205,964	42,405	3,751,864
Additions through business combination (Note 24)	806,914	792,054	–	26,932	16,271	34,169	1,676,340
Disposals	(21,507)	(938,574)	(9,172)	(89,174)	(256,958)	–	(1,315,385)
Transfers	(223,907)	3,664	(159,668)	145,120	–	(10,858)	(245,649)
Exchange differences	(72,773)	(108,787)	–	(17,505)	(1,134)	(5,540)	(205,739)
At December 31	8,473,169	9,359,936	5,126,514	4,737,658	2,067,963	81,919	29,847,159
Accumulated depreciation and amortization and impairment loss							
At January 1	2,853,876	5,345,559	1,990,997	2,884,630	1,037,138	–	14,112,200
Depreciation and amortization for the year (Note 23)	386,545	1,208,240	199,477	599,086	299,656	–	2,693,004
Disposals	(19,568)	(722,382)	(10,074)	(71,739)	(176,168)	–	(999,931)
Transfers	(13,493)	1,699	–	8,779	–	–	(3,015)
Exchange differences	2,058	(6,727)	–	(3,094)	254	–	(7,509)
At December 31	3,209,418	5,826,389	2,180,400	3,417,662	1,160,880	–	15,794,749
Net book value	₱5,263,751	₱3,533,547	₱2,946,114	₱1,319,996	₱907,083	₱81,919	₱14,052,410

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱3.0 billion in 2013, ₱2.9 billion in 2012 and ₱2.7 billion in 2011 (see Note 23).

The carrying values of IMI's equipment under finance lease amounted to US$5.25 million (₱233.07 million), US$2.05 million (₱84.15 million), and US$2.2 million (₱97.3 million) as of December 31, 2013, 2012 and January 1, 2012, respectively (see Note 30).

The cost of fully depreciated property, plant and equipment amounted to ₱8.8 billion, ₱8.1 billion and ₱5.0 billion as of December 31, 2013, 2012 and January 1, 2012, respectively.

In 2012, IMI recognized an impairment loss of US$0.23 million (₱9.71 million), representing carrying amount of production assets, included under "Cost of Sales" account in the consolidated statement of income. In 2011, AIVPL recognized impairment loss of US$0.05 million included under "Other Charges" account in the consolidated statement of income.

15. Service Concession Assets and Obligations

Service Concession Assets

The movements in this account follow:

	December 31		January 1
	2013	2012	2012
	(In Thousands)		
Cost			
At January 1	**₱86,728,953**	₱79,023,430	₱69,526,353
Additions during the year	**5,457,889**	7,705,523	8,419,716
Transfers	**35,897**	–	–
Additions through business combination (Note 24)	**–**	–	1,077,361
At December 31	**92,222,739**	86,728,953	79,023,430
Accumulated amortization			
At January 1	**15,433,554**	12,776,238	10,428,584
Amortization (Note 23)	**3,034,778**	2,657,316	2,347,654
At December 31	**18,468,332**	15,433,554	12,776,238
Net book value	**₱73,754,407**	₱71,295,399	₱66,247,192

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, pursuant to the Group's concession agreements and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements.

Total interest and other borrowing costs capitalized as part of SCA amounted to ₱299.48 million and ₱343.92 million in 2013 and 2012, respectively. The capitalization rates used ranged from 4.16% to 7.06% in 2013 and 4.89% to 7.23% in 2012.

Transfers pertain to the acquisition of the water reticulation system of Laguna Technopark, Inc. (LTI), a subsidiary of ALI, by LAWC on December 23, 2013.

In March 2010, MWC entered into a MOA with MWSS for the repayment of the Export-Import Bank of China loan which resulted in additional SCA and SCO amounting to ₱215.17 million and ₱1,085.50 million in 2013 and 2012, respectively.

The Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, POL, TIEZA and CDC. These concession agreements set forth the rights and obligations of the Parent Company and MWC Group throughout the concession period (see Note 35).

Service Concession Obligation

POL Concession Fees
Under Laguna AAA Water Corporation's (LAWC) concession agreement with POL, LAWC is required to pay concession fees to POL computed as a percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Advance payment to POL was made for the said concession fees and 70% of the annual concession fees is applied against the said advances. The remaining thirty percent (30%) of the annual concession fees is expensed in the period they are incurred.

BIWC Concession Fees
The aggregate concession fee pursuant to the Agreement is equal to the sum of the following:

a. Servicing the aggregate peso equivalent of all liabilities of Boracay Water Sewerage System (BWSS) as of commencement date;

b. 5% of the monthly gross revenue of the Concessionaire, inclusive of all applicable taxes which are for the account of the Concessionaire.

c. Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, the Concessionaire shall pay not more than ₱20.0 million, subject to annual consumer price index (CPI) adjustments.

In addition, advance payment of ₱60.0 million was provided to TIEZA which shall be offset against the annual concession fees pertaining to the 5% annual gross revenue of Boracay Island Water Company, Inc. (BIWC), within a period of 10 years from the signing of the concession agreement or until fully paid. Any amount payable after application of the advance payment will be expensed in the period this is incurred.

CDC Concession Fees
The aggregate concession fee pursuant to the Agreement is equal to the sum of the following:

a. Annual franchise fee of ₱1.5 million;

b. Semi-annual rental fees of ₱2.8 million for leased facilities from CDC.

MWSS Concession Fees
The aggregate concession fees of MWC pursuant to the Agreement are equal to the sum of the following:

a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;
b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;

c. 10% of the local component costs and cost overruns related to the UATP;
d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by the MWC for continuation; and
e. 100% of the local component costs and cost overruns related to existing projects; and
f. MWC's share in the repayment of MWSS loan for the financing of the Project.

The schedule of undiscounted future concession fee payments follows:

	In Original Currency		
Year	Foreign Currency Denominated Loans (Translated to US Dollars)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2014	$9,537,211	₱395,714,907	₱819,119,411
2015	6,514,545	395,714,907	684,928,124
2016	8,866,507	395,714,907	789,343,474
2017	7,055,308	395,714,907	708,935,321
2018	7,262,061	395,714,907	718,114,122
2019 onwards	51,869,296	7,518,583,229	9,821,320,614
	$91,104,928	₱9,497,157,764	₱13,541,761,066

**Peso equivalent is translated using the closing rate as of December 31, 2013 amounting to ₱44.40 to US$1.*

Estimated concession fee payments on future concession projects, excluding MWC's share in current operating budget, related to the Extension is still not determinable. It is only determinable upon loan drawdown of MWSS and actual construction of the related concession projects.

16. Intangible Assets

The movements in intangible assets follow:

2013	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Total
					(In Thousands)					
Cost										
At January 1	₱5,103,080	₱1,202,746	₱4,128	₱4,105	₱177,114	₱295,999	₱84,733	₱8,405	₱89,978	₱6,970,288
Additions through business combination (Note 24)	31,830	–	–	–	–	–	–	–	–	31,830
Additions during the year	–	–	–	–	34,986	–	–	49,922	90,975	175,883
Exchange differences	108,169	8,967	–	–	28,507	–	–	8,277	–	153,920
At December 31	5,243,079	1,211,713	4,128	4,105	240,607	295,999	84,733	66,604	180,953	7,331,921
Accumulated amortization and impairment loss										
At January 1	1,657,719	910,367	4,128	4,105	11,886	253,772	84,733	3,061	19,486	2,949,257
Amortization (Note 23)	–	78,036	–	–	38,591	–	–	34,732	–	151,359
Impairment (Note 23)	31,830	–	–	–	–	–	–	–	–	31,830
Exchange differences	–	2,801	–	–	16,669	–	–	4,159	–	23,629
At December 31	1,689,549	991,204	4,128	4,105	67,146	253,772	84,733	41,952	19,486	3,156,075
Net book value	₱3,553,530	₱220,509	₱–	₱–	₱173,461	₱42,227	₱–	₱24,652	₱161,467	₱4,175,846

2012	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Total
					(In Thousands)					
Cost										
At January 1	₱5,275,134	₱1,263,398	₱4,128	₱4,384	₱177,114	₱274,146	₱84,733	₱8,768	₱78,863	₱7,170,668
Additions through business combination (Note 24)	–	–	–	–	–	–	–	–	–	–
Additions during the year	–	–	–	–	–	29,473	–	–	12,065	41,538
Exchange differences	(172,054)	(60,652)	–	(279)	–	(7,620)	–	(363)	(950)	(241,918)
At December 31	5,103,080	1,202,746	4,128	4,105	177,114	295,999	84,733	8,405	89,978	6,970,288
Accumulated amortization and impairment loss										
At January 1	1,689,466	871,922	4,128	4,384	11,886	182,352	84,733	1,349	8,285	2,858,505
Amortization (Note 23)	–	77,616	–	–	–	61,750	–	1,712	11,201	152,279
Exchange differences	(31,747)	(39,171)	–	(279)	–	9,670	–	–	–	(61,527)
At December 31	1,657,719	910,367	4,128	4,105	11,886	253,772	84,733	3,061	19,486	2,949,257
Net book value	₱3,445,361	₱292,379	₱–	₱–	₱165,228	₱42,227	₱–	₱5,344	₱70,492	₱4,021,031

	2011									
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Total
					(In Thousands)					
Cost										
At January 1	₱4,484,283	₱846,365	₱4,128	₱4,384	₱–	₱212,093	₱84,733	₱–	₱–	₱5,635,986
Additions through business combination (Note 24)	782,072	402,674	–	–	172,912	19,323	–	8,560	33,602	1,419,143
Additions during the year	–	–	–	–	–	41,805	–	–	44,445	86,250
Exchange differences	8,779	14,359	–	–	4,202	925	–	208	816	29,289
At December 31	5,275,134	1,263,398	4,128	4,384	177,114	274,146	84,733	8,768	78,863	7,170,668
Accumulated amortization and impairment loss										
At January 1	1,549,855	835,618	4,128	4,384	–	99,340	28,723	–	–	2,522,048
Amortization (Note 23)	–	35,913	–	–	11,791	82,694	56,010	1,335	8,191	195,934
Impairment loss (Note 23)	139,170	–	–	–	–	–	–	–	–	139,170
Exchange differences	441	391	–	–	95	318	–	14	94	1,353
At December 31	1,689,466	871,922	4,128	4,384	11,886	182,352	84,733	1,349	8,285	2,858,505
Net book value	₱3,585,668	₱391,476	₱–	₱–	₱165,228	₱91,794	₱–	₱7,419	₱70,578	₱4,312,163

Goodwill mainly comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Impairment testing of goodwill for the Group

IMI Group
Goodwill acquired through business combinations have been allocated to five individual CGUs of IMI for impairment testing as follows (amounts in thousands):

	2013		2012	
	In US$	**In Php***	In US$	In Php*
Speedy Tech Electronics, Ltd. (STEL)	**US$45,128**	**₱2,003,458**	US$45,128	₱1,852,505
PSi	**7,479**	**332,030**	7,479	307,012
IMI USA	**657**	**29,168**	657	26,954
IMI CZ	**650**	**28,857**	650	26,699
IMI Philippines	**441**	**19,578**	441	18,110
	US$54,355	**₱2,413,091**	US$54,355	₱2,231,280

**Translated using the closing exchange rate at the statement of financial position date (US$1:₱44.40 in 2013, US$1:₱ 41.05 in 2012).*

STEL Group, PSi and IMI USA and IMI CZ
The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow are as follows:

	2013	2012
STEL Group	**13.07%**	11.85%
Psi	**14.11%**	13.47%
IMI USA	**13.69%**	11.41%
IMI CZ	**12.73%**	12.40%

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global EMS industry.

Key assumptions used in value in use calculations
The calculations of value in use for the CGUs are most sensitive to the following assumptions:

- Budgeted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Revenue - Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STEL Group, IMI USA and IMI CZ in 2013, 2012 and 2011.

For PSi, the assessment resulted in an impairment loss of US$2.7 million (₱118.6 million) in 2011 included in "Other charges" in the consolidated statement of income (see Note 23). The comparison of the recoverable amount and the carrying amount resulted in no impairment for the years 2013 and 2012.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of STEL Group, PSi, IMI USA, and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

IMI Philippines
This pertains to the goodwill arising from the purchase of M. Hansson Consulting, Inc. (MHCI) in 2006. MHCI was subsequently merged to IMI Philippines as testing and development department.

The recoverable amount was based on the market price of the Parent Company's shares at valuation date less estimated costs to sell. The comparison of the recoverable amount and the carrying amount resulted to no impairment loss in 2013, 2012 and 2011.

MWC and Philwater
Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million. The recoverable amount in 2013 and 2012 was based on the market price of MWC shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

CWC
This pertains to the goodwill arising from the purchase of CWC in 2011. MWC's impairment tests for goodwill are based on value in use and fair value less cost to sell calculations. The value in use calculations in 2012 used a discounted cash flow model. The cash flows are derived from the budget for the next five years and assumes a steady growth rate. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model as well as expected future cash inflows and the growth rate used for extrapolation purposes.

The carrying value of goodwill amounted to ₱130.3 million as of December 31, 2013 and 2012. No impairment loss was recognized as a result of the impairment testing performed.

ACEHI Group
Goodwill acquired through business combinations have been allocated to two individual CGUs of ACEHI for impairment testing as follows:

	December 31		January 1
	2013	2012	2012
		(In Thousands)	
Wind Power	**₱411,031**	₱411,031	₱411,031
Hydro Power	**55,424**	55,424	55,424
	₱466,455	₱466,455	₱466,455

Wind Power Companies
The recoverable amount of the Wind Power CGU is based on value in use calculations using cash flow projections from financial budgets approved by ACEHI management covering the period the CGU is expected to be operational. The pre-tax discount rates applied to cash flow projections for the Wind Power CGU is 10% which is based on weighted average cost of capital of comparable entities. The value in use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEHI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the Wind Power CGU to exceed its recoverable amount.

No impairment loss was assessed for the Wind Power CGU in 2013 and 2012.

Hydro Power Companies
The recoverable amount of Hydro Power CGU is based on fair value less cost to sell calculations using cash flow projections from financial budgets approved by ACEHI management covering the period the Hydro Power CGU is expected to be operational. The pre-tax discount rates applied to cash flow projections for the Hydro Power CGU is 12% which is based on weighted average cost of capital of comparable entities. The value in use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEHI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the units to exceed their recoverable amount.

No impairment loss was assessed for the Hydro Power CGU in 2013 and 2012.

Customer relationships
Customer relationships pertain to STEL Group's and IMI BG's noncontractual and contractual agreements, respectively, with certain customers which lay out the principal terms upon which the parties agree to undertake business. Customer relationship of STEL amounting to US$12.90 million is fully amortized as of December 31, 2013 and 2012.

Unpatented technology
Unpatented technology pertains to products which are technologically feasible. IMI Group's patents were applied for the following technologies, both of which are unique, difficult to design around and which meet the separability criteria:

- Self bias double-ended switching circuit; and
- A zero power consumption switch circuit to simplify the energy star solution for external power adapter.

Developed software
Developed software pertains to IQ BackOffice's (IQB) internally developed web-based process management tool that is used jointly with customers to manage transactions in real-time. The developed software augments IQB's existing accounting system and automates traditionally paper-based processes (e.g.,electronic/paper receipt, electronic routing, approvals. etc.).

Licenses
These pertain to the IMI's acquisitions of computer applications and modules. EPIQ subsidiaries also have computer software with carrying value of US$0.52 million (₱23.1 million), US$0.56 million (₱23.4 million) and US$3.55 million (₱155.5 million) as of December 31, 2013, 2012 and January 1, 2012, respectively.

17. Pension and Other Noncurrent Assets

This account consists of the following:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Deposits	**₱6,611,799**	₱2,609,687	₱1,662,224
Concession financial receivable (Note 9)	**603,905**	–	–
Deferred charges	**271,048**	366,909	243,446
Leasehold rights	**106,819**	113,496	120,172
Deferred FCDA	**55,407**	–	742,588
Pension assets (Note 27)	**9,156**	–	–
Others	**358,344**	163,700	159,491
	₱8,016,478	₱3,253,792	₱2,927,921

Deposits
Deposits include escrow deposits and security deposits on land leases, electric and water meter deposits.

MWC Group
MWC Group's deposits include payments for the guarantee deposits in Manila Electric Company (MERALCO) for the electric connection, its related deferred charges, deposits to Department of Environment and Natural Resources (DENR), deposits for land acquisitions and right of way and water banking rights. CMWD entered into a 30-year Right of Way Agreement with certain individuals for an easement of right of way of a portion of their lands wherein the pipelines and other appurtenances between the weir and water treatment plant of CMWD will pass through. For the water banking rights, the National Water Resources Board (NWRB) approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium. The NWRB likewise approved the change of the purpose of Water Permit No. 16241 from Domestic to Municipal. It is the intention of MW Consortium to allow CMWD to use the said water permit for its project.

ACEHI
In 2012, ACEHI deposited in an escrow account potential earn-out amounting to ₱167.7 million in relation to the Achieved Capacity Factor Adjustment. Payment of which is dependent on the final resolution of the Arbitration Committee and the final FiT rate to be awarded to NorthWind in 2013 (see Note 39). Interest income earned on the escrow account amounted to ₱1.8 million and ₱1.1 million in 2013 and 2012, respectively.

Deferred charges
Deferred charges mainly consist of deposits made for implementation of marketing strategies for acquisition and development of real estate projects.

Leasehold rights
Leasehold rights pertain to the right to use an island property which expires on December 31, 2029. The cost amounted to ₱127.4 million and accumulated amortization expense as of December 31, 2013, 2012 and January 1, 2012 amounted to ₱20.6 million, ₱13.9 million and ₱7.2 million, respectively. Amortization expense amounted to ₱6.7 million in 2013, 2012 and 2011.

Deferred FCDA
Deferred FCDA refers to the unrecovered amounts from/or amounts for refund to customers of MWC for realized gains (losses) from loan payments of foreign loans. This is the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains (losses) from loan valuations, accrual of interest and accretion of transaction and related costs.

18. Accounts Payable and Accrued Expenses

This account consists of the following:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Accounts payable	**₱63,198,549**	₱49,879,159	₱29,755,662
Accrued expenses			
Project costs	**11,983,222**	12,070,336	7,539,717
Personnel costs	**2,694,816**	1,614,684	1,290,373
Professional and management fees	**1,801,971**	1,047,084	256,351
Rental and utilities	**2,330,388**	1,593,981	777,405

(Forward)

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Advertising and promotions	**₱1,115,532**	₱560,726	₱165,159
Repairs and maintenance	**1,516,026**	288,725	405,600
Various operating expenses	**3,230,745**	948,672	2,397,689
Dividends payable	**2,093,323**	1,798,399	1,836,595
Retentions payable	**1,192,251**	2,262,833	1,258,923
Interest payable (Note 31)	**2,272,458**	1,679,195	1,142,642
Related parties (Note 31)	**4,107,009**	2,097,312	1,226,606
Taxes payable	**6,067,957**	5,810,264	3,007,458
Share in excess losses of an associate (Note 12)	**–**	249,680	–
	₱103,604,247	₱81,901,050	₱51,060,180

Accounts payable and accrued expenses are non-interest bearing and are normally settled on 15- to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

In 2013 and 2012, accounts payable includes non-interest bearing liability of the Company to DBS Ltd. in relation to the acquisition of BPI common shares and ADHI Class B common shares amounting to ₱14.2 billion and ₱12.8 billion, respectively (see Note 12).

Accrued expenses consist mainly of accruals already incurred but not yet billed for project costs, personnel, rental and utilities, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, subcontractual costs, security, insurance, and representation.

Project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials.

Accrued expenses also includes provisions on restructuring of operations by the IMI Group. In 2011, PSi and IMI Singapore announced a restructuring of operations due to unfavorable economic and business situation. PSi made actual payout in September and November 2011 aggregating to US$1.1 million. Part of this payout amounting to US$0.6 million is not covered by its retirement plan. This was recognized as provision in 2011. In addition, IMI Singapore recognized provision amounting to US$0.3 million, which was paid in 2012. In 2012, PSi and IMI Singapore recognized additional provision of US$1.2 million and US$0.7 million, respectively, which were also paid during the year.

Taxes payable consists of net output VAT, withholding taxes, business taxes, and other statutory payables, which are payable within one year.

19. Other Current Liabilities

This account consists of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Nontrade payables	**₱5,614,201**	₱2,402,728	₱3,817,243
Customers' deposits	**5,362,355**	4,566,684	1,609,504
Installment payable	**11,667**	1,021	3,793
Derivative liability (Note 32)	**3,470**	–	1,515
	₱10,991,693	₱6,970,433	₱5,432,055

Nontrade payables and customers' deposits mainly pertain to non-interest bearing real estate-related payables to contractors, tenants' deposits, construction bonds and various non-trade suppliers which are due within one year. This account also includes finance lease payable and miscellaneous non-interest bearing non-trade accounts of the Group due within one year.

Customers' deposits consist of tenants' deposits and construction bonds to be refunded by the Group through the application of the amount thereof against the rent and service due.

Derivative liability pertains to AIVPL's convertion option and IMI's investments into various short-term currency forwards that have one or more underlying and one or more notional amounts.

20. Short-term and Long-term Debt

Short-term debt consists of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Philippine peso debt - with interest rates ranging from 1.21% to 8.0% per annum in 2013 and 2012, and 3.5% to 8.0% per annum in 2011	**₱12,114,451**	₱8,462,715	₱3,986,500
Foreign currency debt - with interest rates ranging from 1.05% to 3.0% over 1 month EURIBOR in 2013, 1.05% to 8.0% in 2012 and 1.16% to 8.0% in 2011.	**3,696,834**	3,880,757	3,347,341
	₱15,811,285	₱12,343,472	₱7,333,841

ALI Group

The short-term debt of ₱12,407.1 million, ₱9,779.1 million, ₱5,306.8 million as of December 31, 2013, 2012 and January 1, 2012, respectively, represent unsecured peso-denominated bank loans and dollar-denominated bank loans of ALI and its subsidiaries.

The ranges of annual interest rates of the short-term debt follow:

	2013	2012	2011
Philippine Peso	**1.2% to 5.2%**	1.2% to 5.2%	3.5% to 5.0%
US Dollar	**1.1% to 2.0%**	1.1% to 2.0%	1.2% to 2.0%

AAHC Group

The Philippine peso debt of AAHC Group pertains to short-term loans with various banks amounting to ₱1.1 billion, ₱442.9 million and ₱144.5 million as of December 31, 2013, 2012 and January 1, 2012, respectively. These loans are unsecured and bear interest rate of 3.00% to 4.25% per annum in 2013, 4.25% per annum in 2012 and 4.0% to 5.1% per annum in 2011.

AIVPL Group

The Philippine peso debt of AIVPL Group pertains to short-term loans with various banks amounting to ₱254.0 million, ₱126.5 million and ₱45.0 million as of December 31, 2013, 2012 and January 1, 2012, respectively. These loans are unsecured and bear interest rates ranging from 7.0% to 8.0% in 2013 and 2012, and interest rate of 8.0% per annum in 2011.

BHL Group
BHL's loans are unsecured dollar-denominated bank loans amounting to nil, US$4.8 million (₱196.6 million) and US$4.5 million (₱197.3 million) as of December 31, 2013, 2012 and January 1, 2012, respectively, and bear interest rate of 4.01% and 4.13% in and 2011, respectively.

IMI Group
IMI Philippines
As of December 31, 2013 and 2012, IMI Philippines has short-term loans aggregating to US$24.0 million (₱1,065.5 million) and US$22.0 million (₱903.1 million), respectively. The loans have maturities ranging from 30-180 days and fixed interest rates ranging from 1.9% to 2.4% in 2013, 1.6% to 2.0% in 2012 and 1.2% to 2.3% in 2011.

PSi
PSi has short-term loans and trust receipts payable to a local bank amounting to US$9.4 million (₱418.2 million) and US$9.1 million (₱373.6 million) as of December 31, 2013 and 2012, respectively.

These loans fall under an unsecured Omnibus Line Credit Facility of US$10.0 million granted on November 24, 2010. The credit facility includes 30 to 360 days Promissory Notes (maybe denominated in USD or Philippine peso), Letter of Credit/Trust Receipt (LC/TR) Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates ranging from 2.16% to 2.57% in 2013, 2.21% to 2.71% in 2012 and 2.18% to 2.80% in 2011.

As of December 31, 2013 and 2012, the outstanding trust receipts payable amounted to US$0.2 million (₱9.8 million) and US$0.4 million (₱16.4 million), respectively.

The undrawn credit facility amounted to US$0.6 million (₱25.7 million) and US$0.9 million (₱36.9 million) as of December 31, 2013 and 2012, respectively.

IMI BG
IMI BG has short-term loans from the following banks (in thousands):

	2013		2012	
	In US$	**In Php***	In US$	In Php*
UniCredit Bulbank	**US$5,167**	**₱229,389**	US$9,275	₱380,738
BNP Paribas	**1,380**	**61,265**	425	17,446
	US$6,547	**₱290,654**	US$9,700	₱398,184

**Translated using the exchange rate at the reporting date (US$1:₱44.395 in 2013, US$1:₱41.05 in 2012)*

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one year. The loans bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively.

The credit facility with UniCredit Bulbank is subject to the following collaterals:

- First ranking pledge on materials, ready made and unfinished production at balance sheet value, minimum of €8.0 million;
- First ranking pledge on receivables from a certain customer; and
- Notary signed Soft Letter of Comfort from IMI Philippines.

As of December 31, 2013 and 2012 IMI BG's pledged inventories and receivables with UniCredit Bulbank amounted to €13.08 million (₱801.3 million) and €16.0 million (₱870.3 million), respectively.

The credit facility with BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of IMI BG, subject to pre- financing in the amount of 125% of the utilized portion of the facility but not more than €3,750.0 million; and
- First rank pledge on goods of IMI BG in the amount of 125% of the utilized portion of the facility but not more than €3,750.0 million.

As of December 31, 2013 and 2012, IMI BG's pledged inventories and receivables with BNP Paribas amounted to nil and €0.6 million (₱35.3 million), respectively.

STEL
The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 2.30% to 2.39%, 3.36% to 3.55% and 3.35% to 3.45% in 2013, 2012 and 2011, respectively, and have maturities of 90 to 240 days from the date of issue with renewal options.

IMI MX
IMI MX has a revolving credit line with Banamex amounting to US$2.2 million and US$2.0 million as of December 31, 2013 and 2012, resepectively, with term not exceeding twelve (12) months and bears interest on LIBOR plus 2%.

Long-term debt consists of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
The Company:			
Bank loans - with interest rates ranging from 0.7% to 3.8% p.a. in 2013, 0.9% to 3.8% p.a. in 2012 and 1.7% to 3.8% in 2011 and varying maturity dates up to 2020	**₱13,193,780**	₱13,181,138	₱6,464,991
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 6.7% to 8.4% per annum and varying maturity dates up to 2016	**2,816,443**	5,310,734	9,320,169
Bonds due 2017	**9,941,761**	9,927,976	9,914,149
Bonds due 2019	**9,912,239**	9,900,013	–
Bonds due 2021	**9,921,802**	9,913,921	9,907,987
Bonds due 2027	**9,914,072**	9,907,640	–
Syndicated term loans	**2,938,575**	1,485,510	1,485,929
Subsidiaries:			
Loans from banks and other institutions:			
Foreign currency - with interest rates ranging from 1.64% and 2.12% over 3 months LIBOR to 3% in 2013, 0.75% over 90-day LIBOR to 13.5% in 2012 and 0.4% to 13.5% in 2011 (Note 23)	**32,392,171**	31,520,537	20,191,382
Philippine peso - with interest rates ranging from 1.06% to 12% in 2013, 0.5% to 9.48% in 2012 and 6.73% to 17% in 2011 (Note 23)	**32,189,740**	22,486,635	18,302,295
Bonds:			
Due 2012	**–**	–	325,390
Due 2013	**–**	4,540,680	4,327,900
(Forward)			

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Due 2014	**620,195**	397,705	173,715
Due 2015	**₱992,460**	₱999,950	₱–
Due 2016	**1,999,650**	–	–
Due 2019	**9,281,120**	9,228,063	–
Due 2020	**3,964,465**	–	–
Due 2022	**5,608,377**	5,576,316	–
Due 2024	**14,864,568**	–	–
Due 2033	**1,981,840**	–	–
	162,533,258	134,376,818	80,413,907
Floating Rate Corporate Notes (FRCNs)	**1,000,000**	1,000,000	1,000,000
FXCNs	**26,336,604**	27,364,213	22,520,583
	27,336,604	28,364,213	23,520,583
	189,869,862	162,741,031	103,934,490
Less current portion	**11,842,519**	19,021,440	7,804,893
	₱178,027,343	₱143,719,591	₱96,129,597

Reconciliation of carrying amount against nominal amount follows:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Nominal amount	**₱190,742,889**	₱163,873,265	₱104,823,800
Unamortized discount	**(873,027)**	(1,132,234)	(889,310)
	₱189,869,862	₱162,741,031	₱103,934,490

The Company

Generally, the Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱9.8 billion, ₱10.6 billion and ₱6.2 billion as of December 31, 2013, 2012 and January 1, 2012, respectively, in accordance with Bangko Sentral ng Pilipinas (BSP) regulations (see Note 7).

All credit facilities of the Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

In June and October 2007, the Company issued ₱3.5 billion FXCNs consisting of 5- and 7-year notes to a local bank with fixed interest rates of 6.73% and 6.70% per annum, respectively. In June 2011, the Parent Company prepaid in full the ₱2.0 billion 5-year FXCN with a fixed interest rate of 6.73% per annum.

In February 2008, the Company availed of a syndicated term loan amounting to ₱1.5 billion which bears fixed interest rate of 6.75% per annum and will mature in 2018.

In March 2009, the Company issued ₱1.0 billion FXCNs consisting of 7-year note to a local financial institution with fixed interest rate of 8.40% per annum. The loan was prepaid in full by the Parent Company in December 2013.

In August 2009, the Company issued ₱3.0 billion FXCNs consisting of a 5-year note to various institutions with fixed interest rate of 7.45% per annum.

In April 2010, the Company issued 7.20% Fixed rate Putable Bonds with an aggregate principal of ₱10.0 billion to mature in 2017. On the twentieth (20th) Coupon Payment Date (the "Put Option Date"), each Bondholder shall have the option (but not the obligation) to require the Company to redeem the outstanding bonds. The Bonds have been rated "PRS Aaa" by the PhilRatings.

In May 2011, the Company issued 6.80% Fixed Rate Multiple Put Bonds with an aggregate principal amount of ₱10.0 billion to mature in 2021. On the fifth (5^{th}) anniversary of the Issue Date, Bondholders shall have the right, but not the obligation, to require the Company to redeem up to 20% of all outstanding Bonds registered in such Bondholder's name at such time (the "Five Year Put Option"); and on the eighth (8^{th}) anniversary of the Issue Date, Bondholders shall have the right, but not the obligation, to require the Company to redeem up to 100% of all outstanding Bonds registered in such Bondholder's name at such time (the "Eight Year Put Option"). The Bonds have been rated PRS Aaa by PhilRatings.

In May 2012, the Company issued 6.88% Fixed Rate Bonds with an aggregate principal amount of ₱10.0 billion to mature in May 2027. On the tenth (10^{th}) anniversary from the Issue Date and every year thereafter until the fourteenth (14^{th}) anniversary from the Issue Date, the Issuer shall have the right, but not the obligation, to redeem and pay the principal and all amounts due on the outstanding bonds. The Bonds have been rated PRS Aaa by PhilRatings.

In November 2012, the Company issued 5.45% Fixed Rate Bonds with an aggregate principal amount of ₱10.0 billion to mature in November 2019. On the fourth (4^{th}) anniversary from the Issue date and every year thereafter until the sixth (6^{th}) anniversary from the Issue Date, the Issuer shall have the right, but not the obligation, to redeem and pay the principal and all amounts due on the outstanding bonds. The Bonds have been rated PRS Aaa by PhilRatings.

In October and December 2012, the Company availed of a ₱2.0 billion and ₱5.0 billion loan from various banks to mature in 2017 and 2019, respectively. The ₱2.0 billion loan shall bear interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) per annum, or BSP overnight reverse repurchase (RRP) rate, whichever is higher. The ₱5.0 billion loan shall bear interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) or the BSP overnight RRP rate plus spread of twenty five (25) basis points, whichever is higher. The interest rate shall be set on the first drawdown date and every three months thereafter.

In November and December 2013, the Company availed ₱2.0 billion and ₱5.0 billion loan from various banks to mature in 2018 and 2020, respectively. The ₱2.0 billion loans shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of 100 basis points (1%) per annum, or BSP overnight reverse repurchase (RRP) rate plus a spread of 25 basis points (0.25%), whichever is higher. The ₱5.0 billion loans shall have interest rate per annum equal to the 6-month PDST-R1 plus a spread of thirty basis points (0.30%) for the first six months and 3-month PDST-R1 plus a spread of sixty basis points (0.60%) thereafter.

In 2013, the Company fully paid its maturing FXCNs from various banks with an aggregate principal amount of ₱3.5 billion.

Subsidiaries
<u>Foreign Currency Debt</u>
In August 2008, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated term loan with a foreign bank, with the Company as guarantor, for US$50.0 million at a rate of 52 points over the 1-, 3- or 6- month LIBOR at the Company's option. As of December 31, 2013 and 2012, the outstanding balance of the loan amounted to US$45.0 million and US$50.0 million, respectively.

In October 2007, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated loan for US$150.0 million at a rate of 71.4 basis points over the 1-, 3- or 6-month LIBOR at the Company's option.

IMI Group

IMI Philippines

In October 2011, IMI Philippines obtained a five-year term clean loan from a Philippine bank amounting to US$40.0 million payable in a single balloon payment at the end of the loan term. IMI Philippines may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. Interest on the loan is payable quarterly and re-priced quarterly at the rate of three-month LIBOR plus margin of 0.8%.

On February 29, 2012, IMI Philippines obtained a €5.0 million (₱306.3 million) five-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. IMI Philippines may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty, if made on an interest payment date, subject to certain conditions. Interest is payable semi-annually at the rate of six-month LIBOR plus 1.50% spread per annum.

Cooperatief

Cooperatief's long-term debt aggregating to €14.25 million ($20.40 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX Subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

IMI CZ

IMI CZ has a long-term debt from Citibank amounting to €0.59 million (₱35.9 million) that relates to term loan facility for the purchase of its new Surface Mount Technology machine. The debt bears interest of 1-month EURIBOR plus 2.7% and matures on July 31, 2019.

AIVPL Group

AIVPL's long-term debt amounting to nil, US$0.2 million (₱6.2 million) and US$0.3 million (₱12.3 million) in 2013, 2012 and 2011, respectively, pertains to borrowings of Affinity Express India Private Limited (Affinity India) and Global Advertisement Services Pvt. Ltd. (GASPL).

As of December 31, 2013, 2012 and January 1, 2012, the long term loan represents the syndicate term loan obtained by GASPL with interest of 15.25% p.a. with maturity in December 2014. The loans were secured by hypothecation of computer equipment, machinery and equipment. Net book value of property mortgaged in relation to loans amounted to nil, US$0.1 million (₱4.1 million) and US$0.2 million (₱8.8 million) as of December 31, 2013, 2012 and January 1, 2012, respectively (see Note 14). On July 19, 2013, GASPL settled the loans.

MWC Group

International Finance Corporation (IFC) Loan

On March 28, 2003, MWC entered into a loan agreement with IFC (the "First IFC Loan") to partially finance MWC's investment program from 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of the MWC, and concession fee payments. The First IFC Loan will be made available in Japanese Yen (JPY) in the aggregate principal amount of JPY3,591.6 million equivalent to US$30.0 million and shall be payable in 25 semi-annual installments, within 12 years starting on July 15, 2006. As of December 31, 2013, and 2012, the carrying value of the loan amounted to JPY1,271.4 million and JPY1,549.1 million respectively.

On May 31, 2004, MWC entered into a loan agreement with IFC (the "Second IFC Loan") comprising of regular loan in the amount of up to US$20.0 million and a standby loan in the amount of up to US$10.0 million to finance the investment program from 2004 to 2007 to expand water supply and sanitation services, improvement of existing facilities of MWC, and concession fee payments. This loan was subsequently amended on November 22, 2006, when MWC executed the Amended and Restated Loan Agreement for the restructuring of the Second IFC Loan. The terms of the second loan were amended to a loan in the aggregate amount of up to US$30.0 million, no part of which shall consist of a standby loan. On December 12, 2008, MWC made a full drawdown on the said facility. As of December 31, 2013 and 2012, the outstanding balance amounted to US$9.8 million and US$13.6 million, respectively.

On July 31, 2013, MWC, entered into a loan agreement with IFC (the "Fourth" Omnibus Agreement) in the amount of up to US$100.00 million for financing the Projects in accordance with the provisions of the Agreement. The loan has a term of 18 years, payable in semi-annual installments after the grace period. As of December 31, 2013, no drawdown has been made from the facility.

Land Bank of the Philippines (LBP) Loan
On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with LBP Loan to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JPY6.6 billion payable via semi-annual installments after the 5-year grace period. MWC made its last drawdown on October 26, 2012. The total drawn amount for the loan is JP¥3.99 billion. As of December 31, 2013 and 2012, outstanding balance of the LBP loan amounted to JPY2,862.1 million and JPY3,195.8 million, respectively.

European Investment Bank (EIB) Loan
On June 20, 2007, MWC entered into a Finance Contract (the "EIB Loan") with EIB to partially finance the capital expenditures of MWC from 2007 to 2010, as specified under Schedule 1 of the Finance Contract. The loan, in the aggregate principal amount of €60 million, having a term of 10 years, is subject to the Relevant Interbank Rate plus a spread to be determined by EIB, and may be drawn in either fixed-rate or floating-rate tranches. The loan has two tranches as described below:

- Sub-Credit A: In an amount of €40 million to be disbursed in US Dollars or Japanese yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by a consortium of international commercial banks composed of ING Bank, Development Bank of Singapore and Sumitomo-Mitsui Banking Corporation under a Guaranty Facility Agreement; and

- Sub-Credit B: In an amount of €20 million to be disbursed in US Dollars, European Euro or Japanese Yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by ING Bank under a Guaranty Facility Agreement.

On May 21, 2012, the Sub-Credit A Guarantee Facility Agreement was amended to extend the effectivity of the guarantee. Two of the original guarantors, ING Bank and Sumitomo Mitsui Banking Corporation, agreed to extend the guarantee by another five years towards the maturity of the loan.

On September 25, 2012, MWC entered into a Subsidiary Loan Agreement with Land Bank of the Philippines under the Metro Manila Wastewater Management Project (MWMP) with the World Bank. The MWMP aims to improve wastewater services in Metro Manila through increased wastewater collection and treatment. The loan has a term of twenty-five (25) years, and was made available in US Dollars in the aggregated principal amount of US$137.5 million via semi annual installments after the seven-year grace period. As of December 31, 2013, MWC has not made any drawdown from the facility.

On July 30, 2013, the Sub-Credit B Guarantee Facility Agreement was amended to extend the effectivity of the guarantee. The original guarantor, ING Bank, agreed to extend the guarantee by another five years towards the maturity of the loan.

The carrying value of the EIB loan amounted to JPY2,433.6 million and US$13.0 million as of December 31, 2013 and JPY3,115.2 million and US$16.8 million as of December 31, 2012.

NEXI Loan
On October 21, 2010, MWC entered into a term loan agreement (NEXI Loan) amounting to US$150.0 million to partially finance capital expenditures within the East Zone. The loan has a tenor of 10 years and is financed by a syndicate of four banks - ING N.V Tokyo, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation and is insured by Nippon Export and Investment Insurance. First, second and third drawdowns of the loan amounted to US$84.0 million, US$30.0 million and US$36.0 million, respectively. The carrying value of this loan as of December 31, 2013 and 2012 amounted to US$125.3 million and US$142.4 million, respectively.

BHL Group
In 2010, BHL entered into a secured loan agreement with a foreign bank at variable interest of 3.5% spread over 90-day LIBOR with floor of 6.0% and a ceiling of 14.25% which will mature on January 1, 2013. This loan is secured by certain inventories (see Note 8). As of December 31, 2013, 2012 and January 1, 2012, the outstanding balance of the loan amounted to US$0.8 million, US$1.1 million and US$2.8 million, respectively.

ALI Group
In October 2012, ALI executed and fully withdrawn a US$58.5 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In January 2014, ALI made a partial prepayment of US$5.8 million on the loan.

Dollar-denominated of ALI subsidiaries bear floating interest rates at a credit spread over the three-month US Dollar LIBOR, repriceable quarterly. The carrying value of the loan amounted to ₱5.0 billion, ₱4.1 billion and ₱0.3 billion as of December 31 2013, 2012 and January 1, 2012, respectively.

Philippine Peso Debt
MWC Group
MWC
On August 22, 2006, MWC entered into a Credit Facility Agreement with five banks and four financial institutions to finance the capital expenditures of MWC pursuant to the Concession Agreement. This 7-year term loan with an aggregate principal amount of ₱2.0 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱1.5 billion (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱500.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, the MWC prepaid a portion of the ₱2.0 billion loan from one financial institution amounting to ₱600.0 million. The loan was fully netted in 2013. As of December 31, 2012 the carrying value of the loan amounted to ₱1.4 billion.

On October 9, 2006, MWC entered into a Credit Facility Agreement with three banks and a financial institution to finance the capital expenditures of MWC pursuant to the Concession Agreement. This 7-year term loan with an aggregate principal amount of ₱1.5 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱950.0 million (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of one percent (1%) of the Tranche 1 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱550.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of one percent (1%) of the Tranche 2 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, MWC prepaid a portion of the ₱1.5 billion loan from a financial institution amounting to ₱400.0 million. The loan was settled in full in 2013. As of December 31, 2012, the carrying value for this loan amounted to ₱1.1 billion.

On October 22, 2008, MWC issued ₱4.0 billion bonds having a term of five years from the issue date with a fixed interest rate equivalent to 8.25% payable quarterly. Prior to maturity, MWC may redeem in whole, and not in part only, the relevant outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date.

On April 8, 2011, MWC issued ₱10.0 billion FXCNs. The notes were divided to ₱5.0 billion with an interest rate of 6.385% and have a term of five years and ten years for the remaining ₱5.0 billion from the issue date with a fixed interest rate equivalent to 8.25% payable quarterly. Prior to maturity, MWC may repay the whole, and not in part only, the relevant outstanding bonds on the seventh anniversary. The amount payable to the holders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date. The carrying value of the notes as of December 31, 2013 and 2012 amounted to ₱9.86 billion and ₱9.89 billion, respectively.

On September 2, 2011, MWC's BOD approved the early redemption of its ₱4.0 billion bonds due 2013. The bonds were redeemed by payment in cash at a redemption price set at 102% of the principal amount and accrued interest computed up to October 23, 2011 ("Optional Redemption Date") to bondholders as of October 19, 2011 ("Record Date"). As the Optional Redemption Date falls on a non-business day, payment to each bondholder was made available on the next business day, October 24, 2011. Upon payment, the listing of the bonds on the Philippine Dealing and Exchange Corporation (PDEx) was terminated. The difference between the carrying value of the bond and the payment amounted to ₱6.2 million.

LAWC

On September 7, 2010, LAWC, entered into a loan agreement with two local banks for the financing of its construction, operation, maintenance and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to LAWC up to ₱500.0 million, principal payments of which will be made in 30 consecutive equal quarterly installments starting August 2013. First and second drawdowns from the loan were made in November 2010 and July 2011 amounting to ₱250.0 million each. The carrying value of this loan amounted to ₱462.1 million and ₱496.4 million as of December 31, 2013 and 2012, respectively.

On April 29, 2013, LAWC entered into a loan agreement with Development Bank of the Philippines (DBP) to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the loan agreement, the lender has agreed to provide loans to the borrowers through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.0 million bearing an effective interest rate of 7.25%. First and second drawdowns were made in July and December 2013 amounting to ₱250.0 million each. The carrying value of this loan as of December 31, 2013 amounted to ₱496.3 million.

BIWC
On July 29, 2011, BIWC, entered into an omnibus loan and security agreement with the Development Bank of the Philippines (DBP) and Security Bank Corporation (SBC) to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for the Service Area under the Concession Agreement, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.0 million and is payable in twenty (20) years inclusive of a three (3)-year grace period.

The loan shall be available in three sub-tranches, as follows:
- Sub-tranche 1A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through its internally-generated funds.

The first loan draw down made on August 25, 2011 amounted to ₱150.0 million, second draw down on August 25, 2012 amounted ₱155.0 million and final draw down on August 23, 2013 amounted to ₱195.0 million. The carrying value of the loan as of December 31, 2013 and 2012 amounted to ₱494.5 million and ₱302.5 million, respectively.

The Agreement provided BIWC the option to borrow additional loans from the lenders. On November 14, 2012, BIWC entered into the second omnibus loan and security agreement with DBP and SBC. The agreed aggregate principal of the loan amounted to ₱500.0 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF)
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF
- Sub-tranche 2C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through BIWC's internally-generated funds.

On November 23, 2012, BIWC made its first loan drawdown amounting to ₱75.0 million. The carrying value of the loan as of December 31, 2013 and 2012 amounted to ₱72.8 million and ₱74.4 million, respectively.

On August 16, 2013, MWC entered into a Credit Facility Agreement with a local bank having a fixed nominal rate of 4.42% and with a term of 7 year from the issue date which is payable annually. MWC may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter.

The amount payable in respect to such prepayment shall be calculated as 102% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 3rd anniversary but before the 4th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101.5% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 4th anniversary but before the 5th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 5th anniversary but before the 6th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 100.5% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 6th anniversary but before the 7th anniversary of the drawdown date. The carrying value of the loan as of December 31, 2013 amounted ₱5.00 billion.

The carrying value of the loan as of December 31, 2013 amounted to ₱5.0 billion.

On December 19, 2013, the CMWD entered into an omnibus loan and security agreement (the Agreement) with DBP to partially finance the construction works in relation to its bulk water supply project in Cebu, Philippines. The lender has agreed to extend a loan facility in the aggregate principal amount of ₱800.0 million or up to 70% of the total project cost whichever is lower.

On December 20, 2013, CMWD made its first draw down amounting to ₱541.1 million. The carrying value of the loan as of December 31, 2013 amounted to ₱537.1 million.

ALI Group
The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2020 with floating interest rates at 50 basis points to 100 basis points spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 4.50% to 10.21% per annum. Certain loans which are subject to floating interest rates are subject to floor floating interest rates at the Overnight Reverse Repurchase Agreement Rate of the Bangko Sentral ng Pilipinas (BSP Overnight Rate) or at the BSP Overnight Rate plus a spread of 20% to 75%. A term loan facility of a subsidiary is secured by a Mortgage Trust Indenture over land and building with a total carrying value of nil, ₱690.0 million and ₱701.5 million of December 31, 2013 and 2012 and January 1, 2012, respectively. This term loan facility was subsequently refinanced in February 2013 on a clean basis.

<u>Homestarter Bond due 2012</u>
ALI launched a new issue of the Homestarter Bond in October 2009. The bond is to be issued over a series of 36 issues, once every month which commenced on October 16, 2009, up to ₱14.0 million per series or up to an aggregate issue amount of ₱504.0 million over a 3-year period. The bond carries an interest rate of 5% p.a., payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. From maturity date, a total of ₱410.8 million of bonds were redeemed. As of December 31, 2013 and 2012 and January 1, 2012, the carrying value of outstanding bonds amounted to nil, nil and ₱325.4 million,respectively.

<u>Homestarter Bond due 2013</u>
ALI launched another new issue of the Homestarter Bond in April 2010. The bond is to be issued over a series of 36 issues, once every month which commenced on April 16, 2010, up to ₱28.0 million per series or up to an aggregate issue amount of ₱1,008.0 million over a 3-year period. The bond carries an interest rate of 5% p.a., payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected by the bondholder except Ayala Land Premier properties, or 4% of the net selling price of the Ayala Land Premier property

selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2013, 2012 and January 1, 2012, outstanding bonds amounted to nil, ₱630.7 million and ₱417.9 million, respectively.

5-Year Bonds due 2013
In 2008, ALI issued ₱4.0 billion bonds due 2013 with fixed rate equivalent to 8.75% per annum. The PhilRatings assigned a "PRS Aaa" rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PhilRatings maintained its rating of PRS AAA for the ₱4.0 billion bonds in 2013, 2012 and 2011. On August 14, 2013, ALI completed the final redemption of its bond issue with aggregate principal of ₱4.0 billion.

Philippine Peso Homestarter Bond due 2014
In May 2011, ALI launched a new issue of the Homestarter Bond. The bond is to be issued over a series of 36 issues, once every month which commenced on May 16, 2011, with an initial issue amount of up to ₱56.0 million or up to an aggregate issue amount of ₱2.0 billion over a 3-year period. The bond carries an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for a property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is also subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2013, 2012 and January 1, 2012, outstanding bond issued amounted to ₱620.2 million, ₱397.7 million and ₱173.7 million, respectively.

Philippine Peso Homestarter Bond due 2015
In October 2012, ALI issued ₱1,000.0 million bond due 2015 with fixed rate equivalent to 5.0% p.a. The Credit Rating and Investors Services Philippines, Inc. (CRISP) assigned a AAA issuer rating indicating that it has the smallest degree of investment risk for the bond. AAA is the highest credit rating possible on CRISP's rating scale for issuers. CRISP also assigned a stable credit outlook for ALI's issuer rating as CRISP continues to believe that ALI's strong financial performance will continue and roll out of its new development projects will sustain its leadership position.

Philippine Peso Homestarter Bond due 2016
In May 2013, ALI issued the second tranche of the bonds registered with the SEC in 2012, at an aggregate principal amount of ₱2.0 billion. The bonds have a term of three (3) years from the issue date, and will bear interest on its principal amount at a fixed rate of 4.00% p.a. Interest will not be compounded and shall be payable on maturity date or on the date of effectivity of an Early Downpayment Application, as may be applicable, less the amount of any applicable withholding taxes.

Philippine Peso 7-Year and 10-year Bonds due 2019 and 2022
In April 2012, ALI issued a total of ₱15.0 billion bonds, broken down into a ₱9.4 billion bond due 2019 at a fixed rate equivalent to 5.625% p.a. and a ₱5.7 billion bond due 2022 at a fixed rate equivalent to 6.00% p.a. The PhilRatings assigned a PRS AAA rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS AAA is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

Philippine Peso 5-,7- and 10-year FXCNs due in 2011, 2013 and 2016
In September 2006, ALI issued ₱3.0 billion FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.25% to 7.75% p.a. depending on the term of the notes. In January 2011, simultaneous to a new corporate note offering, ALI undertook a liability management exercise by offering to prepay holders of the corporate notes issued in 2006 while inviting the same institutions to participate in the new issuance. A number of investors holding up to ₱875.0 million of notes maturing in 2013 and 2016 accepted the offer to be prepaid. On September 23, 2011, the 5-year and one (1) day FXCNs amounting to ₱1.8 billion matured and were fully paid by ALI. Subsequently in September 2013, the balance of the 7-year FXCNs amounting to ₱195.0 million matured and was fully repaid by the Company. As of December 31, 2013 and 2012 and January 1, 2012, outstanding balance amounted to ₱100.0 million, ₱295.0 million and ₱295.0 million, respectively.

Philippine Peso 5-, 7- and 10-year FXCN due 2014, 2016 and 2019
In January 2009, ALI issued an aggregate ₱2.4 billion in 5-, 7- and 10-year notes to various financial institutions and retail investors. The notes will mature on various dates up to 2019. The FXCNs bear fixed interest rates ranging from 7.76% to 8.90%. ₱220.0 million and ₱830.0 million notes due in 2014 and 2016, respectively, were prepaid on January 28, 2013.

Philippine Peso 7-year FRCN due 2016
In October 2009, ALI executed a ₱1.0 billion committed FRCN facility with a local bank, of which an initial ₱10.0 million was drawn on October 12, 2009. The balance of ₱990.0 million was subsequently drawn on November 18, 2011. The FRCN bears a floating interest rate based on the 3-month PDST-R1 plus a spread of 0.96%, repriceable quarterly. The FRCNs will mature on October 12, 2016, the seventh anniversary of the initial drawdown date.

Philippine Peso 5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026
In January 2011, ALI issued ₱10.0 billion FXCNs to various financial institutions and retail investors. The notes will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.62% to 7.50% p.a. depending on the term of the notes. ₱1.95 billion note due in 2016 was prepaid on January 19, 2013.

Philippine Peso 10-year FRCN due 2022
In December 2012, ALI executed a ₱5.0 billion committed Corporate Note facility with a local bank, of which an initial ₱3.5 billion was drawn in 2012. The balance of ₱1.5 billion was subsequently drawn in January 2013. Notes currently bear a fixed interest rate of 4.50%. The Corporate Notes will mature on the third month succeeding the tenth anniversary of the initial drawdown date.

Philippine Peso 10-year and 6-month Bonds due 2024
In July 2013, ALI issued a total of ₱15.0 billion bonds due 2024 at a fixed rate equivalent to 5.0% p.a. CRISP assigned a "AAA" on the bonds indicating that it has a minimal credit risk owing to the Company's capacity to repay its debt obligations. AAA is the highest rating assigned by CRISP.

Philippine Peso 7-Year and 20-year Bonds due 2020 and 2033
In October 2013, ALI issued a total of 6.0 billion bonds, broken down into a 4.0 billion bond due 2020 at a fixed rate equivalent to 4.625% p.a. and a 2,000.0 million bond due 2033 at a fixed rate equivalent to 6.00% p.a. CRISP assigned a "AAA" rating on the bonds indicating that it has a minimal credit risk owing ALI's capacity to repay its debt obligations. AAA is the highest rating assigned by CRISP.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC (including the bondholders) are considered Concessionaire Lenders and are on *pari passu* status with one another.

The loan agreements on long-term debt of the Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2013, 2012 and January 1, 2012.

Total interest paid amounted to ₱10.1 billion in 2013, ₱8.4 billion in 2012 and ₱5.1 billion in 2011.

Interest capitalized by subsidiaries amounted to ₱580.2 million in 2013, ₱533.8 million in 2012 and ₱279.0 million in 2011. The average capitalization rate is 4.16% to 7.06% in 2013, 2.06% to 7.23% in 2012 and 2.1% to 6.88% in 2011.

21. Other Noncurrent Liabilities

This account consists of the following:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Deposits and deferred credits	**₱12,676,476**	₱13,592,280	₱7,337,058
Liability for purchased land	**7,260,101**	–	–
Retentions payable	**3,654,350**	2,193,895	2,355,782
Provisions (Note 37)	**861,360**	745,711	739,626
Estimated liability on property development	**–**	5,705,012	28,680
Others	**375,651**	737,994	820,854
	₱24,827,938	₱22,974,892	₱11,282,000

Deposits and deferred credits

Deposits include rental deposits that serve as security for any damages to the leased property and which will be refunded at the end of lease term.

Deposits are initially recorded at fair value, which was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is recorded as deferred credits.

Deferred credits also include prepayments received from customers before the completion of delivery of goods or services.

Retentions payable
Retentions payable pertains to amount withheld from the contractors' progress billings which will be later released after the guarantee period, usually one year after the completion of the project. The retention serves as a security from the contractor should there be defects in the project.

Estimated liability on property developments
Estimated liability on property development pertains to the estimated future development of the sold portion of the real estate inventories.

Provisions
Provisions relate to pending unresolved claims and assessments. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these claims and assessments.

Others
Other liabilities mainly include nontrade payables (see Note 31). It also includes liabilities arising from PSi's Subcontracting Service Agreement (SSA) with a local customer. On June 28, 2010, PSi and a local customer entered into a SSA for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received non-interest bearing cash advances amounting to US$3.0 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the local customer. The local customer and PSi agree that the full cash advances amounting to US$3.0 million will be applied to prepay and cover any, and all of the fees payable under Annex B of the SSA for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances less any amount applied to pay the fees as detailed in the SSA.
The current and noncurrent portion of the advances from the local customer follow (amounts in thousands):

	2013		2012		2011	
	(In US$)	**(In Php)**	(In US$)	(In Php)	(In US$)	(In Php)
Total outstanding advances from the local customers	**$2,030**	**₱90,166**	$2,304	₱94,579	$2,565	₱112,450
Less: Current portion	**288**	**12,786**	273	11,207	261	11,442
Noncurrent portion	**$1,743**	**₱77,380**	$2,031	₱83,372	$2,304	₱101,008

**Translated using the closing exchange rate at the reporting date (US$1:₱44.395 in 2013, US$1:₱41.05 in 2012, US$1:₱43.84 in 2011)*

The current portion is included under "Accounts payable and accrued expenses".

22. Equity

Information about the Company's common and preferred shares follow:

	Common shares		Preferred A shares		Preferred B shares		Preferred C shares		Voting Preferred shares	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	(In Thousands, except for par value figures)									
Authorized shares	**900,000**	900,000	**12,000**	12,000	**58,000**	58,000	**40,000**	40,000	**200,000**	200,000
Par value per share	**₱50**	₱50	**₱100**	₱100	**₱100**	₱100	**₱100**	₱100	**₱1**	₱1
Issued and subscribed shares	**599,438**	598,873	**–**	12,000	**20,000**	58,000	**–**	–	**200,000**	200,000
Outstanding shares										
At beginning of year	**593,689**	577,257	**12,000**	12,000	**–**	–	**–**	–	**200,000**	200,000
Issued shares on exercise of share options	**550**	568	**–**	–	**–**	–	**–**	–	**–**	–
Subscribed shares	**15**	864	**–**	–	**–**	–	**–**	–	**–**	–
Treasury stock										
Reissuance	**5,184**	15,000	**–**	–	**20,000**	–	**–**	–	**–**	–
Acquisition/ Redemption	**–**	–	**(12,000)**	–	**–**	–	**–**	–	**–**	–
At end of year	**599,438**	593,689	**–**	12,000	**20,000**	–	**–**	–	**200,000**	200,000

<u>Common Shares</u>
The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at anytime at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations with 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

In July 2013, the SEC approved the amendments to the Parent Company's Articles of Incorporation for the exemption of 100 million common shares from the exercise of pre-emptive rights of holders of common shares. These shares are allocated to support the financing activities of the Company.

<u>Preferred Shares</u>
Preferred A shares
On November 11, 2008, the Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500 per share to be listed and traded on the Philippine Stock Exchange (PSE). The Preferred A shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.88% per annum. The Preferred A shares may be redeemed at the option of the Company starting on the fifth year.

On June 28, 2013, the BOD approved and authorized the exercise of call option on Preferred A shares effective November 25, 2013 based on the dividend rate of 8.88% per annum. The redemption of Preferred A shares is presented as part of treasury stock.

Preferred B shares
In July 2006, the Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100 per share to be listed and traded in PSE. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with dividend rate of 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Company starting on the fifth year from the date of issuance.

On March 14, 2011, the BOD approved and authorized the exercise of call option on Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

In September 2013, the BOD approved and authorized the re-issuance and offering of the Preferred B shares for an aggregate amount of ₱10 billion. The Preferred B shares were offered at a price of ₱500 per share with a fixed quarterly dividend rate of 5.25% per annum.

Preferred C shares
Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares
On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50 per share into 200.0 million Voting Preferred shares with a par value of ₱1 per share and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares. On April 16, 2010, the Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum. In 2013, the dividend rate was repriced to 1.875%.

Treasury shares
On September 10, 2007, the BOD approved the creation of a share buyback program involving ₱2.5 billion worth of common capital stock. On June 2, 2010, the BOD approved to increase the share buyback program from ₱2.5 billion to ₱5.0 billion. In 2011, the Parent Company acquired 5.5 million common shares at a total cost of ₱1.8 billion.

On July 17, 2012, the BOD approved the sale of 15.0 million treasury shares at a price of ₱430 per share. As of December 31, 2012, 15.0 million shares were sold at a total consideration of ₱6.5 billion. As of December 31, 2012, treasury stock arising from common shares amounted to ₱1.7 billion.

On May 29, 2013, the BOD approved the placement of the remaining 5.2 million treasury shares at a price of ₱647 per share. As of December 31, 2013, 5.2 million shares were sold at a total consideration of ₱3.3 billion.

Following these transactions, all common shares held in treasury by the Company have already been reissued.

The details of the Company's paid-in capital follow:

2013

	Preferred Stock - A	Preferred Stock - B	Voting Preferred Stock	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
At January 1, 2013	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱29,783,010**	**₱160,652**	**₱8,457,871**	**(₱481,601)**	**₱45,119,932**
Exercise/ cancellation of ESOP/ESOWN	–	–	–	**27,516**	**724**	**215,776**	**43,322**	**287,338**
Reclassification of ESOWN shares	–	–	–	**11,200**	**(11,200)**	–	–	–
Reissuance of treasury stocks	–	–	–	–	–	**9,558,859**	–	**9,558,859**
Redemption of preferred shares	–	–	–	–	–	**(4,800,000)**	–	**(4,800,000)**
At December 31, 2013	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱29,821,726**	**₱150,176**	**₱13,432,506**	**(₱438,279)**	**₱50,166,129**

2012

	Preferred Stock - A	Preferred Stock – B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
As of January 1, 2012	₱1,200,000	₱5,800,000	₱200,000	₱29,655,833	₱216,209	₱6,339,594	(₱578,816)	₱42,832,820
Exercise/Cancellation of ESOP/ESOWN	–	–	–	127,177	(55,557)	647,000	97,215	815,835
Reissuance of Treasury Stock	–	–	–	–	–	1,471,277	–	1,471,277
As of December 31, 2012	₱1,200,000	₱5,800,000	₱200,000	₱29,783,010	₱160,652	₱8,457,871	(₱481,601)	₱45,119,932

2011

	Preferred Stock - A	Preferred Stock – B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
As of January 1, 2011	₱1,200,000	₱5,800,000	₱200,000	₱24,784,980	₱231,114	₱6,243,384	(₱604,011)	₱37,855,467
Exercise/Cancellation of ESOP/ESOWN	–	–	–	28,536	(14,905)	96,210	25,195	135,036
Stock dividend	–	–	–	4,842,317	–	–	–	4,842,317
As of December 31, 2011	₱1,200,000	₱5,800,000	₱200,000	₱29,655,833	₱216,209	₱6,339,594	(₱578,816)	₱42,832,820

The movements in the Company's outstanding number of common shares follow:

	December 31		January 1
	2013	2012	2012
		(In Thousands)	
At January 1	**593,690**	577,258	485,645
Stock dividends	**–**	–	96,846
Exercise of ESOP/ESOWN	**565**	1,432	273
Reissuance (Acquisition) of Treasury stock	**5,184**	15,000	(5,506)
At December 31	**599,439**	593,690	577,258

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Company's track record of registration of securities.

	Number of shares registered	Issue/offer price	Date of approval	**2013** Number of holders of securities as of December 31	2012 Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 21, 1976	**7,033**	7,215
Preferred A shares	12,000,000	₱100 par value; ₱500 issue price	November 11, 2008	**None*****	54
Preferred B shares****	20,000,000	₱100 par value; ₱500 issue price	October 31, 2013	**3**	–
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 15, 2010	**994**	980

**Initial number of registered shares only.*
***Par value now is ₱50.00*
****The Preferred A shares were fully redeemed on November 25, 2013.*
*****The Preferred B shares were re-issued on November 15, 2013.*

Retained Earnings

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and joint ventures accounted for under the equity method amounting to ₱64,307.3 million, ₱55,450.0 million and ₱49,445.9 million as of December 31, 2013, 2012 and January 1, 2012, respectively, which are not available for dividend declaration by the Company until these are declared by the investee companies.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with the SRC Rule 68, as Amended (2011), Annex 68-C, the Company's retained earnings available for dividend declaration as of December 31, 2013, 2012 and January 1, 2012 amounted to ₱23.3 billion, ₱20.3 billion and ₱13.8 billion, respectively.

Dividends consist of the following:

	2013	2012	2011
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱2,877,477**	₱2,344,246	₱2,124,004
Cash dividends per share	**4.80**	4.00	4.00
Stock dividends	**–**	–	4,842,317
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred A shares	**–**	532,800	532,800
Cash dividends to Preferred B shares	**525,000**	–	–
Cash dividends to Voting Preferred shares	**3,750**	10,563	21,126

Capital Management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2013, 2012 and 2011.

The Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents and short-term investments. The Company considers as capital the equity attributable to equity holders of the Company.

	December 31		January 1,
	2013	2012	2012
	(In Thousands)		
Short-term debt	**₱15,811,285**	₱12,343,472	₱7,333,841
Long-term debt	**189,869,862**	162,741,031	103,934,490
Total debt	**205,681,147**	175,084,503	111,268,331
Less:			
Cash and cash equivalents	**65,655,049**	80,286,355	56,296,503
Short-term investments	**119,345**	296,503	1,613,058
Net debt	**₱139,906,753**	₱94,501,645	₱53,358,770
Equity attributable to owners of the parent	**₱143,476,282**	₱124,097,713	₱106,353,328
Debt to equity	**143.4%**	141.1%	104.6%
Net debt to equity	**97.5%**	76.2%	50.2%

The Company is not subject to externally imposed capital requirements.

23. Other Income and Costs and Expenses

Other income consists of:

	2013	2012	2011
		(In Thousands)	
Revenue from rehabilitation works (Note 14)	**₱5,160,312**	₱6,037,467	₱7,198,190
Mark to market gain on financial assets at FVPL and derivatives (Notes 9 and 31)	**981,923**	72,698	337,679
Realized income from liquidation of service connection costs	**646,109**	102,266	–
Revenue from management contracts	**624,424**	518,468	529,091
Recoveries of accounts written off (Note 7)	**404,595**	367,415	215,026
Gain on sale of investments (Note 11)	**190,296**	67,847	539,713
Dividend income	**173,031**	180,547	234,333
Foreign exchange gain/(loss) (Note 31)	**113,226**	306,431	90,060
Gain on sale of other assets	**19,382**	26,588	131,078
Insurance claim (Note 6)	**23,891**	25,458	–
Remeasurement gain arising from business combination (Note 24)	**–**	593,853	–
Bargain purchase gain (Note 24)	**–**	–	558,233
Others (Note 8)	**605,789**	68,226	184,477
	₱8,942,978	₱8,367,264	₱10,017,880

Other income mainly includes income derived from ancillary services of consolidated subsidiaries. This may include, among others, marketing fees, collateral income from vehicle sales and income from sale of scrap.

Details of costs of rendering services included in the consolidated statement of income are as follows:

	2013	2012	2011
		(In Thousands)	
Personnel costs (Notes 26, 27 and 30)	**₱8,657,801**	₱6,440,028	₱6,043,245
Depreciation and amortization (Notes 13, 14, 15 and 16)	**7,526,263**	6,196,599	6,273,436
Rental, utilities and supplies	**6,468,249**	4,250,922	3,195,894
Professional and management fees	**4,246,499**	2,150,607	1,941,981
Taxes and licenses	**2,028,640**	1,001,047	874,993
Repairs and maintenance	**888,370**	950,238	680,801
Transportation and travel	**658,799**	206,954	239,775
Contract labor	**508,047**	347,081	288,860
Insurance	**212,692**	194,372	188,462
Others	**291,326**	1,251,956	1,063,247
	₱31,486,686	₱22,989,804	₱20,790,694

"Others" include various costs such as communication, dues and fees and miscellaneous overhead, among others.

General and administrative expenses included in the consolidated statement of income are as follows:

	2013	2012	2011
		(In Thousands)	
Personnel costs (Notes 26, 27 and 30)	**₱7,476,239**	₱6,476,914	₱5,890,790
Depreciation and amortization (Notes 13, 14, 15 and 16)	**1,117,642**	999,303	943,597
Professional fees	**1,021,964**	984,608	807,230
Taxes and licenses	**938,430**	525,786	394,021
Provision for doubtful accounts (Note 6)	**686,094**	719,398	346,315
Rental and utilities	**453,620**	287,917	475,085
Advertising and promotions	**375,341**	246,935	231,675
Donations and contributions	**358,441**	499,680	137,593
Transportation and travel	**325,861**	279,509	271,236
Repairs and maintenance	**236,864**	238,192	272,694
Postal and communication	**207,042**	164,424	156,601
Insurance	**160,066**	133,329	105,963
Supplies	**159,782**	106,999	148,162
Contract labor	**153,342**	278,140	372,191
Research and development	**94,431**	90,164	67,562
Dues and fees	**89,352**	107,370	225,725
Entertainment, amusement and recreation	**76,551**	120,279	193,769
Others (Note 7)	**631,509**	512,899	49,598
	₱14,562,571	₱12,771,846	₱11,089,807

"Others" include various expenses such as management fees, marketing, collection charges, sales commission, bank service charge, periodicals and miscellaneous operating expenses.

Depreciation and amortization expense included in the consolidated statement of income follows:

	2013	2012	2011
		(In Thousands)	
Included in:			
Costs of sales and services	**₱7,526,263**	₱6,196,599	₱6,273,436
General and administrative expenses	**1,117,642**	999,303	943,597
	₱8,643,905	₱7,195,902	₱7,217,033

Personnel costs included in the consolidated statement of income follow:

	2013	2012	2011
		(In Thousands)	
Included in:			
Costs of sales and services	**₱8,657,801**	₱6,440,028	₱6,243,245
General and administrative expenses	**7,476,239**	6,476,914	5,890,790
	₱16,134,040	₱12,916,942	₱12,134,035

Interest and other financing charges consist of:

	2013	2012	2011
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱914,214**	₱259,734	₱205,754
Long-term debt	**7,552,952**	6,126,583	5,479,034
Amortization of service concession obligations and deposits	**613,142**	418,362	345,978
Amortization of discount on long-term debt	**274,518**	267,612	206,258
Others	**1,156,606**	1,083,039	298,219
	₱10,511,432	₱8,155,330	₱6,535,243

“Others” include, among others, various charges such as, pretermination costs, bond offering fees, and credit card charges.

Other charges consist of:

	2013	2012	2011
		(In Thousands)	
Cost of rehabilitation works (Note 15)	**₱5,161,312**	₱6,033,936	₱7,195,936
Provision for impairment losses on:			
AFS financial assets (Note 10)	**228,580**	61,076	157,314
Inventories (Note 8)	**105,702**	330,822	49,937
Property, plant and equipment (Note 14)	**222**	11,575	–
Investment properties (Note 13)	**400**	19,500	–
Goodwill (Notes 16 and 24)	**31,830**	–	139,170
Loss on derecognition of derivative asset (Note 17)	**–**	–	229,613
Write offs and other charges	**–**	150,392	142,741
Others	**4,040**	285,267	18,586
	₱5,532,086	₱6,892,568	₱7,933,297

Other charges include cost and expenses relating to income derived from ancillary services of subsidiaries as shown in the other income.

24. Business Combinations

2013 Acquisitions

PRP Investors
In the latter part of December 2013, AY Fontana, LLC (AY Fontana) bought the remaining 9.03% interest of the managing member in PRP Investors Fontana, LLC (PRP Investors) for a nominal amount of $1 and the related management agreement was likewise amended thereby giving AY Fontana control over PRP Investors. Below is a summary of the fair values of assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

	In US$	In Php*
Assets		
Cash	$62	₱2,753
Receivables	410	18,202
Prepaid expense and other current assets	215	9,545
Investment property	24,168	1,072,938
Other noncurrent assets	3,760	166,925
	28,615	1,270,363
Liabilities		
Accounts payable and accrued expenses	4,745	210,654
Advances from related parties	30,812	1,367,899
Deferred credits	955	42,397
Other payables	40	1,776
	36,552	1,622,726
Net assets	(7,937)	(352,363)
Goodwill	716	31,787
Acquisition cost	(7,221)	(₱320,576)

**Translated using the exchange rate at the transaction date (US$1:₱44.395).*

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	$–	₱–
Fair value of equity interest in PRP Investors held before business combination	–	–
Share in excess losses on PRP Investors	(7,221)	(320,576)
	($7,221)	(₱320,576)

The fair value of the existing ownership interest in PRP Investors was determined to be nil due to the net liability position of PRP Investors as of acquisition date.

From the date of acquisition, the Group's share in the revenue and net loss of PRP Investors amounted to nil. If the combination had taken place at the beginning of the year, the Group's total revenue would remain at $23.05 million and net income would have been $0.30 million. Given the net liability position of PRP Investors, the goodwill arising from the business combination amounting to US$0.72 million was impaired.

Cash on acquisition follows (amounts in thousands):

Cash acquired from PRP Investors	$62	₱2,752
Cash paid	–	–
Net cash flow	$62	₱2,752

2012 Acquisitions

ALI Makati Hotel & Residences, Inc. (AMHRI) and ALI Makati Hotel Property, Inc. (AMHPI)
On October 2, 2012, AyalaLand Hotels and Resorts Corp. (AHRC), a wholly owned subsidiary of ALI, entered into an agreement to acquire the interests of Kingdom Manila B.V., an affiliate of Kingdom Hotel Investments (KHI), and its nominees in KHI-ALI Manila Inc. (now renamed AMHRI) and 72,124 common shares in KHI Manila Property Inc. (now renamed AMHPI).

AMHRI and AMHPI are the project companies for the Fairmont Hotel and Raffles Suites and Residences project in Makati which opened last December 2012.

Prior to the acquisition, ALI effectively owned 20% economic interest in AMHRI and AMHPI. ALI acquired the remaining 80% interest in AMHRI and AMHPI for a total consideration of ₱2,430.4 million.

The acquisition is in line with KHI's value realization strategy and with ALI's thrust to grow its commercial leasing business. It adds 32 Raffles Suites and 280 Fairmont Hotel rooms to AHRC's growing hotel portfolio. The continuing sale of units in the Raffles Residences will also generate immediate cash, while the operations of the hotel and serviced apartments will augment and diversify the sources of recurring revenues. Furthermore, this landmark project will complement the various offerings of the Makati Central Business District, and fortify its position as the country's premier financial district.

The fair value of ALI's interest prior to the acquisition amounting to ₱769.0 million was determined using the adjusted net asset value method. Remeasurement of ALI's equity interest in both companies resulted to the recognition of a gain (included under "Other income") amounting to ₱593.9 million.

Prior to the acquisition, ALI effectively owns 20% economic interest in AMHRI and AMHPI, and through this acquisition, AHRC and the ALI's ownership in AMHRI and AMHPI now stands at 100%. Remeasurement of ALI's equity interest in both companies resulted in the recognition of a gain (included under "Other income") amounting to ₱756.1 million (see Note 23).

During the year, ALI finalized its purchase price allocation. Changes to the fair market values of the assets acquired and liabilities assumed noted are retroactively applied in the 2012 balances.

The following are fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱1,334,000
Trade and other receivables	1,708,000
Real estate inventories	936,000
Other current assets	202,000
Hotel property and equipment	5,421,000
	9,601,000
Liabilities	
Accounts and other payables	2,162,000
Loans payable	3,594,000
Deferred tax liabilities	633,698
	6,389,698
Net assets	3,211,302
Negative goodwill	(11,870)
Acquisition cost	₱3,199,432

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

From the date of acquisition, the Group's share in AMHRI and AMHPI's revenue and net income amounted to ₱898.9 million and a loss of ₱96.4 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱64.2 billion, while the Group's net income would have been ₱10.6 billion.

2011 Acquisitions

IMI EY/MX subsidiaries
On April 28, 2011, IMI Philippines infused additional capital to its subsidiary, IMI Singapore, consisting of US$7.0 million cash and 200 million of IMI Philippines' own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.0 per share. This was used by IMI Singapore to set up Monarch and Cooperatief as holding companies and facilitate the acquisition of IMI EY/MX subsidiaries from EPIQ NV.

On May 4, 2011, IMI Philippines, Cooperatief (the Purchaser), and EPIQ NV (the Seller), entered into a Sale and Purchase Agreement (SPA), for the Purchaser to buy the Seller's 100% direct or indirect ownership shares (EPIQ shares) in the IMI EY/MX subsidiaries.

IMI Philippines, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200 million of IMI Philippines' shares (the IMI Consideration Shares); deferred payment of EUR€7.3 million (₱443.1 million) from 2013 to 2018 subject to interest rate of 1.6% plus 1.5%; and assumption of liabilities of EPIQ NV to the IMI EY/MX subsidiaries aggregating to EUR€2.5 million (₱153.6 million).

The acquisition costs are allocated as follows:

	IMI BG	IMI CZ	IMI MX	Total
		(In Thousands)		
Issuance of 200 million IMI Consideration Shares	US$20,639	US$525	US$7,645	US$28,809
Deferred payment	7,533	191	2,791	10,515
Assumed liabilities of EPIQ NV to EPIQ subsidiaries	115	9	3,521	3,645
	US$28,287	US$725	US$13,957	US$42,969

On July 29, 2011, all of the completion conditions under the SPA were fulfilled by the responsible parties, and the acquisition of the IMI EY/MX subsidiaries by Cooperatief was completed.

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from the IMI EY/MX subsidiaries aggregating to EUR€11.7 million (₱707.9 million). On July 29, 2011, EUR€4.8 million (₱291.4 million) of this was settled through cash payment, while the rest will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.6% plus 1.5% (see Note 20).

The provisional fair values of the identifiable assets and liabilities acquired and goodwill (gain from bargain purchase) arising as at the date of acquisition follow:

	EPIQ EA		EPIQ CZ		EPIQ MX	
	In US$	In Php*	In US$	In Php*	In US$	In Php*
			(In Thousands)			
Assets						
Cash and cash equivalents	US$1,153	₱48,569	US$515	₱21,711	US$3,386	₱142,668
Receivables	26,486	1,116,115	3,334	140,492	10,508	442,811
Inventories	20,701	872,338	2,985	125,769	4,476	188,632
Property, plant and equipment	24,811	1,045,517	5,734	241,639	8,618	363,172
Intangible assets	6,925	291,838		–	300	12,631
Deferred tax assets	–	–	444	18,720	–	–
Other assets	193	8,141	–	–	121	5,092
	80,269	3,382,518	13,012	548,331	27,409	1,155,006
Liabilities						
Accounts payable	17,651	745,824	2,445	103,025	6,410	270,107
Bank loans	12,871	542,394	–	–	–	–
Accrued charges and deferred income	1,159	48,831	378	15,919	–	–
Taxes payable	352	14,857	–	–	1,090	45,932
Provisions	1,320	55,615	–	–	–	–
Deferred tax liabilities	2,139	90,131	–	–	1,686	71,060
Long term debt	4,780	201,424	10,114	426,224	2,909	122,591
	40,272	1,699,076	12,937	545,168	12,095	509,690
Net Assets	39,997	1,683,442	75	3,163	15,314	645,316
Cooperatief's share in the fair value of net assets acquired	39,949	1,683,442	75	3,163	15,314	645,316
Goodwill (gain from bargain purchase)	(11,662)	(491,423)	650	27,408	(1,357)	(57,175)
Acquisition cost	US$28,335	₱1,192,019	US$725	₱30,571	US$13,957	₱588,141

**Translated using the exchange rate at the transaction date (US$1:₱42.14)*

The purchase price allocation for the acquisition of the IMI EY/MX subsidiaries has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets, contingent liabilities and goodwill.

In 2012, IMI Phillippines finalized the purchase price allocation. As shown above, no changes were made to the provisional values as the impact of additional information subsequently obtained was not significant to affect the preliminary values.

Acquisition related costs which consist of professional fees, representation and travel expenses amounting to US$2.1 million (₱92.7 million) were recognized as expense in 2011.

From the date of acquisition in 2011, the Group's share in the revenue and net income of IMI EY/MX subsidiaries amounted to US$66.2 million (₱2.9 billion) and US$2.4 million (₱104.8 million), respectively. If the combination had taken place at the beginning of 2011, the Group's total revenue and net income would have been ₱99.4 billion and ₱16.1 billion, respectively.

CWC

On November 8, 2011, MWC and Veolia Water Philippines, Inc. (VWPI) entered into a share sale and purchase agreement whereby VWPI sold to MWC its 100% interest in CWC and receivable from Bonifacio Water Corporation (BWC). On November 29, 2011, MWC completed the acquisition of VWPI's 100% interest in the common shares of CWC and the BWC receivable at a total contract price of ₱1.8 billion, broken down as follows:

BWC Receivable (Note 7)	₱0.6 billion
Investment in CWC	1.2 billion
	₱1.8 billion

The terms of the BWC receivable provide that payments will be made on a quarterly basis at an amount based on a certain percentage of BWC's revenue until 2022, the end of BWC's concession period. The fair value of the BWC receivable has been determined based on the present value of forecasted collections of the receivable.

The purchase price allocation of CWC has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash	₱31,621
Receivable – net	38,854
Materials and supplies - at cost	1,132
Other current assets	1,324
Property, plant and equipment - net	5,188
Service concession assets	1,077,361
Other noncurrent assets	13,900
	1,169,380
Liabilities	
Accounts and other payables	₱22,178
Income tax payable	838
Service concession liabilities	37,013
Deferred tax liability	244
Customers' deposits	27,429
Pension liability	11,339
	99,041
Net assets	₱1,070,339
Goodwill	130,319
Acquisition cost	₱1,200,658

Cash on acquisition follows:

Cash acquired from CWC	₱31,621
Cash paid	1,200,658
Net cash flow	₱1,169,037

The fair value of receivables amounts to ₱38.9 million. The gross amount of receivables is ₱42.6 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

Transaction costs of ₱2.6 million have been expensed and are included in administrative expenses.

From the date of acquisition, the Group's share in the revenue and net income of CWC amounted to ₱27.6 million and ₱6.8 million, respectively. If the contribution had taken place at the beginning of the year, the revenue of the Group would have been ₱97.3 billion and net income would have been ₱15.9 billion in 2011.

In 2012, MWC finalized the purchase price allocation and there were no changes made to the fair values of the assets acquired and liabilities assumed for CWC.

IQ BackOffice, LLC (IQB)

On April 29, 2011, AIVPL through LIL and HRMall acquired IQB for a total consideration of US$12.5 million. IQB is engaged in the business of providing outsourced back office accounting and financial management services. AIVPL dissolved IQB upon its acquisition to create a new company in the name of IQ BackOffice, Inc. (IQB Delaware) to serve as a marketing arm for AIVPL Group.

The purchase price has been allocated based on management's estimates after considering independent appraisals of the fair values of the acquired identifiable assets and assumed liabilities at the date of acquisition as follows (amounts in thousands):

	In US$	In Php*
Assets		
Cash	US$323	₱13,807
Receivables	259	11,065
Property and equipment	486	20,821
Intangibles	7,771	332,603
	8,839	378,296
Liabilities		
Accounts and other payables	28	1,185
Net assets	8,811	377,111
Goodwill	3,689	157,889
Acquisition cost	US$12,500	₱535,000

**Translated using the exchange rate at the transaction date (US$1:₱42.80).*

The cost of acquisition pertains to cash paid in the amount of US$12.5 million (₱535.0 million).

From the date of acquisition, the Group's share in the revenue and net income of IQB amounted to US$2.3 million (₱100.6 million) and US$0.1 million (₱3.6 million), respectively. If the contribution had taken place at the beginning of the year, the revenue would have been US$2.2 billion (₱94.1 billion) and net income of the Group would have been US$0.4 billion (₱15.9 billion) in 2011.

Concurrently, LIL entered into a share purchase agreement with certain IQB officer to sell a portion of HR Mall Holdings (HMHL) shares, giving the IQB officer a combined ownership interest of 17.48% in HMHL.

Wind power companies

On March 15, 2011, ACEHI entered into a share purchase agreement with Viage Holdings, Presage Holdings, Moorland Philippines Investments, Inc. and BDO Capital Corporation for their respective holdings in Viage Corporation (Viage), Presage Corporation (Presage) and Moorland Philippines Holdings, Inc. (Moorland). The acquisition gave ACEHI 100% ownership interest in Viage, Presage and Moorland (collectively "Wind power companies") which collectively owns a 50% effective stake in NorthWind Power Development Corporation (Northwind). Northwind owns and operates the 33-MW wind farm located in Bangui Bay, Ilocos Norte.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash	₱683
Receivables	42,548
Other current assets	165
Investments in stock	457,180
	500,576
Liabilities	
Accounts payable	1,078
Advances	21,136
	22,214
Net assets	478,362
Goodwill	411,031
Acquisition cost	₱889,393

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱492,423
Contingent consideration liability	396,970
	₱889,393

Cash on acquisition follows (amounts in thousands):

Cash acquired from Wind power companies	₱683
Cash paid	492,423
Net cash flow	₱491,740

As part of the share purchase agreement with the previous owners of the Wind power companies, a contingent consideration has been agreed. There will be additional payments to the previous owners for Feed-in-Tariff (FiT) Adjustment and Achieved Capacity Factor Adjustment within one year from closing date (March 15, 2012).

As at the acquisition date, the fair value of the contingent consideration is ₱396.97 million.

As of December 31, 2011, Northwind was able to exceed the agreed capacity factor with the previous owners. However, the FiT provision of the Renewable Energy Act of 2008 is pending approval by the Energy Regulatory Commission (ERC).

From the date of acquisition, the Group's share in the revenue and net income of the Wind power companies amounted to ₱3.6 million and ₱2.2 million, respectively. If the combination had taken place at the beginning of the year, the revenue of the Group would have been ₱94.0 billion and net income would have been ₱15.8 billion in 2011.

Hydro power companies

On April 19, 2011, ACEHI and Sta. Clara Power Corporation (SCP) entered into a Shareholder's Agreement (the Agreement) to develop various mini-hydro power projects in various locations in the Philippines. ACEHI and SCP shall carry out the Agreement through Quadriver Energy Corporation (QEC), Philnew Hydro Power Corporation (PHPC) and Philnew River Power Corporation (PRPC) (collectively "Hydro power companies"), wholly owned subsidiaries of SCP. QEC and PHPC were incorporated on April 5, 2011 while PRPC was incorporated on June 24, 2011.

Under the Agreement, SCP issued an irrevocable proxy in favor of ACEHI wherein ACEHI will hold 70% of the subscribed capital stock, vote on any and all corporate actions therein, and elect such number of directors as corresponds to its intended 70% stake in QEC, PHPC and PRPC. This enabled ACEHI to exercise control over QEC, PHPC and PRPC.

Simultaneous with the signing of the Agreement, SCP transferred 25% of its ownership interest in QEC and PHPC to ACEHI.

The following is a summary of the fair values of the asset acquired from QEC and PHPC as of the date of the acquisition (amounts in thousands).

Assets	
Cash	₱500
Share in the fair value of the asset acquired (25%)	125
Goodwill	55,423
Acquisition cost	₱55,548

The acquisition cost pertains to the cash consideration paid to SCP.

Cash on acquisition of QEC and PHPC follows (amounts in thousands):

Cash acquired from PRPC	₱500
Cash paid	55,548
Net cash flow	₱55,048

As of December 31, 2011, ACEHI does not own any shares of PRPC but the balances were still consolidated by virtue of the irrevocable proxy issued by SCP.

The asset of PRPC as of acquisition date pertain to cash amounting to ₱0.25 million.

Cash on acquisition of PRPC follows (amounts in thousands):

Cash acquired from PRPC	₱250
Cash paid	–
Net cash flow	₱250

Subsequent to acquisition date, renewable energy contracts under the name of SCP were transferred to the respective Hydro power companies.

From the date of acquisition, the Group’s share in the revenue and net loss of Hydro power companies amounted to ₱0.1 million and (₱3.01 million), respectively. Since the business combination happened close to the date of incorporation of the Hydro power companies, the Group’s total revenue and net income would be the same as presented in the consolidated statement of income.

2010 Acquisitions

PSi
On June 25, 2010, IMI and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the “New Investors”) entered into an Investors’ Agreement (the Agreement) with PSi Technology Holdings, Inc. and Merrill Lynch Global Emerging Markets Partners, LLC collectively referred to as the “Old Investors”), to take on 55.8% and 11.2% equity share in PSi, respectively.

The equity subscription of the New Investors was finalized on October 6, 2010, and IMI took control of PSi on that date.

The Agreement also provided details regarding the grant of put and call options, as follows:

Put Option	Option to require the New Investors to purchase all but not some of the shares held by the Old Investors (Option Shares) at the time of exercise, at anytime during the Put Option Period.
Put Option Period	The period from acquisition date up to twenty-four (24) months from completion date, with 7-day exercise notice.
Put Option Strike Price	The higher of (a) $1.00 and (b) value of the shares calculated based on 5.5x trailing 12-month earnings before interest, taxes, depreciation and amortization (EBITDA) of PSi as of receipt of the exercise notice, less net debt.
Call Option	Option to require the Old Investors to sell all but not some only of the shares held by the Old Investors at the time of exercise, at anytime during the Call Option Period.
Call Option Period	The period commencing six (6) days prior to the lapse of the Put Option Period and ending thirty (30) days after the lapse of the Put Option Period.
Call Option Strike Price	The higher of (a) $1.00 and (b) value of the shares calculated based on 6.0x trailing 12-month EBITDA of PSi as of the date of receipt of the exercise notice, less net debt.

In 2010, IMI recorded its share in the identifiable assets and liabilities of PSi using provisional fair values due to unavailability of certain information to facilitate the fair value computation of receivables, property, plant and equipment, accounts payable and accrued expenses, and goodwill. The acquisition cost also includes contingent consideration.

In 2011, IMI finalized the purchase price allocation as follows:

	In US$	In Php*
	(In Thousands)	
Assets		
Cash	US$10,528	₱461,966
Accounts receivable	12,454	546,482
Inventories	6,581	288,774
Property, plant and equipment	9,210	404,135
Other assets	1,312	57,571
	40,085	1,758,928
Liabilities		
Accounts payable and accrued expenses	31,592	1,386,257
Loans payable	2,348	103,013
Deferred revenue	2,922	128,259
Accrued rental noncurrent	902	39,581
Other long-term benefits	372	16,327
	38,136	1,673,437
Net assets	US$1,949	₱85,491
Non-controlling interest share in the net fair value of net assets acquired (44.22%)	US$862	₱37,804
Acquisition cost	US$11,284	₱495,142
Less IMI's share in the fair value of net assets acquired (55.78%)	1,087	47,687
Goodwill	US$10,197	₱447,455

**Translated using the exchange rate at the transaction date (US$1:₱43.88)*

Receivables, accounts payable and accrued expenses, and the cost of acquisition (as adjusted for contingent consideration) decreased by US$5.9 million (₱261.9 million), US$$4.2 million (₱184.3 million), and US$0.3 million (₱13.2 million), respectively. The final purchase price allocation resulted in a goodwill of US$$10.2 million (₱447.5 million).

Cash on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Cash acquired from Psi	US$10,528	₱461,966
Cash paid	8,325	365,301
Net cash flow	US$2,203	₱96,665

**Translated using the exchange rate at the transaction date (US$1:₱43.88)*

Acquisition of Additional Interest in PSi
On September 26, 2012, amendments relating to the Agreement were made to allow the parties to respectively exercise their option rights without the need for further determination of valuation or engagement of third parties. Accordingly, a fixed price was established amounting to US$0.15 million.

On January 9, 2013, pursuant to the second amendment to the Agreement, the exercise notice, which is one of the conditions for the completion of the sale and purchase of the option shares, was received by the parties. The sale and purchase transaction involving the option shares shall be deemed completed upon compliance of the rest of conditions set forth in the Agreement.

On March 12, 2013, the Deeds of Assignment have been executed and the stock certificates have been delivered. The exercise of the option rights increased IMI's ownership interest in PSi from 55.78% to 83.25%.

Ten Knots
ALI entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a company which will serve as a holding vehicle for Ten Knots Philippines, Inc. (TKPI) and Ten Knots Development Corporation (TKDC) (wholly-owned subsidiaries of the ACC Group prior to ALI's involvement). TKPI and TKDC are mainly involved in the development of parcels of land and islands into resorts in Miniloc, Lagen, Pangulasian and Apulit islands in the municipalities of El Nido and Taytay in Northern Palawan.

The agreement eventually resulted in ALI obtaining 60% interest in the new company for a total consideration of ₱2.0 billion and ACC Group acquiring the remaining 40% interest.

ALI subscribed to 60% of the shares of TKPI and TKDC, thereby providing ALI with the ability to exercise control over TKPI and TKDC effective April 23, 2010. Accordingly, TKPI and TKDC financial statements were consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

The following were the fair values of the identifiable assets acquired and liabilities assumed (in thousands):

Assets	
Cash and cash equivalents	₱365,652
Trade and other receivables	1,455,940
Inventories	16,393
Other current assets	25,401
Land and improvements	1,361,645
Deposit on land purchase	444,622

(Forward)

Assets	
Property and equipment	₱493,328
Other assets	140,640
	4,303,621
Liabilities	
Accounts and other payables	310,177
Deposits and other current liabilities	21,446
Due to related parties	89,232
Loans payable	81,621
Income tax payable	18,630
Deferred tax liabilities – net	399,155
	920,261
Net assets	3,383,360
Non-controlling interest in TKDC and TKPI	1,353,344
Total net assets acquired	2,030,016
Acquisition cost	2,029,500
Negative goodwill	₱516

ALI's share in the fair value of the net assest amounted to ₱2.0 billion, which resulted to a negative goodwill amounting to ₱0.5 million.

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

In 2011, ALI finalized the purchase price allocation and there were no changes to the fair market values of the assets acquired and liabilities assumed for TKDC and TKPI.

In 2011, the shareholders of ECI, a subsidiary, approved the increase in its authorized capital stock and the subsequent issuance of these shares in exchange for the investment of the Company and ACC Group in TKDC and TKPI. As a result of this transaction, ALI and ACC will obtain 60% and 40% ownership interest in ECI, respectively. Also, TKDC and TKPI will become wholly owned subsidiaries of ECI. However, the Exchange Agreement was subsequently rescinded in 2013, in favor of the acquisition of the minority interest in TKDC and TKPI through AHRC's acquisition of 100% interest in ACCI.

Asian Conservation Company, Inc. (ACCI)

On November 19, 2013, AHRC, a wholly owned subsidiary of ALI entered into an agreement to acquire 100% interest in ACCI, which effectively consolidates the remaining 40% interest in TKDC and TKPI (60%-owned subsidiary of the Company prior to this acquisition). This acquisition is in line with ALI's thrust to support the country's tourism industry.

The agreement resulted in ALI effectively obtaining 100% interest in TKPI and TKDC. A total of ₱2.0 billion was paid to obtain the 100% interest in ACCI. The carrying amount of the non-controlling interest is reduced to nil as ALI already owns 100% share in TKDC and TKPI. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognized in equity under "Equity Reserve" amounting to ₱586.0 million.

APPHC and APPCo

APPCo owns BPO buildings in Makati, Quezon City and Laguna, with a total leasable area of approximately 230 thousand square meters. This acquisition is aligned with ALI's thrust of expanding its office leasing business and increasing its recurring income.

In 2006, ALI signed an agreement with MLT Investments Ltd. (MIL) and Filipinas Investments Ltd. (FIL) to jointly develop a BPO office building in Dela Rosa Street, Makati and to purchase the existing PeopleSupport Building.

APPHC, the joint-venture company formed, is 60% owned ALI. APPHC owns 60% interest in its subsidiary, APPCo. The remaining 40% interest in both APPHC and APPCo are split evenly between MIL and FIL. APPHC and APPCo are joint ventures by ALI, MIL, and FIL.

On December 8, 2008, ALI acquired from FIL its 20% ownership in APPHC and APPCo. This resulted in an increase in ALI's effective ownership interest in APPHC from 60% to 80% and APPCo from 36% to 68%, thereby providing ALI with the ability to control the operations of APPHC and APPCo following the acquisition. Accordingly, APPHC and APPCo's financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2008.

On November 16, 2011, the SEC approved the merger of APPHC and APPCo, with APPCo as the surviving entity. The merger was meant to streamline administrative processes and achieve greater efficiency. From the perspective of ALI, the merger did not affect its effective interest (68%) in the merged entity.

On April 15, 2013, ALI entered into a Sale and Purchase Agreement with Global Technologies International Limited (GTIL) to acquire the latter's 32% stake in APPCo for ₱3,520.0 million. Prior to the acquisition, ALI has 68% effective interest in APPCo.

The carrying amount of the non-controlling interest is reduced to nil as APPCo became a wholly-owned subsidiary of ALI. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognized in equity under "Equtiy Reserve" amounting to ₱2,722.6 million.

Asian I- Office Properties, Inc. (AiO)
On April 16, 2013, Cebu Property Ventures and Development Corporation (CPVDC) (a subsidiary of CHI) acquired the 60% interest of ALI in AiO for a cash consideration of ₱436.2 million. AiO was previously 40%-owned by CPVDC and 60%-owned by ALI.

This transaction allowed ALI to consolidate into CPVDC the development and operations of BPO offices in Cebu and businesses related thereto, which should lead to value enhancement, improved efficiencies, streamlined processes and synergy creation among the Company and its subsidiaries. This is also consistent with the thrust of the CHI group to build up its recurring income base.

The acquisition resulted to AiO becoming a wholly owned subsidiary of CPVDC. Both AiO and CHI are under the common control of the Company. As a result, the acquisition was accounted for using the pooling of interests method. The transaction has no effect on the carrying amounts of the Group's assets and liabilities.

Taft Punta Engaño Property, Inc. (TPEPI)
On October 31, 2013, ALI acquired a 55% interest in TPEPI for a consideration of ₱550.0 million. The acquisition will allow ALI to consolidate its businesses resulting in improved efficiencies and synergy creation to maximize opportunities in the Cebu real estate market. The transaction was accounted for as an asset acquisition.

The excess of the ALI's cost of investment in TPEPI over its proportionate share in the underlying net assets at the date of acquisition was allocated to "Investment properties" account in the consolidated financial statements. This purchase premium shall be amortized upon sale of these lots by TPEPI.

TPEPI's underlying net assets acquired by ALI as of date of acquisition consists of cash in bank, input VAT and investment properties amounting to ₱550.0 million.

25. Income Tax

The components of the Group's deferred taxes as of December 31, 2013, 2012 and January 1, 2012 are as follows:

Net deferred tax assets

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Deferred tax assets on:			
Difference between tax and book basis of accounting for real estate transactions	**₱3,358,688**	₱1,530,231	₱1,071,486
Allowance for probable losses	**1,020,409**	894,084	908,155
Service concession obligation	**814,269**	814,960	750,240
Retirement benefits	**1,292,095**	1,133,888	542,020
Share-based payments	**87,265**	116,434	90,057
Advanced rental	**10,285**	80,076	129,087
NOLCO and MCIT	**287,757**	119,765	89,619
Revaluation of property, plant and equipment	**19,722**	18,236	19,476
Unrealized foreign exchange loss	**52,095**	16,881	13,154
Allowance for inventory obsolescence	**10,290**	9,493	4,878
Allowance for doubtful accounts	**17,489**	7,988	–
Accrued expenses	**37,407**	145,355	126,396
Others	**100,181**	249,469	111,774
	7,107,952	5,136,860	3,856,342
Deferred tax liabilities on:			
Capitalized interest and other expenses	**(592,732)**	(543,529)	(477,015)
Unrealized foreign exchange gain	**(1,635)**	(22,791)	–
Excess of financial realized gross profit over taxable realized gross profit	**–**	(7,673)	(14,279)
Others	**–**	(15,906)	(72)
	(594,367)	(589,899)	(491,366)
Net deferred tax assets	**₱6,513,585**	₱4,546,961	₱3,364,976

Net deferred tax liabilities

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Deferred tax assets on:			
Difference between tax and book basis of accounting for real estate transactions	**₱320,464**	₱360,289	₱97,392
NOLCO	**11,303**	113,689	83,216
Fair value adjustments on:			
Long-term debt	**167,492**	166,286	117,426
AFS financial asset	**1,116**	1,116	1,116
Others	**139,272**	2,530	12,682
	639,647	643,910	311,832
Deferred tax liabilities on:			
Fair value adjustments on:			
Service concession assets	**(4,742,672)**	(4,875,064)	(5,119,478)
Land and improvements	**(625,490)**	(625,490)	(392,194)
Property and equipment	**(531,986)**	(206,726)	(58,548)
Service concession obligation	**(34,091)**	(34,091)	(34,091)
Customers' guaranty and other deposits	**(18,691)**	(18,691)	(18,691)
Investment properties	**(12,108)**	–	–
Excess of financial realized gross profit over taxable realized gross profit	**(476,166)**	(264,901)	(325,558)
Revaluation of property, plant and equipment	**(73,086)**	(144,836)	(173,902)

(Forward)

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Unrealized foreign exchange gain	**(₱19,007)**	(₱230,663)	(₱72,275)
Unrealized mark-to-market gains from put and call option	**–**	(32,945)	(35,982)
Retirement benefits	**(72,756)**	(312,530)	(29,132)
Capitalized interest and other expenses	**(45,201)**	–	–
Unrealized gain on sale on AFS	**(11,804)**	(11,487)	–
Unrealized fair value gain less costs to sell of biological assets	**(6,164)**	(4,531)	(4,662)
Prepaid expenses	**(149,972)**	–	(120,134)
Others	**(167,853)**	(138,080)	(63,866)
	(6,987,047)	(6,900,035)	(6,448,513)
Net deferred tax liabilities	**(₱6,347,400)**	(6,256,125)	(₱6,136,681)

The Group has NOLCO amounting to ₱10.7 billion, ₱8.0 billion and ₱7.1 billion in 2013, 2012 and 2011, respectively, on which deferred tax have not been recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱76.7 million in 2013, ₱42.7 million in 2012 and ₱51.7 million in 2011, respectively, were also not recognized, since management believes that there could be no sufficient taxable income against which the benefits of the deferred tax assets may be utilized.

As of December 31, 2013, NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, are as follows:

Year incurred	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2011	2014	₱3,350,465	₱22,293
2012	2015	3,274,417	22,264
2013	2016	4,076,216	32,167
		₱10,701,098	₱76,724

As of December 31, 2013, 2012 and January 1, 2012, deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings and cumulative translation adjustment amounted to ₱2.9 billion, ₱346.8 million and ₱813.8 million as of December 31, 2013, 2012 and January 1, 2012, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2013	2012 (As restated)	2011 (As restated)
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nontaxable share of profit of associates and jointly controlled entities	**(9.84)**	(11.03)	(11.79)
Interest income subjected to final tax at lower rates	**(1.61)**	(2.47)	(2.14)
Income under income tax holiday	**(0.48)**	(0.44)	(0.17)
Others	**3.55**	4.27	4.89
Effective income tax rate	**21.62%**	20.33%	20.79%

<u>MWC Group</u>
Revenue Regulations (RR) No. 16-2008
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the Optional Standard Deduction (OSD) for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by MWC and for the years ended December 31, 2013, 2012 and 2011.

MWC availed of the income tax holiday granted for Board of Investments (BOI) registered projects, the Antipolo Water Supply Project in 2011 and East La Mesa (Rodriguez) Water Treatment Plant Project in 2012.

The tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2009.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. MWC forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.

CWC
CWC as a duly registered CFZ enterprise under RA No. 9400, *An Act Amending RA No. 7227 otherwise known as the Bases Conversion and Development Act of 1992*, is entitled to all the rights, privileges and benefits established there under including tax and duty-free importation of capital equipment and special income tax rate of 5% of gross income earned from sources within the CFZ.

BIWC
On January 25, 2011, BIWC filed an application for registration with the Board of Investments (BOI) under Executive Order (EO) No. 226, as amended, as a new operator of water supply and distribution for the Boracay Island on a non-pioneer status. The application was ratified on February 9, 2011.

On June 17, 2011, BIWC's application was registered with the BOI under Book 1 of EO 226. Income Tax Holiday (ITH) is for four (4) years from June 2011 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration. The ITH entitlement shall be limited to the water sales schedule reflected in specific terms and condition of the registration. Further, the ITH entitlement for the wastewater or sewerage services shall be limited only to 10% of the total revenue derived from its water supply.

LAWC
LAWC is registered with the Board of Investments (BOI) under the Omnibus Investment Code of 1987. The registration entitles the Company to an income tax holiday (ITH) for four years until 2010. In 2011, LAWC applied for a one year extension of the ITH incentive which was approved by BOI on January 19, 2012.

In 2013, LAWC availed of the OSD and the tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes of LAWC.

<u>IMI Group</u>
IMI Philippines
IMI Philippines is registered with PEZA and is entitled to certain incentives, which include ITH. IMI Philippine's entitlements to ITH under the current PEZA registrations have expirations beginning January 2010. As of December 31, 2013, there are four (4) remaining project activities with ITH

entitlement which will expire in 2016 and 2017. Upon the expiration of the ITH, the IMI Philippines will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to regular corporate income tax (RCIT) rate of 30%.

PSi
PSi is registered with PEZA under the Omnibus Investment Code of 1987 and R.A. No. 7916 on May 17, 2004, for the manufacture of semiconductor devices and for export and importation of raw materials, machinery and equipment, and other materials used in manufacturing semiconductor devices in the Food Terminal Incorporated - Special Economic Zone (FTI-SEZ), Taguig City and Carmelray Industrial Park II, Calamba City.

On August 24, 2012, PEZA issued an amended Certificate of Registration to PSi as an Ecozone Export Enterprise to include the transfer of registered activities of PSi Laguna to PSi. The issuance of the new certification was based on the approval of the merger of PSi and PSi Laguna with the former as the surviving entity and the latter as the absorbed entity, by the Philippine SEC on June 21, 2012.

As a PEZA-registered entity, PSi is subject to a five percent (5%) tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi in FTI-SEZ and Carmelray Industrial Park II. The five percent (5%) tax on gross income shall be paid and remitted as follows: (a) three percent (3%) to the National Government; and (b) two percent (2%) to the treasurer's office of the municipality or city where the enterprise is located. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

As of December 31, 2013, there are two (2) remaining PEZA registered activities with ITH entitlement which will expire in 2014.

STHK and Monarch
Hong Kong profits tax has been provided at the rate of 16.5% for the years ended December 31, 2013, 2012 and 2011, on the assessable profit for the year.

SZSTE, STJX, STCQ and IMICD
In accordance with the "Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

SZSTE is subject to taxation at the statutory tax rate of 24% for the years ended December 31, 2013, 2012 and 2011 on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its seventh profitable year, and hence is subject to taxation at the rate of 25% in 2013 and 2012 and 28% in 2011 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STCQ is in its second profitable year, and hence is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

IMICD is subject to taxation at the statutory rate of 25% on their taxable income as reported in the financial statements. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

STPH
STPH is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to five percent (5%) on gross income, as defined under R.A. No. 7916, in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking account of any losses carried forward from previous financial years (if applicable) and tax-exempt items and non-deductible expenses and using tax facilities.

IMI France
Income tax is computed based on the income earned by the corporation during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back three years. The tax rate applicable in 2013, 2012 and 2011 is 33% based on net profits.

IMI BG
Income taxes are calculated in accordance with the Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current income tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10% for 2013, 2012 and 2011.

IMI MX
IMI MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate for 2013, 2012 and 2011 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

IMI CZ
Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate in 2013, 2012 and 2011 is 19%.

26. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Company:

	2013	2012 (As restated)	2011 (As restated)
	(In Thousands, except EPS figures)		
Net income	**₱12,777,932**	₱10,504,385	₱9,183,335
Less dividends on preferred stock	**528,750**	543,363	965,341
	12,249,182	9,961,022	8,217,994
Less profit impact of assumed conversions of potential ordinary shares of investees	**16,342**	23,953	27,095
	₱12,232,840	₱9,937,069	₱8,190,899
Weighted average number of common shares	**596,591**	585,027	579,965
Dilutive shares arising from stock options	**3,399**	2,341	2,332
Adjusted weighted average number of common shares for diluted EPS	**599,990**	587,368	582,297
Basic EPS	**₱20.53**	₱17.03	₱14.17
Diluted EPS	**₱20.39**	₱16.92	₱14.07

27. Defined Benefit Plan

The Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with minimum lump-sum guarantee of 1.5 months effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱651.5 and ₱685.9 million in 2013 and 2012, respectively.

The funds are administered by a trustee bank under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller overseas the entire investment process.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Group also provides additional post employment healthcare benefits to certain senior employees in the Philippines. These benefits are unfunded.

Changes in net defined benefit liability in 2013 are as follows (amounts in thousands):

		Pension Expense						Remeasurements								
	January 1, 2013 (As restated)	Current service cost	Past service cost	Net interest	Loss on curtailment and settlements	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution from plan participant	Contribution by employer	Transfers in/out	Foreign currency exchange difference	December 31, 2013
Present value of defined benefit obligation	₱7,055,573	₱592,284	₱644	₱341,299	₱9,009	₱943,236	(₱397,507)	₱22,128	₱315,393	₱422,994	₱760,515	₱–	₱–	₱45,187	(₱8,555)	₱8,398,449
Fair value of plan assets	(5,472,302)	–	–	(291,757)	–	(291,757)	397,507	(194,375)	–	–	(194,375)	(3,855)	(902,735)	(26,528)	1,480	(6,492,565)
Net defined benefit liability	₱1,583,271	₱592,284	₱644	₱49,542	₱9,009	₱651,479	₱–	(₱172,247)	₱315,393	₱422,994	₱566,140	(₱3,855)	(₱902,735)	₱18,659	(₱7,075)	₱1,905,884

Changes in net defined benefit liability in 2012 are as follows (amounts in thousands):

		Pension Expense						Remeasurements								
	January 1, 2012 (As restated)	Current service cost	Past service cost	Net interest	Loss on curtailment and settlements	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution from plan participant	Contribution by employer	Transfers in/out	Foreign currency exchange difference	December 31, 2012 (As restated)
Present value of defined benefit obligation	₱6,058,696	₱606,303	(₱6,861)	₱344,078	(₱164,914)	₱778,606	(₱322,501)	₱–	(₱29,426)	₱569,106	₱539,680	₱–	₱–	₱3,337	(₱2,244)	₱7,055,574
Fair value of plan assets	(5,048,486)	–	–	(284,179)	191,449	(92,730)	322,501	(434,971)	–	–	(434,971)	(2,700)	(215,942)	–	25	(5,472,303)
Net defined benefit liability (asset)	₱1,010,210	₱600,303	(₱6,861)	₱59,899	₱26,535	₱685,876	₱–	(₱434,971)	(₱29,426)	₱569,106	₱104,709	(₱2,700)	(₱215,942)	₱3,337	(₱2,219)	₱1,583,271

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. The Company doesn't have unfunded post-employment medical benefits.

The fair value of plan assets by each classes as at the end of the reporting period are as follow:

	2013	2012
	(In Thousands)	
Assets		
Cash and Cash Equivalents	**₱761,440**	₱50,331
Debt investments	**2,443,358**	2,701,927
Equity Investments	**3,011,521**	2,711,638
Other Assets	**78,937**	12,444
	6,295,256	5,476,340
Liabilities		
Trust fee payable	**(418)**	(621)
Unamortized tax on premium	**(1,211)**	(1,669)
Provision for probable losses	**(10)**	(129)
Other liabilities	**(572)**	(1,619)
	(2,211)	(4,038)
Net Asset Value*	**₱6,293,045**	₱5,472,302

**The difference of ₱200 million in the fair value of plan assets as of December 31, 2013 pertains to movements after the valuation date.*

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2013	2012
Discount rates:	**3.5% to 5.3%**	3.0% to 7.0%
Future salary increases:	**4.0% to 8.5%**	5.0% to 8.0%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	2013	
	Increase (decrease)	Net Pension Liabilities
Discount rates	1.0%	₱1,735,804
	(1.0%)	(2,119,659)
Future salary increases	1.0%	(₱2,260,747)
	(1.0%)	1,521,023

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 47.9% of equity instruments, 38.8% of debt instruments, 1.2% of investment properties and 12.1% cash.

The Group expects to contribute ₱420.0 million to the defined benefit pension plan in 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 8.3 to 23.4 years in 2013 and 8.6 to 21.1 years in 2012.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2013 (amounts in thousands):

Less than 1 year	₱6,722
More than 1 year to 5 years	128,735
More than 5 years to 10 years	404,207
More than 10 years to 15 years	1,399
More than 15 years to 20 years	1,214
More than 20 years	6,440
	₱548,717

As of December 31, 2013, 2012 and January 1, 2012, the plan assets include shares of stock of the Company with total fair value of ₱981.7 million, ₱1,101.8 million and ₱239.9 million, respectively.

The carrying value and fair value of the plan assets of the Group as of December 31, 2013 amounted to ₱5,397.2 million and ₱6,492.6 million, respectively.

The fund includes investment in securities to its related parties. Details of the investment per type of security are as follows (in thousands):

2013	Carrying Value	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	**₱829,780**	**₱1,269,258**	**₱439,478**
Debt securities	**505,424**	**509,988**	**4,564**
Unit investment trust funds	**357,549**	**358,094**	**545**
Others	**115,851**	**117,543**	**1,692**
	₱1,808,604	**₱2,254,883**	**₱446,279**

2012	Carrying Value	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	₱759,716	₱1,361,043	₱601,327
Debt securities	555,700	561,349	5,649
Unit investment trust funds	33,666	36,651	2,985
Others	17,438	17,461	23
	₱1,366,520	₱1,976,504	₱609,984

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The Group's transactions with the fund mainly pertain to contributions, benefit payments, settlements and curtailments.

28. Stock Option Purchase Plans

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3.0% of the Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

	2013		2012		2011	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	**3,940,680**	**₱177.46**	5,313,474	₱174.63	4,266,129	₱179.36
Exercised	**(766,450)**	**(177.61)**	(1,019,194)	(183.49)	(411,743)	(150.90)
Grants	**445,064**	**500**	–	–	894,371	316.87
Stock dividends			–	–	906,620	–
Cancelled	**(725,926)**	**(89.41)**	(353,600)	–	(341,903)	–
Outstanding, at end of year	**2,893,368**	**₱249.13**	3,940,680	₱177.46	5,313,474	₱174.63

The options have a contractual term of 10 years. As of December 31, 2013 and 2012 and January 1, 2012, the weighted average remaining contractual life of options outstanding is 5 and 3.70 years, respectively, and the range of exercise prices amounted from ₱127.3 to ₱500.0, respectively.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 26, 2013	April 18, 2011	April 16, 2010	June 30, 2005	June 10, 2004
Weighted average share price	₱640	₱352.08	₱303.70	₱327.50	₱244.00
Exercise price	₱500	₱316.87	₱273.03	₱295.00	₱220.00
Expected volatility	42.40%	41.21%	41.31%	46.78%	46.71%
Option life	10 years	10 years	10 years	10 years	10 years
Expected dividends	0.54%	0.86%	0.92%	1.27%	1.43%
Risk-free interest rate	3.04%	6.64%	8.56%	12.03%	12.75%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in whole or in part to the shares awarded to them based on the 10% discounted market price as offer price set at grant date. To subscribe, the grantee must be an employee of the Group during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. In computing for the stock option value for the 2012 grant, the Company assumed volatility, dividend yield and interest rate as 29.8%, nil and 5.8%, respectively.

Shares granted and subscribed under the ESOWN in 2012 follows:

Granted	901,352
Subscribed	851,123
Exercise price	₱322

Subscriptions receivable from the stock option plans covering the Company's shares are presented as deduction under equity.

For the unsubscribed shares, the employee still has the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant. Movements in the number of options outstanding under ESOWN as of December 31, 2013, 2012 and January 1, 2012 follow:

	December 31				January 1,	
	2013		2012		2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
At January 1	**143,256**	**₱247.93**	105,867	₱211.51	141,906	₱260.72
Grants	**–**	**–**	50,229	322.00	**–**	**–**
Stock dividends	**–**	**–**	–	–	17,644	–
Exercised/cancelled	**(23,012)**	**183.73**	(12,840)	(237.48)	(53,683)	272.06
At December 31	**120,244**	**₱260.22**	143,256	₱247.93	105,867	₱211.51

The fair value of stock options granted on April 23, 2012 is estimated on the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

Number of unsubscribed shares	50,229
Fair value of each option	₱259.97
Weighted average share price	₱434.47
Exercise price	₱322.00
Expected volatility	41.78%
Dividend yield	0.74%
Interest rate	5.59%

Total expense arising from share-based payments recognized by the Group in the consolidated statement of income amounted to ₱483.5 million in 2013, ₱500.6 million in 2012 and ₱447.6 million in 2011.

29. Operating Segment Information

For management purposes, the Group is organized into the following business units:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and insurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agri-business loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.

- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.

- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.

- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.

- Water distribution and wastewater services - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery, sewerage and sanitation including waste and wastewater management in the East Zone Service Area.

- Automotive – manufacture, distribution and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others - power, transport infrastructure, education, air-charter services, agri-business and others.

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.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

The following tables regarding operating segments present assets and liabilities as of December 31, 2013, 2012 and January 1, 2012 and revenue and profit information for each of the three years in the period ended December 31, 2013 (amounts in millions):

2013

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱127	₱77,770	₱–	₱–	₱14,503	₱31,661	₱1,519	₱482	₱10,879	₱–	₱136,941
Intersegment	216	50	–	–	140	–	–	–	162	(568)	–
Share of profit of associates and joint ventures	(133)	550	8,321	1,612	294	–	(323)	(266)	36	–	10,091
Interest income	670	2,114	–	–	174	9	70	416	1	(18)	3,436
Other income	681	1,039	–	–	6,621	134	391	403	348	(674)	8,943
Total income	1,561	81,523	8,321	1,612	21,732	31,804	1,657	1,035	11,426	(1,260)	159,411
Operating expenses	2,641	57,795	–	–	7,920	31,035	1,798	703	11,362	(665)	112,589
Operating profit	(1,080)	23,728	8,321	1,612	13,812	769	(141)	332	64	(595)	46,822
Interest expense and other financing charges	3,911	4,774	–	–	1,631	122	25	23	43	(18)	10,511
Other charges	(158)	–	–	–	5,257	53	23	339	18	–	5,532
Provision for income tax	125	4,657	–	–	1,653	195	20	(12)	41	(25)	6,654
Net income	(₱4,958)	₱14,297	₱8,321	₱1,612	₱5,271	₱399	(₱209)	(₱18)	(₱38)	(₱552)	₱24,125
Other information											
Segment assets	₱112,147	₱308,789	₱–	₱–	₱85,277	₱21,240	₱6,751	₱9,926	₱4,512	(₱75,296)	₱473,346
Investments in associates and joint ventures	102,349	9,319	–	–	4,708	–	2,504	590	334	–	119,804
Deferred tax assets	94	5,485	–	–	821	29	3		82	–	6,514
Total assets	₱214,590	₱323,593	–	–	₱90,806	₱21,269	₱9,258	₱10,516	₱4,928	(₱75,296)	₱599,664
Segment liabilities	(₱83,315)	(₱211,065)	₱–	₱–	(₱40,646)	(₱12,642)	(₱120)	₱2,112	(₱2,309)	(₱9,862)	(₱357,847)
Deferred tax liabilities	(83)	(1,307)	–	–	(4,759)	(138)	(2)	(47)	(11)	–	(6,347)
Total liabilities	(₱83,398)	(₱212,372)	₱–	₱–	(₱45,405)	(₱12,780)	(₱122)	₱2,065	(₱2,320)	(₱9,862)	(₱364,194)
Segment additions to property, plant and equipment and investment properties	₱83	₱16,035	₱–	₱–	₱275	₱ 926	₱319	₱1,076	₱18	₱4,067	₱22,799
Depreciation and amortization	₱94	₱3,892	₱–	₱–	₱353	₱935	₱162	₱1	₱47	(₱100)	₱5,384
Non-cash expenses other than depreciation and amortization	₱275	₱4	₱–	₱–	₱6,700	₱956	₱3	₱1190	₱113	₱–	₱9,241
Cash flows provided by (used in):											
Operating activities	₱83	₱11,299	₱–	₱–	₱275	₱926	₱319	₱1,076	₱18	₱4,067	₱18,063
Investing activities	₱94	₱3,898	₱–	₱–	₱2,495	₱1,015	₱234	₱2	₱36	₱714	₱8,488
Financing activities	₱275	(₱2480)	₱–	₱–	(₱3,700)	₱956	₱3	₱1,190	₱113	₱–	(₱3,643)

2012 (As restated)

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱230	₱55,929	₱–	₱–	₱13,962	₱27,979	₱1,273	₱314	₱10,202	₱–	₱109,889
Intersegment	107	67	–	–	158	18	17	–	190	(556)	1
Share of profit of associates and joint ventures	(58)	536	5,633	2,144	206	–	(574)	(222)	17	–	7,682
Interest income	858	3,130	–	–	237	25	73	305	10	(6)	4,632
Other income	1,070	408	–	–	6,672	31	95	405	277	(591)	8,367
Total income	2,207	60,070	5,633	2,144	21,235	28,053	884	802	10,696	(1,153)	130,571
Operating expenses	2,513	41612	–	–	7,349	27,670	1,410	806	10,517	(829)	91,048
Operating profit	(306)	18,458	5,633	2,144	13,886	383	(526)	(4)	179	(324)	39,523
Interest expense and other financing charges	2,979	3,604	–	–	1,371	140	18	22	27	(6)	8,155
Other charges	44	313	–	–	6,118	4	139	275	0	–	6,893
Provision for income tax (benefit from)	153	3,471	–	–	1,385	165	17	(264)	46	3	4,976
Net income	(₱3,482)	₱11,070	₱5,633	₱2,144	₱5,012	₱74	(₱700)	(₱37)	₱106	(₱321)	₱19,499
Other information											
Segment assets	₱128,017	₱245,680	₱–	₱–	₱82,810	₱18,570	₱2,709	₱8,280	₱3,339	(₱85,987)	₱403,418
Investments in associates and joint ventures	83,801	8,313	–	–	3,645	–	5,773	1,109	298	–	102,939
Deferred tax assets	134	3,179	–	–	830	37	14	–	55	298	4,547
Total assets	₱211,952	₱257,172	₱–	₱–	₱87,285	₱18,607	₱8,496	₱9,389	₱3,692	(₱85,689)	₱510,904
Segment liabilities	₱93,877	₱157,945	₱–	₱–	₱40,692	₱10,706	₱741	₱3,044	₱1,574	(₱10,371)	₱298,208
Deferred tax liabilities	85	1,044	–	–	4,897	182	–	43	4	–	6,255
Total liabilities	₱93,962	₱158,989	₱–	₱–	₱45,589	₱10,888	₱741	₱3,087	₱1,578	(₱10,371)	₱304,463
Segment additions to property, plant and equipment and investment properties	₱689	₱20,142	₱–	₱–	₱615	₱689	₱79	₱–	₱75	₱–	₱22,289
Depreciation and amortization	₱92	₱2,715	₱–	₱–	₱2,320	₱1,127	₱260	₱1	₱36	₱638	₱7,189
Non-cash expenses other than depreciation and amortization	₱82	₱313	₱–	₱–	₱83	₱15	₱139	₱319	₱–	(₱7,121)	(₱6,170)

2011 (As restated)

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱30	₱43,343	₱–	₱–	₱11,746	₱24,845	₱1,123	₱186	₱9,174	₱–	₱90,447
Intersegment	(94)	(1,893)	–	–	(124)	–	(5)	–	(140)	2,256	–
Share of profit (loss) of associates and joint ventures	33	389	4,288	2,873	–	–	(596)	98	(39)	–	7,046
Interest income	1,168	1,496	–	–	575	14	49	12	6	(3)	3,317
Other income	501	605	–	–	7,273	1,093	89	468	256	(267)	10,018
Total income	1,638	43,940	4,288	2,873	19,470	25,952	660	764	9,257	1,986	110,828
Operating expenses	1,679	33,822	–	–	6,198	25,401	1,340	419	9,425	(2,258)	76,026
Operating profit	(41)	10,118	4,288	2,873	13,272	551	(680)	345	(168)	4,244	34,802
Interest and other financing charges	2,962	2,126	–	–	1,274	109	11	30	26	(3)	6,535
Other charges	(89)	143	–	–	7,548	149	1	177	5	–	7,934
Provision for income tax	193	3,007	–	–	790	201	33	30	43	(70)	4,227
Net income (loss)	(₱3,107)	₱4,842	₱4,288	₱2,873	₱3,660	₱92	(₱725)	₱108	(₱242)	₱4,318	₱16,106
Other information											
Segment assets	₱105,052	₱158,404	₱–	₱–	₱79,995	₱19,267	₱3,287	₱4,905	₱2,964	(₱82,985)	₱290,889
Investments in associates and joint ventures	56,410	8,008	–	–	1,789	–	5,943	2,352	283	–	74,785
Deferred tax assets	91	2,142	–	–	760	24	–	–	46	302	3,365
Total assets	₱161,553	₱168,554	–	–	₱82,544	₱19,291	₱9,230	₱7,257	₱3,293	(₱82,683)	₱369,039
Segment liabilities	₱56,347	₱89,485	₱–	₱–	₱39,252	₱11,015	₱330	₱968	₱1,318	(₱10,282)	₱188,433
Deferred tax liabilities	–	762	–	–	5,109	204	9	43	10	–	6,137
Total liabilities	₱56,347	₱90,247	₱–	₱–	₱44,361	₱11,219	₱339	₱1,011	₱1,328	(₱10,282)	₱194,570
Segment additions to property, plant and equipment and investment properties	₱89	₱8,907	₱–	₱–	₱581	₱2,346	₱69	₱2	₱49	₱–	₱12,043
Depreciation and amortization	₱90	₱2,304	₱–	₱–	₱1,890	₱1,116	₱81	₱2	₱1,117	₱–	₱6,600
Non-cash expenses other than depreciation and amortization	₱21	₱143	₱–	₱–	₱331	₱149	₱1	₱177	₱5	(₱5,483)	(₱4,656)

Geographical Segments

	Revenue			Total Assets			Investment Properties and Property, Plant and Equipment Additions		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Philippines	**₱128,554**	₱111,122	₱87,600	**₱577,433**	₱500,806	₱352,448	**₱16,473**	₱22,223	₱10,500
Japan	**2,944**	241	394	**9**	37	39		–	3
USA	**8,927**	7,243	6,465	**410**	347	1,351	**63**	33	9
Europe	**14,759**	8,679	12,292	**6,872**	5,233	4,979	**519**	–	1,542
Others (mostly Asia)	**4,228**	3,286	4,077	**14,940**	4,481	10,222	**267**	32	297
	₱159,412	₱130,571	₱110,828	**₱599,664**	₱510,904	₱369,039	**₱17,322**	₱22,288	₱12,351

30. Leases

Finance leases - as lessee
The Group conducts a portion of its operations from leased facilitites, which includes various equipment. These leases are classified as finance leases with a lease term of 3 to 10 years.

IMI Group
On June 30, 2009, IMI entered into a lease contract with IBM for the lease of servers for a three-year period starting on the same date. IMI has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides for monthly rental payments of US$17,141.

On March 31, 2010, IMI entered into another lease contract with IBM for the lease of additional server for a one-year period starting on May 1, 2010. IMI has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides rental payments of $1,013,729 each in the first and last months of the lease. At the end of the lease term, the Parent Company exercised its bargain option to purchase the servers at a nominal of ₱45.45.

IMI BG has various finance lease contracts with its machinery and production equipment with terms of 3 to 5 years and final repayment dates between 2012 and 2016. The leases are subject to interests of 3-month Euribor plus 2.00% to 4.00%.

IMI CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of 5 to 10 years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment pertaining to a car is subject to interest of 12.26% per annum.

AIVPL Group
The Group leases certain office and computer equipment and office unit with lease terms of three years and seven years, respectively. Outstanding long-term finance lease obligations represent contracts entered by the Group bearing interest at approximately 1.6% p.a. to 11.50% p.a. as of December 31, 2013 and 2012. The carrying values of computer equipment held under finance lease where the Group is the lessee amounted to $0.70 million and $0.60 million as of December 31, 2013 and 2012, respectively.

Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	December 31				January 1	
	2013		2012		2012	
	Minimum Payments	**Present values of payments**	Minimum Payments	Present values of payments	Minimum payments	Present values of payments
	(In Thousands)					
Within one year	**₱60,764**	**₱55,177**	₱44,021	₱38,760	₱66,855	₱67,050
After one year but not more than five years	**142,138**	**134,151**	36,480	36,254	15,539	17,404
Total minimum lease payments	**202,902**	**189,328**	80,501	75,014	82,394	84,454
Less amounts representing finance charges	**684**	**–**	1,184	–	2,592	–
Present value of minimum lease payments	**₱202,218**	**₱189,328**	₱79,317	₱75,014	₱79,802	₱84,454

Operating lease commitments - as lessee

The Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

ALI Group

On January 28, 2011, the Board of Regents of the University of the Philippines awarded to ALI the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. ALI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years subject to mutual agreement of the parties. The lease payments shall commence as soon as sales are registered by the merchants.

A retail establishment with about 63,000 square meters of gross leasable area and an office/BPO building about 8,000 square meters of gross leasable area shall be constructed on the property. For the year ended December 31, 2012, lease payments have been capitalized as construction was still in progress. For the year ended December 31, 2013, Phase 1a (with gross leasable area of 5,000 sqm.) of the retail establishment has commenced operations on September 30, 2013.

IMI Group

IMI Japan

On February 15, 2010, IMI Japan entered into a two-year contract with Kabushikigaisha Tokyu Community for lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of JPY245,490, inclusive of tax and monthly maintenance fee of JPY35,070, inclusive of tax. The lease agreement provides for automatic renewal of the lease contract unless prior notice of termination is given to the lessor. On February 15, 2012, IMI Japan renewed its lease contract for another two (2) years.

IMI USA

On July 17, 2008, IMI USA entered into a seven-year contract with Roy G.G. Harris and Patricia S. Harris for lease of office premises commencing on August 2008 up to November 2014. The lease contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payments of US$13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a six-year lease agreement with Fremont Ventures, LLC commencing two months from issuance of building permit or maximum of 3 months if Fremont caused the delay. The base monthly rental rate is US$3,687 on the first 6 months with escalation every 11 months as listed in the lease contract. Average monthly rental rate amounts to US$9,523.

IMI Singapore and STEL
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These noncancellable leases have remaining noncancellable lease terms of between 1 to 50 years commencing on January 1, 1992 to April 1, 2011 and ending on February 28, 2010 to April 30, 2050. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

PSi
PSi has a fifteen-year operating lease agreement with FTI for its plant facilities, office spaces, and other facilities, with Lot Nos. 92-A and 92-B commencing on August 15, 2004 up to August 14, 2019. The operating lease agreement with FTI provides for a 5% increase in rental per year starting on the second year and annually thereafter until the end of the lease term.

In 2012, PSi pre-terminated the lease contract of Lot 92-B and transferred its legacy manufacturing operations and offices to Calamba, Laguna. Accordingly, as of December 31, 2012, the balance of the rent expense computed on a straight-line basis over the amount computed based on the operating lease agreement for this lot included under “Accrued expenses - rental and utilities” in the consolidated statement of financial position amounting to $0.44 million was reversed and recorded as part of “Rental and utilities” account.

Moreover, PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The contract commenced in April 2011 and expired in March 2013. In 2012, PSi accepted the Letter of Offer for the renewal of the lease until March 2018.

In 2012, the contract of lease for the second facility was executed between CRI and PSi for office and warehouse use. The contract commenced on October 13, 2012 and will expire on October 12, 2015.

The lease agreement with CRI provides for increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

These operating lease agreements of IMI Group include clauses to enable upward revision of the rental charges on agreed dates.

The aggregate rent expense of the Group included under “Rental and utilities” account under “General and administrative expenses” in the consolidated statements of income, recognized on these operating lease agreements amounted to $0.16 million in 2013, $0.54 million in 2012 and $1.0 million in 2011. Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments.

Future minimum rentals payable under noncancellable operating leases of lessee subsidiaries are as follows:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Within one year	**₱848,509**	₱521,776	₱352,261
After one year but not more than five years	**2,514,219**	1,313,669	1,165,836
More than five years	**11,810,476**	9,233,576	8,779,995
	₱15,173,204	₱11,069,021	₱10,298,092

Operating leases - as lessor
Certain subsidiaries have lease agreements with third parties covering their investment properties portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

IMI Group
On August 1, 2009, IMI subleased the unused portion of its two leased office condominium units from Cyberzone Properties, Inc., with the consent of the latter. 102.5 square meters and 32.8 square meters were leased to Stratpoint Technologies Inc. and Xepto Computing Inc., respectively, at the rate of ₱475.0 per square meter in the first month and ₱502.3 per square meter in the subsequent months. The lease contract is for a term of one (1) year, renewable upon mutual agreement of both parties.

On June 8, 2010, an extension of the lease contract was executed by IMI and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.8 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to March 15, 2011. The lease income amounted to nil in 2013 and 2012, and US$1,899.0 in 2011, is recognized under “Others” account under “Other income” in the consolidated statements of income.

On January 28, 2011, a notice was given to ALI for the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines’ Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. ALI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years by mutual agreement. The rental commencement date will be on the date when the first paying customer registers sale in any of the outlets in the building.

STEL Group
STEL Group has entered into leases on their leasehold building. These non-cancellable leases have remaining lease terms of between one (1) and five (5) years. The lease income of recognized by STEL amounted to $1.08 million in 2013, $0.57 million in 2012, and $7.32 thousand in 2011.

Future minimum rentals receivable under noncancellable operating leases of the Group are as follows:

	December 31		January 1,
	2013	2012	2012
	(In Thousands)		
Within one year	**₱3,240,947**	₱2,657,523	₱2,439,904
After one year but not more than five years	**7,494,768**	7,184,441	5,841,902
More than five years	**3,160,333**	3,791,740	2,274,202
	₱13,896,048	₱13,633,704	₱10,556,008

Contract employees agreement
The Group entered into an agreement with a professional employer organization to provide certain services related to the administration of Group employment matters. The agreement remains in force and effect until either party gives 30 days advance written notice of termination.

31. Related Party Transactions

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 which include affiliates. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

i. As of December 31, 2013, 2012 and January 1, 2012, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	December 31		January 1,
	2013	2012	2012
Cash in bank	**₱14,403,016**	₱2,584,779	₱4,004,411
Cash equivalents	**24,141,865**	6,921,085	29,085,143
Short-term investments	**–**	1,039,704	1,266,070
Financial assets at FVPL	**12,794,654**	–	–

From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱8.1 million, 72.1 million and ₱40.0 million as of December 31, 2013, 2012 and January 1, 2012, respectively. Interest income earned amounted to ₱648.7 million in 2013, ₱1,166.7 million in 2012 and ₱1,247.1 million in 2011.

ii. The Group also has short-term and long-term debt payable to BPI amounting to ₱23.2 billion, ₱15.0 billion and ₱7.5 billion as of December 31, 2013, 2012 and January 1, 2012, respectively. These loans and debt payables are interest bearing with varying rates, have various maturities starting 2013 and varying schedules of payments for interest. The Group has accrued interest payable pertaining to the outstanding loans amounting to ₱32.2 million, ₱39.7 million and ₱5.7 million as of December 31, 2013, 2012 and January 1, 2012, respectively. Interest expense incurred from the debt amounted to ₱145.2 million in 2013, ₱131.0.9 million in 2012 and ₱165.5 million in 2011.

b. Outstanding balances of related party transaction follow (amounts in thousands):

	Receivable			**Payable**		
	December 31		January 1,	December 31		January 1,
	2013	2012	2012	**2013**	2012	2012
Associates:						
BPI	**₱276,659**	₱333,189	₱93,459	**₱104,911**	₱166,346	₱5,961
Stream	**246,488**	323,403	–	**–**	–	–
ASTI	**15,741**	11,552	16,120	**90**	–	153
First Gen Northern Energy (FGNEC)	**5,531**	5,531	5,531	**–**	–	–
Naraya Development Co. Ltd.	**4,877**	–	1,293	**–**	–	–
Interest in limited partnerships of AINA	**–**	389,368	151,681	**–**	–	–
BLC	**–**	2	50,522	**212,696**	212,696	–
FGU	**–**	–	–	**–**	349	–
Others	**–**	–	–	**–**	11,861	139
	549,296	1,063,045	318,606	**317,697**	391,252	6,253

(Forward)

	Receivable			Payable		
	December 31		January 1,	December 31		January 1,
	2013	2012	2012	**2013**	2012	2012
Joint ventures:						
Integreon	**₱488,221**	₱299,697	₱475,751	**₱–**	₱–	₱356
Globe	**141,939**	101,046	66,475	**2,005**	953	123
Asiacom	**–**	–	–	**13,581**	38,570	94
BPI Globe Banko	**–**	–	–	**–**	29,505	–
Northwind Power Development Corp.	**–**	–	45,017	**–**	–	–
	630,160	400,743	587,243	**15,586**	69,028	573
Other related parties:						
Columbus Holdings, Inc. (Columbus)	**888,815**	888,810	888,810	**1,156,308**	1,156,308	988,808
AG Holdings Ltd.	**378,932**	–	–	**–**	–	–
Fort Bonifacio Development Corporation (FBDC)	**274,645**	71,833	271,096	**2,154,003**	34	–
Ayala Port, Inc.	**90,951**	–	–	**–**	–	–
Honda Cars Philippines, Inc.(HCP)	**72,650**	–	2,428	**170,298**	119,961	34,682
GN Power Kauswagan	**69,936**	–	–	**–**	–	–
Isuzu Philippines Corporation (IPC)	**25,452**	–	33,787	**48,695**	271,630	183,371
Lagoon Development Corporation	**5,964**	–	–	**–**	–	–
Fort Bonifacio Holdings Corp.	**3,085**	–	–	**–**	–	–
myAyala.com, Inc.	**2,098**	–	–	**–**	–	–
Talentworks Asia, Inc.	**2,020**	–	–	**–**	–	–
Glory High	**–**	–	420,013	**–**	–	–
Bonifacio Hotel Ventures, Inc.	**–**	–	4,067	**–**	–	–
Others	**151,468**	164,426	1,530	**244,422**	89,099	12,919
	1,966,016	1,125,069	1,621,731	**3,773,726**	1,637,032	1,219,780
	₱3,145,472	₱2,588,857	₱2,527,580	**₱4,107,009**	₱2,097,312	₱1,226,606

i. Receivables from AINA's interest in limited partnerships are nontrade in nature and bear interests ranging from 10% to 15% and will mature on May 31, 2013. Interest income earned amounted to ₱52.7 million, ₱25.6 million and ₱9.5 million in 2013, 2012 and 2011, respectively.

ii. Receivable from BPI includes trade receivables on vehicles sold by AAHC and accrued interest receivables on short-term placements by the Group.

iii. Receivable from Stream represents a convertible promissory note entered into on April 27, 2012 for the principal sum of US$4.7 million, plus interest at the rate of 10% per annum maturing on April 29, 2013. To the extent the outstanding balance is not repaid in full on or prior to the maturity date, NewBridge may elect at any time after the maturity date, upon delivery of conversion notice to SGS Holdings LLC, to convert the note into a number of units of membership interests. On April 19, 2013, Stream and NewBridge amended the maturity date of the loan to April 29, 2014. Interest income earned for 2013 and 2012 amounted to ₱21.7 million and ₱11.9 million, respectively.

iv. Receivables from ASTI and FGNEC are advances made for working capital requirements which are non-interest bearing and demandable.

v. Receivable from Integreon has an interest rate of 12% in 2013, 14% in 2012 and 15% in 2011 which will mature on February 16, 2014. Interest income earned amounted to ₱37.2 million, ₱54.6 million and ₱44.5 million in 2013, 2012 and 2011, respectively.

vi. Receivable from GNPK by ACEHI represents an advance for development costs, non-interest bearing and shall be paid in full within 30 days from financial closing of the project. GNPL is a project company of ACEHI and Power Partners Ltd. Co. for the development of 3X135MW coal-fired power plant in Kauswagan Lanao del Norte

vii. Receivable from Columbus represents non-interest bearing advance for future acquisition of shares in BLC.

viii. Receivable from FBDC largely pertains to management fees which are included under "Other income."

ix. Other outstanding balances of receivable from related parties at year-end pertain mostly to advances and reimbursement of operating expenses. These are unsecured, interest free, will be settled in cash and are due and demandable.
x. Payable to Columbus and BLC represent non-interest bearing advances for stock redemption.
xi. Payable to IPC and HCP consist of purchased parts and accessories and vehicles that are trade in nature, interest-free, unsecured and are payable within 15 to 30 days.
xii. Payable to BPI includes interest payable on subsidiaries' borrowings payable at various payments terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days.
xiii. The other outstanding balances of payable to related parties at year-end are unsecured, interest-free, will be settled in cash and are due and demandable. Allowance for doubtful accounts on amounts due from related parties amounted to ₱145.6 million, ₱133.0 million and ₱116.0 million as of December 31, 2013, 2012 and January 1, 2012, respectively. Provision for doubtful accounts amounted to ₱0.8 million, ₱15.9 million and ₱16.5 million in 2013, 2012 and 2011, respectively.

c. Receivables from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 6.0% to 13.5% per annum and have various maturity dates ranging from 2013 to 2026.

d. The Group has debt investments with its associates and joint ventures which are included in "Investment in bonds and other securities" account in the consolidated statements of financial position. These debt instruments earn interest ranging from 6.0% to 8.75% in 2013 and 2012 with maturity dates up to 5 years. The fair values of these investments are as follows (amounts in thousands):

	December 31		January 1,
	2013	2012	2012
Associate:			
BPI	**₱–**	₱36,597	₱130,074
Joint venture:			
Globe	**–**	–	101,401
	₱–	₱36,597	₱231,475

e. The fair value of the Group's total investment in the Fund amounted ₱12.8 billion and ₱51.4 million, as of December 31, 2013 and January 1, 2012, respectively. During 2012, the Group disposed all of its UITF.

f. Revenue and expenses from related parties follow:

	Revenue			Expenses		
	2013	2012	2011	**2013**	2012	2011
			(In Thousands)			
Associates:						
BPI	**₱702,699**	₱1,166,696	₱1,247,133	**₱143,582**	₱131,004	₱165,529
Stream Global Services	**21,715**	11,859	–	**–**	–	245
Ayala System Technology	**826**	1,101	2,439	**–**	–	1,889
PPI	**417**	339	339	**–**	–	–
	725,657	1,179,995	1,249,911	**143,582**	131,004	167,663

(Forward)

	Revenue			Expenses		
	2013	2012	2011	**2013**	2012	2011
			(In Thousands)			
Jointly controlled entities:						
Globe Telecom	**₱71,913**	₱16,642	₱88,860	**₱115,809**	₱32,071	₱75,236
Integreon	**37,226**	54,682	44,456	**–**	–	–
Asiacom Philippines, Inc.	**1,154**	6,998	6,190	**–**	–	–
Northwind Power Development Corp.	**–**	4,410	2,728	**–**	–	–
BPI Globe Banko	**–**	222	92	**–**	–	–
	110,293	82,954	142,326	**115,809**	32,071	75,236
Other related parties:						
Fort Bonifacio Development Corp.	**221,483**	113,471	–	**129,175**	16,959	6,768
6750 Ayala Avenue	**46,511**	–	–	**–**	–	–
Lagoon Development Corporation	**41,143**	–	–	**–**	–	1,817
San Lazaro BPO Complex	**22,893**	–	–	**–**	–	–
Bonifacio Arts Foundation Inc.	**2,126**	–	–	**4,762**	–	–
Lamcor	**708**	679	650	**–**	–	–
Honda Cars Makati, Inc.	**428**	–	–	**–**	–	–
Philippine Family Mart CV	**383**	–	–	**–**	–	–
Global Bridge Resources, Inc.	**221**					
MD Distripark	**184**	115	132	–	–	–
AyalaLife FGU	**155**					
Sonoma	**92**	–	704		–	–
Others	**215**	8,464	260	**23,589**	3,575	10,781
	336,542	122,729	1,746	**157,526**	20,534	19,366
	₱1,172,492	₱1,385,678	₱1,393,983	**₱416,917**	₱183,609	₱262,265

Revenue recognized from related parties includes:

i. Leasing and developmental projects services rendered by ALI group.
ii. Water and sewerage services rendered by MWC.
iii. Automotive sales and repair services rendered by AAHC group.
iv. Interest income from cash deposits and money market placements in BPI.

Expenses recognized from related parties include:

i. Interest expense from short-term and long-term debt payable to BPI.
ii. Purchases of communications software and billings for cellphone charges and WiFi connections with Globe.
iii. Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.

g. Compensation of key management personnel by benefit type follows:

	2013	2012	2011
		(In Thousands)	
Short-term employee benefits	**₱1,242,543**	₱1,401,840	₱1,222,511
Post-employment benefits (Note 27)	**139,933**	77,177	57,460
Share-based payments (Note 28)	**63,571**	158,131	195,154
	₱1,446,047	₱1,637,148	₱1,475,125

The Parent Company's total compensation of key management personnel amounted to ₱348.6 million, ₱329.3 million and ₱434.1 million in 2013, 2012 and 2011, respectively.

32. Financial Instruments

Financial Risk Management

General

Risk is inherent in our business; thus, the effective management of risk is vital to the strategic and sustained growth of the Company and the Ayala Group.

The Ayala Group adopts a formal risk management process as an essential element of sound corporate governance and an integral part of good management practice. It is designed primarily to have a structured and disciplined approach of aligning strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the uncertainties the Group faces as it creates value for all stakeholders.

Enterprise Risk Management (ERM) policies and programs are in place, in accordance with an internationally recognized standards and framework. These are periodically reviewed and improved to adapt to changes in the business and operating environment, and be responsive to emerging and changing risks. The risk management framework encompasses the identification and assessment of risks drivers;measurement of risks impact; formulation of risk management strategies; assessment of risk management capabilities required to implement risk management strategies; design and implementation of risk management capability-building initiatives; and monitoring and evaluating the effectiveness of risk mitigation strategies and management performance. And as a continuous process, areas and opportunities for improvement in the risk management process are identified. Also included in the continuous improvement program, the Group aims to strengthen its ERM practices and benchmark with industry best practices to ensure they remain relevant, effective, and a key enabler in the achievement of business strategies and objectives.

Our Chief Risk Officer (CRO) is the ultimate champion of enterprise risk management of the Group and oversees the entire risk management function. The Group Risk Management Unit provides support to the CRO and drives the implementation and continuous improvement of the risk management process. The Unit also provides oversight and assistance to the Ayala group of companies' risk management functions.

The Audit and Risk Committee provides oversight to the risk management process in compliance with the Audit and Risk Committee Charter. The CRO and the Group Risk Management Unit submit risk management reports to the committee on a quarterly basis, focusing on the implementation of risk management strategies and action plans for the identified top risks of the Ayala group, any emerging risks, and developments in risk management. The CRO and the Group Risk Management Unit report the same to the Ayala Corp and Ayala Group Mancom at least twice a year.

The Board monitors the effectiveness of risk management through the regular updates on strategic and operational risks facing the Group from management and reports from the Audit and Risk Committee. The company's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala group.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk. The Group also enters into derivative transactions, the purpose of which is to manage the currency risks arising from its financial instruments.

The Group's risk management policies relevant to financial risks are summarized below:

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Company's and its subsidiaries' long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2013, 2012 and January 1, 2012, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of AFS financial assets).

Fair value interest rate risk

		Effect on equity		
		December 31		January 1,
	Change in basis points	**2013**	2012	2012
		(In Thousands)		
AFS financial assets	+100	**(₱1,148)**	(₱15,983)	(₱25,800)
	-100	**1,150**	6,752	27,359

Cash flow interest rate risk

	December				January 1,	
	2013		2012		2012	
	Effect on profit before tax					
	Change in basis points					
	+100 basis points	**-100 basis points**	+100 basis points	-100 basis Points	+100 basis points	-100 basis points
	(In Thousands)					
Parent Company - floating rate borrowings	**(₱58,481)**	**₱57,841**	(₱53,317)	₱53,317	(₱48,563)	₱48,563
Subsidiaries - floating rate borrowings	**(466,560)**	**466,560**	(448,452)	448,452	(266,572)	266,572
	(₱525,041)	**₱524,401**	(₱501,769)	₱501,769	(₱315,135)	₱315,135

There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values (in thousands), are shown in the following table:

December 31, 2013

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	**₱65,643,383**	**₱65,643,383**	**₱–**	**₱–**	**₱65,643,383**
Short-term investmentsinvestments	Fixed at the date of investment or revaluation cut-off	Various	**119,345**	**119,345**	**–**	**–**	**119,345**
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	**18,264,029**	**7,423,796**	**8,885,742**	**254,689**	**16,564,227**
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	**103,301**	**103,301**	**–**	**–**	**103,301**
			₱84,130,058	**₱73,289,825**	**₱8,885,742**	**₱254,689**	**₱82,430,256**
Company							
Long-term debt							
Fixed							
	Fixed at 7.45%	5 years	**₱2,820,000**	**₱2,816,470**	**₱–**	**₱–**	**₱2,816,470**
	Fixed at 5.45% to 7.20%	7 years	**21,455,000**	**1,453,368**	**9,943,541**	**9,912,247**	**21,309,156**
	Fixed at 6.75% to 6.80%	10 years	**11,491,667**	**1,667**	**1,490,000**	**9,921,805**	**11,413,472**
	Fixed at 6.88%	15 years	**10,000,000**	**–**	**–**	**9,909,917**	**9,909,917**
Floating							
	Variable at 0.30% over 6-month PDST-R1; 0.75% to 1% over 3-month PDST R2 or 0% to 0.25% over BSP RRP	3 months	**13,250,000**	**39,649**	**4,242,785**	**8,907,223**	**13,189,657**
Subsidiaries							
Short-term debt	Ranging from 1.20% to 8.00%	Monthly, quarterly	**12,114,451**	**12,114,451**	**–**	**–**	**12,114,451**
	Ranging from 1.73% to 2.49%	Monthly, quarterly	**3,696,834**	**3,696,834**	**–**	**–**	**3,696,834**
Long-term debt							
Fixed							
	Fixed at 2.10% to 10.21%	3,4,5,7, 10 and 15 years	**89,282,857**	**2,980,552**	**29,453,703**	**56,500,262**	**88,934,517**
Floating							
	Variable at Libor+0.92% to 4.73%	3 months, semi-annual	**42,443,365**	**4,649,230**	**32,698,580**	**4,948,863**	**42,296,673**
			₱206,554,174	**₱27,752,221**	**₱77,828,609**	**₱100,100,317**	**₱205,681,147**

December 31, 2012

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱80,280,111	₱80,280,111	₱–	₱–	₱80,280,111
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	296,503	296,503	–	–	296,503
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	12,155,639	4,865,503	5,823,781	1,216,872	11,906,156
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	100,000	49,384	50,117	–	99,501
AFS financial asset - Unquoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	225,452	92,799	51,765	91,847	236,411
			₱93,057,705	₱85,584,300	₱5,925,663	₱1,308,719	₱92,818,682
Company							
Long-term debt							
Fixed							
	Fixed at 7.45%	5 years	₱2,865,000	₱39,647	₱2,816,443	₱–	₱2,856,090
	Fixed at 6.70% to 8.40%	7 years	22,462,500	5,539	12,377,081	9,900,013	22,282,633
	Fixed at 6.75% to 6.80%	10 years	11,493,333	350	6,638	11,392,442	11,399,430
	Fixed at 6.88%	15 years	10,000,000	–	–	9,907,641	9,907,641
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	13,220,000	6,206,531	2,045,092	4,929,515	13,181,138
Subsidiaries							
Short-term debt	Ranging from 1.21% to 8.00%	Monthly, quarterly	8,462,714	8,462,714	–	–	8,462,714
	Ranging from 1.05% to 4.13%	Monthly, quarterly	3,880,757	3,880,757	–	–	3,880,757
Long-term debt							
Fixed							
	Fixed at 2.48% to 13.50%	3,4,5,7, 10 and 15 years	60,530,930	8,635,837	20,187,517	31,415,410	60,238,764
Floating							
	Variable at Libor+0.50% to 3.50%	3 months, semi-annual	43,301,503	4,133,536	26,715,671	12,026,128	42,875,335
			₱176,216,737	₱31,364,911	₱64,148,442	₱79,571,149	₱175,084,502

January 1, 2012

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱56,138,790	₱56,138,790	₱–	₱–	₱56,138,790
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	1,616,014	1,616,014	–	–	1,616,014
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	16,183,396	7,372,039	5,930,444	151,585	13,454,068
AFS financial asset - Quoted debt nvestments	Fixed at the date of investment or revaluation cut-off	Various	874,161	132,332	723,664	18,165	874,161
AFS financial asset - Unquoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	420,000	126,053	268,905	44,113	439,071
			₱75,232,361	₱65,385,228	₱6,923,013	₱213,863	₱72,522,104
Company							
Long-term debt							
Fixed							
	Fixed at 7.45% to 7.95%	5 years	₱5,890,000	₱3,009,938	₱2,856,066	₱–	₱5,866,004
	Fixed at 8.15%	6 years	1,000,000	995,233	–	–	995,233
	Fixed at 6.70% to 8.40%	7 years	12,470,000	–	2,384,395	9,988,686	12,373,081
	Fixed at 6.75% to 6.80%	10 years	11,495,000	–	–	11,393,916	11,393,916
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	6,475,000	249,940	6,215,051	–	6,464,991
Subsidiaries							
Short-term debt	Ranging from 3.50% to 8.00%	Monthly, quarterly	3,986,500	3,986,500	–	–	3,986,500
	Ranging from 1.16% to 4.13%	Monthly, quarterly	3,347,341	3,347,341	–	–	3,347,341
Long-term debt							
Fixed							
	Fixed at 2.08% to 13.50%	3,4,5,7, 10 and 12 years	42,253,350	2,425,485	30,175,211	9,263,287	41,863,983
Floating							
	Variable at Libor+0.50% to 3.50%	3 months, semi-annual	25,240,450	1,061,972	20,341,342	3,573,968	24,977,282
			₱112,157,641	₱15,076,409	₱61,972,065	₱34,219,857	₱111,268,331

Foreign exchange risk
The Group's foreign exchange risk results from movements of the Philippine Peso (₱) against foreign currency. The Group may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its US$ obligations.

IMI Group
The IMI Group's foreign exchange risk results primarily from movements of the U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, IMI Group's consolidated statements of comprehensive income can be affected significantly by movements in the U.S. Dollar versus the Philippine Peso. In 2013 and 2012, IMI Group entered into currency forward contracts and structured currency options, respectively, to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI Group's functional currency. Approximately 43% and 37% of IMI Group's sales for the years ended December 31, 2013 and 2012, respectively, and 35% and 51% of costs for the years ended December 31, 2013 and 2012, respectively, are denominated in other than IMI Group's functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.

MWC Group
The MWC Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the United States Dollar (US$) and Japanese Yen (JPY). Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 40% and 47% of debt as of December 31, 2013 and 2012, respectively, was denominated in foreign currency. Under Amendment 1 of the Agreement, however, the Group has a natural hedge on its foreign exchange risks on its loans and concession fee payments through a recovery mechanism in the tariff (see Note 37).

The table below summarizes the Group's exposure to foreign exchange risk as of December 31, 2013, 2012 and January 1, 2012. Included in the table are the Group's monetary assets and liabilities at carrying amounts, categorized by currency.

	December 31, 2013		December 31, 2012		January 1, 2012	
	US$	**Php Equivalent***	US$	Php Equivalent*	US$	Php Equivalent*
		(In Thousands)				
Assets						
Cash and cash equivalents	**US$33,352**	**₱1,480,651**	US$42,557	₱1,746,965	US$101,318	₱4,441,781
Short term investments	**–**	**–**	–	–	2,199	96,404
Accounts and notes receivables	**8,440**	**374,692**	17,660	724,943	78,043	3,421,405
Other current assets	**–**	**–**	–	–	4	175
Investments	**–**	**–**	16,990	697,440	6	263
Other noncurrent assets	**–**	**–**	–	–	2,469	108,241
Total assets	**41,792**	**1,855,343**	77,207	3,169,348	184,039	8,068,269

(Forward)

	December 31, 2013		December 31, 2012		January 1, 2012	
	US$	**Php Equivalent***	US$	Php Equivalent*	US$	Php Equivalent*
	(In Thousands)					
Liabilities						
Accounts payable and accrued expenses	**US$233,917**	**₱10,384,727**	US$24,841	₱1,019,723	US$1,657	₱72,643
Other current liabilities	–	–	–	–	–	–
Short-term debt	**37,840**	**1,679,905**	874	35,878	39,440	1,729,050
Long-term debt	**208,085**	**9,237,920**	272,124	11,170,690	258,662	11,675,995
Service concession obligation	–	–	–	–	69,554	3,049,247
Other noncurrent liabilities	**86,729**	**3,850,326**	81,707	3,354,072	978	42,876
Total liabilities	**566,571**	**25,152,878**	379,546	15,580,363	370,291	16,569,811
Net foreign currency denominated liabilities	**(US$524,778)**	**(₱23,297,535)**	(US$302,339)	(₱12,411,015)	(US$186,252)	(₱8,501,542)

**Translated using the exchange rate at the reporting date (US$1:₱44.395 in December 31, 2013, US$1: ₱41.05 in December 31, 2012 and US$1:₱43.84 in January 1, 2012).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	JPY	**Php Equivalent***	JPY	Php Equivalent*	JPY	Php Equivalent*
	(In Thousands)					
Assets						
Cash and cash equivalents	**JPY11,600**	**₱4,919**	JPY20,778	₱9,974	JPY24,802	₱13,899
Accounts and notes Receivable	**224,306**	**95,106**	142,971	68,626	137,928	77,240
Other noncurrent assets	**2,449**	**1,038**	162,576	78,036	2,392	1,340
Total assets	**238,355**	**101,063**	326,325	156,636	165,122	92,479
Liabilities						
Accounts payable and accrued expenses	**709,951**	**301,019**	–	–	–	–
Long-term debt	**6,567,179**	**2,784,484**	360,283	172,936	8,947,369	5,010,527
Other noncurrent liabilities	**1,363,650**	**578,188**	–	–	–	–
Service concession obligation	–	–	7,892,050	3,788,184	1,678,875	940,170
Total liabilities	**8,640,780**	**3,663,691**	8,252,333	3,961,120	10,626,244	5,950,697
Net foreign currency denominated liabilities	**(JPY8,402,425)**	**(₱3,562,628)**	(JPY7,926,008)	(₱3,804,484)	(JPY10,461,122)	(₱5,858,218)

**Translated using the exchange rate at the reporting date (JPY1:₱0.424 in December 31, 2013, JPY1:₱0.48 in December 31, 2012 and JPY1:₱0.56 in January 1, 2012).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	SGD	**Php Equivalent***	SGD	Php Equivalent*	SGD	Php Equivalent*
	(In Thousands)					
Assets						
Cash and cash equivalents	**SGD3,334**	**₱116,630**	SGD3,137	₱105,715	SGD4,465	₱151,140
Accounts and notes receivables	**298**	**10,426**	(1,481)	(49,895)	16	542
Other current assets	**21**	**733**	24	802	102	3,453
Other noncurrent assets	–	–	–	–	10,169	344,221
Total assets	**3,653**	**127,789**	1,680	56,622	14,752	499,356
Liabilities						
Accounts payable and accrued expenses	**3,900**	**136,424**	1,178	39,687	1,802	60,998
Other current liabilities	–	–	1,352	45,570	1,294	43,802
Short-term debt	–	–	1,705	57,473	1,633	55,277
Other noncurrent liabilities	–	–	–	–	262	8,869
Total liabilities	**3,900**	**136,424**	4,235	142,730	4,991	168,946
Net foreign currency denominated assets (liabilities)	**(SGD247)**	**(₱8,635)**	(SGD2,555)	(₱86,108)	SGD9,761	₱330,410

**Translated using the exchange rate at the reporting date (SGD1:₱34.98 in December 31, 2013, SGD1:₱33.70 in December 31, 2012 and SGD1:₱33.85 in January 1, 2012).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	HKD	**Php Equivalent***	HKD	Php Equivalent*	HKD	Php Equivalent*
	(In Thousands)					
Assets						
Cash and cash equivalents	**HKD13,401**	**₱76,721**	HKD3,137	₱16,660	HKD988	₱5,582
Accounts and notes receivables	**45,153**	**258,503**	75,383	400,283	78,479	443,406
Investments	**–**	**–**	8,579	45,555	149	54,410
Other current assets	**–**	**–**	645	3,423	9,630	842
Total assets	**58,554**	**335,224**	87,744	465,921	89,246	504,240
Liabilities						
Accounts payable and accrued expenses	**2,853**	**16,336**	6,181	32,823	3,436	19,413
Net foreign currency denominated assets	**HKD55,701**	**₱318,888**	HKD81,563	₱433,098	HKD85,810	₱484,827

**Translated using the exchange rate at the reporting date (HKD1:₱5.725 in December 31, 2013, HKD1:₱5.31 in December 31, 2012 and HKD1:₱5.65 in January 1, 2011).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	RMB	**Php Equivalent***	RMB	Php Equivalent*	RMB	Php Equivalent*
	(In Thousands)					
Assets						
Cash and cash equivalents	**RMB53,670**	**₱393,563**	RMB91,751	₱606,473	RMB42,525	₱295,549
Accounts and notes receivables	**402,731**	**2,953,229**	345,540	2,284,018	271,962	1,890,136
Other current assets	**–**	**–**	–	–	17,377	120,770
Total assets	**456,401**	**3,346,792**	437,291	2,890,491	331,864	2,306,455
Liabilities						
Accounts payable and accrued expenses	**275,434**	**2,019,759**	239,821	1,585,220	186,654	1,297,245
Other current liabilities	**–**	**–**	–	–	38	264
Total liabilities	**275,434**	**2,019,759**	239,821	1,585,220	186,692	1,297,509
Net foreign currency denominated assets	**RMB180,967**	**₱1,327,033**	RMB197,470	₱1,305,271	RMB145,172	₱1,008,946

**Translated using the exchange rate at the reporting date (RMB1: ₱7.333 in December 31, 2013, RMB1: ₱6.61 in December 31, 2012 and RMB1: ₱ 6.95 in December 31, 2011).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	INR	**Php Equivalent***	INR	Php Equivalent	INR	Php Equivalent
	(In Thousands)					
Assets						
Cash and cash equivalents	**INR1,790**	**₱1,285**	INR3,420	₱2,565	INR15,552	₱32,179
Receivables	**12,167**	**8,736**	9,667	7,250	–	–
Other current assets	**7,136**	**5,124**	1,027	771	38,723	32,179
Other noncurrent assets	**–**	**–**	–	–	–	–
Total assets	**21,093**	**15,145**	14,114	10,586	54,275	64,358
Liabilities						
Accounts payable and accrued expenses	**16,921**	**12,150**	6,032	4,524	71,368	59,307
Short term debt	**–**	**–**	–	–	–	–
Long-term debt	**–**	**–**	–	–	14,951	12,424
Other noncurrent liabilities	**–**	**–**	–	–	15,105	12,552
Total liabilities	**16,921**	**12,150**	6,032	4,524	101,424	84,283
Net foreign currency denominated assets (liabilities)	**INR4,172**	**₱2,995**	INR8,082	₱6,062	(INR47,149)	(₱19,925)

**Translated using the exchange rate at the reporting date (INR1: ₱0.718 in December 31, 2013, INR1: ₱0.750 in December 31, 2012 and INR1: ₱0.831 in January 1, 2011).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	THB	Php Equivalent*	THB	Php Equivalent*	THB	Php Equivalent*
	(In Thousands)					
Assets						
Cash and cash equivalents	**THB–**	**₱–**	THB–	₱–	THB226	₱314
Accounts and notes receivable	**34**	**47**			–	–
Other current assets	**–**	**–**	–	–	41	57
Other noncurrent assets	**–**	**–**	–	–	100,875	140,216
Total assets	**34**	**47**	–	–	101,142	140,587
Liabilities						
Accounts payable and accrued expenses	**–**	**–**	35,038	46,951	–	–
Net foreign currency denominated assets (liabilities)	**THB34**	**₱47**	(THB35,038)	(₱46,951)	THB101,142	₱140,587

**Translated using the exchange rate at the reporting date (THB1: ₱ 1.352 in December 31, 2013, THB1: ₱1.34 in December 31, 2012 and THB1: ₱1.39 in January 1, 2012).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	MYR	Php Equivalent*	MYR	Php Equivalent*	MYR	Php Equivalent*
	(In Thousands)					
Assets						
Cash and cash equivalents	**MYR4,431**	**₱59,688**	MYR4,728	₱63,685	MYR4,674	₱64,875
Short term investments	**23**	**310**	9	121	–	–
Other current assets	**24**	**326**	24	323	321	4,455
Investments	**–**	**–**	321	4,322	–	–
Other noncurrent assets	**–**	**–**	–	–	6,785	94,176
Total assets	**4,478**	**60,324**	5,082	68,451	11,780	163,506
Liabilities						
Accounts payable and accrued expenses	**84**	**1,127**	41	556	49	680
Other noncurrent liabilities	**–**	**–**	–	–	26	361
Total liabilities	**84**	**1,127**	41	556	75	1041
Net foreign currency denominated assets	**MYR4,394**	**₱59,197**	MYR5,041	₱67,895	MYR11,705	₱162,465

**Translated using the exchange rate at the reporting date (MYR1: ₱13.469 in December 31,2013, MYR1: ₱13.47 in December 31, 2012 and P13.88 in January 1, 2012.)*

	December 31, 2013		December 31, 2012		January 1, 2012	
	EUR	Php Equivalent*	EUR	Php Equivalent	EUR	Php Equivalent
	(In Thousands)					
Assets						
Cash and cash equivalents	**EUR2,445**	**₱148,603**	EUR1,836	₱100,093	EUR3,533	₱200,816
Receivables	**24,394**	**1,482,929**	31,188	1,700,681	17,176	976,284
Total assets	**26,839**	**1,631,532**	33,024	1,800,774	20,709	1,177,100
Liabilities						
Accounts payable and accrued expenses	**11,066**	**672,682**	10,380	566,018	10,679	606,994
Other current liabilities	**652**	**39,663**	–	–	24,986	1,420,204
Short term debt	**9,745**	**592,413**	45,756	2,495,063	13,552	770,296
Long-term debt	**–**	**–**	–	–	15,083	857,318
Other noncurrent liabilities	**–**	**–**	–	–	188	10,686
Total liabilities	**21,463**	**1,304,758**	56,136	3,061,081	64,488	3,665,498
Net foreign currency denominated assets (liabilities)	**EUR5,376**	**₱326,774**	(EUR23,112)	(₱1,260,307)	(EUR43,779)	(₱2,488,398)

**Translated using the exchange rate at the reporting date (EUR1: ₱60.79 in December 31, 2013, EUR1: ₱54.53 in December 31, 2012 and EUR1: ₱56.84 in January 1, 2012)*

	December 31, 2013		December 31, 2012		January 1, 2012	
	CZK	**Php Equivalent***	CZK	Php Equivalent	CZK	Php Equivalent
	(In Thousands)					
Assets						
Cash and cash equivalents	**CZK894**	**₱1,996**	CZK1,507	₱3,210	CZK61	₱134
Receivables	**263**	**587**	4,183	8,910	1,063	2,339
Total assets	**1,157**	**2,583**	5,690	12,120	1,124	2,473
Liabilities						
Accounts payable and accrued expenses	**25,794**	**57,573**	19,512	41,560	20,420	44,924
Other current liabilities	–	–	6,064	12,917	4,172	9,178
Short term debt	–	–	351	747	3,042	6,692
Long-term debt	–	–	–	–	5,256	11,563
Total liabilities	**25,794**	**57,573**	25,927	55,224	32,890	72,357
Net foreign currency denominated liabilities	**(CZK24,637)**	**(₱54,990)**	(CZK20,237)	(₱43,104)	(CZK31,766)	(₱69,884)

**Translated using the exchange rate at the reporting date (CZK1:₱2.232 in December 31, 2013, CZK1:₱ 2.13 in December 31, 2012 and CZK1:₱ 2.20 in January 1, 2012).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	VND	**Php Equivalent***	VND	Php Equivalent	VND	Php Equivalent
	(In Thousands)					
Assets						
Cash and cash equivalents	**VND34,533,794**	**₱69,068**	VND142,897,536	₱285,795	VND902	₱2
Other noncurrent assets	**–**	**–**	331,438,800	662,878	857,500	1,801
Net foreign currency denominated assets	**VND34,533,794**	**₱69,068**	VND 474,336,336	₱948,673	VND858,402	₱1,803

**Translated using the exchange rate at the reporting date (VND1:₱0.0020 in December 31, 2013 and 2012, and VND1:₱0.0021 in January 1, 2012).*

	December 31, 2013		December 31, 2012		January 1, 2012	
	MXN	**Php Equivalent***	MXN	Php Equivalent	MXN	Php Equivalent
	(In Thousands)					
Assets						
Cash and cash equivalents	**MXN47,208**	**₱160,560**	MXN7,319	₱23,201	MXN61	₱191
Receivables	**123,735**	**420,834**	65,044	206,188	1,063	3,328
Total assets	**170,943**	**581,394**	72,363	229,389	1,124	3,519
Liabilities						
Accounts payable and accrued expenses	**179,946**	**612,014**	47,058	149,173	20,420	63,914
Other current liabilities	**–**	**–**	504	1,597	4,172	13,058
Loans payable	**–**	**–**	–	–	3,042	9,520
Long-term debt	**–**	**–**	–	–	5,256	16,452
Total Liabilties	**179,946**	**612,014**	47,562	150,770	32,890	102,944
Net foreign currency denominated assets (liabilities)	**(MXN9,003)**	**(₱30,620)**	MXN24,801	₱78,619	(MXN31,766)	(₱99,425)

**Translated using the exchange rate at the reporting date (MXN1:₱3.404 in December 31, 2013, MXN1:₱3.170 in December 31, 2012 and MXN1:₱3.130 in January 1, 2012).*

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (amounts in thousands).

2013

Currency	**Increase (decrease) in Peso per foreign currency**	**Increase (decrease) in profit before tax**
US$	₱1.00	**(₱524,778)**
	(1.00)	**524,778**
JPY	1.00	**(8,402,425)**
	(1.00)	**8,402,425**
SGD	1.00	**(247)**
	(1.00)	**247**
HKD	1.00	**55,701**
	(1.00)	**(55,701)**
RMB	1.00	**180,967**
	(1.00)	**(180,967)**
INR	1.00	**4,172**
	(1.00)	**(4,172)**
THB	1.00	**34**
	(1.00)	**(34)**
MYR	1.00	**4,394**
	(1.00)	**(4,394)**
EUR	1.00	**5,376**
	(1.00)	**(5,376)**
CZK	1.00	**(24,637)**
	(1.00)	**24,637**
VND	1.00	**(34,533,794)**
	(1.00)	**34,533,794**
MXN	1.00	**(9,003)**
	(1.00)	**9,003**

2012

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax
US$	₱1.00	(₱302,339)
	(1.00)	302,339
JPY	1.00	(7,926,008)
	(1.00)	7,926,008
SGD	1.00	(2,555)
	(1.00)	2,555
HKD	1.00	81,563
	(1.00)	(81,563)
RMB	1.00	197,470
	(1.00)	(197,470)
INR	1.00	8,082
	(1.00)	(8,082)
THB	1.00	(35,038)
	(1.00)	35,038)

(Forward)

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax
	(1.00)	(5,041)
EUR	1.00	(23,112)
	(1.00)	23,112
CZK	1.00	(20,327)
	(1.00)	20,327
VND	1.00	474,336,336
	(1.00)	(474,336,336)
MXN	1.00	24,801
	(1.00)	24,801

2011

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax
US$	₱1.00	(₱186,252)
	(1.00)	186,252
JPY	1.00	(10,461,122)
	(1.00)	10,461,122
SGD	1.00	9,761
	(1.00)	(9,761)
HKD	1.00	85,810
	(1.00)	(85,810)
RMB	1.00	145,172
	(1.00)	(145,172)
INR	1.00	(47,149)
	(1.00)	47,149
THB	1.00	101,142
	(1.00)	(101,142)
MYR	1.00	11,705
	(1.00)	(11,705)
EUR	1.00	(43,779)
	(1.00)	43,779
CZK	1.00	(31,766)
	(1.00)	31,766
VND	1.00	858,402
	(1.00)	(858,402)
MXN	1.00	(31,766)
	(1.00)	31,766

There is no other impact on the Group's equity other than those already affecting net income.

Equity price risk
AFS financial assets are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, and domestic inflation rates, these prices change, reflecting how market participants view the developments. The Group's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity arising from fair valuation of quoted AFS financial assets (amounts in thousands).

2013

Market Index	Change in Variables	Effect on Equity Increase (decrease)
PSEi	5%	**₱806,369**
	-5%	**(806,369)**

2012

Market Index	Change in Variables	Effect on Equity Increase (decrease)
PSEi	5%	₱720,597
	-5%	(720,597)

Liquidity risk
Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

ALI Group
ALI Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. ALI Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

MWC Group
MWC Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, leases and hire purchase contracts. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through cash collections.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2013 and 2012 and January 1, 2012, based on contractual undiscounted payments.

	December 31, 2013				
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	**₱63,198,549**	**₱–**	**₱–**	**₱–**	**₱63,198,549**
Project costs	**11,983,222**	**–**	**–**	**–**	**11,983,222**
Accrued expenses	**9,994,662**	**–**	**–**	**–**	**9,994,662**
Related parties	**4,107,009**	**–**	**–**	**–**	**4,107,009**
Retentions payable	**1,192,251**	**–**	**–**	**–**	**1,192,251**
Dividends payable	**2,093,323**	**–**	**–**	**–**	**2,093,323**
Personnel costs	**2,694,816**	**–**	**–**	**–**	**2,694,816**
Derivative liability	**3,470**	**–**	**–**	**–**	**3,470**
Service concession liability	**1,290,406**	**1,474,349**	**708,971**	**10,539,730**	**14,013,456**
Customers' deposit	**5,362,355**	**–**	**–**	**–**	**5,362,355**
Short-term debt	**15,811,285**	**–**	**–**	**–**	**15,811,285**
Long-term debt (LTD)	**11,953,695**	**4,092,763**	**47,622,962**	**127,073,470**	**190,742,890**
Other noncurrent liabilities	**–**	**10,057,907**	**836,059**	**13,933,971**	**24,827,937**
Interest payable	**7,700,799**	**7,200,769**	**24,865,468**	**38,830,272**	**78,597,308**
	₱137,385,842	**₱22,825,788**	**₱74,033,460**	**₱190,377,443**	**₱424,622,533**

	December 31, 2012				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱49,879,159	₱–	₱–	₱–	₱49,879,159
Project costs	12,070,336	–	–	–	12,070,336
Accrued expenses	4,439,188	–	–	–	4,439,188
Related parties	2,097,312	–	–	–	2,097,312
Retentions payable	2,262,833	–	–	–	2,262,833
Dividends payable	1,798,399	–	–	–	1,798,399
Personnel costs	1,614,684	–	–	–	1,614,684
Derivative liability	–	–	–	–	–
Service concession liability	840,563	1,696,571	1,696,571	3,978,824	8,212,529
Customers' deposit	4,566,684	–	–	–	4,566,684
Short-term debt	12,343,472	–	–	–	12,343,472
Long-term debt (LTD)	19,391,264	26,905,317	39,679,019	77,897,666	163,873,266
Other noncurrent liabilities	–	13,976,407	7,639,542	1,358,943	22,974,892
Interest payable	7,261,075	7,008,889	6,668,588	27,701,131	48,639,683
	₱118,564,969	₱49,587,184	₱55,683,720	₱110,936,564	₱334,772,437

	January 1, 2012				
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱29,755,662	₱–	₱–	₱–	₱29,755,662
Project costs	7,539,717	–	–	–	7,539,717
Accrued expenses	4,002,204	–	–	–	4,002,204
Related parties	1,226,606	–	–	–	1,226,606
Retentions payable	1,258,923	–	–	–	1,258,923
Dividends payable	1,836,595	–	–	–	1,836,595
Personnel costs	1,290,373	–	–	–	1,290,373
Derivative liability	1,515	–	–	–	1,515
Service concession liability	980,620	946,375	979,431	4,991,192	7,897,618
Customers' deposit	1,609,504	–	–	–	1,609,504
Short-term debt	7,333,841	–	–	–	7,333,841
Long-term debt (LTD)	7,726,861	19,329,254	12,531,964	65,235,721	104,823,800
Other noncurrent liabilities	–	7,299,133	2,449,856	1,533,011	11,282,000
Interest payable	5,054,350	4,870,537	4,321,012	14,143,231	28,389,130
	₱69,616,771	₱32,445,299	₱20,282,263	₱85,903,155	₱208,247,488

Cash and cash equivalents, short-term investments, financial assets at FVPL and AFS debt investments are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section. AFS unquoted debt investments with maturity of more than a year from December 31 are marketable securities and could be sold as and when needed prior to its maturity in order to meet the Group's short-term liquidity needs.

Credit risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The Group's Treasury Policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures.

ALI Group
For installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant as titles to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

IMI Group
The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. 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 with the result that the Group's exposure to bad debts is not significant.

MWC Group
It is the Group's policy that except for connection fees and other highly meritorious cases, the Group does not offer credit terms to its customers. Credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and short-term investments and AFS financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the investments.

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position except for those financial assets whose carrying amounts approximates fair value. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting arrangements or collateral agreements.

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Financial assets at FVPL	**₱17,916,513**	₱4,532,323	₱1,470,829
Derivative assets	**456,768**	184,276	122,704
Accounts and notes receivables			
Trade			
Real estate	**39,832,997**	30,815,940	19,553,267
Investment in bonds classified as loans and receivables	**1,000,000**	1,000,000	200,000
Receivable from officers and employees	**274,900**	578,541	744,137
AFS financial assets			
Quoted equity investments	**1,241,869**	1,790,043	923,563
Unquoted equity investments	**1,439,637**	1,117,965	1,508,373
Quoted debt investments	**103,301**	99,501	874,161
Unquoted debt investments	**–**	236,411	439,071
Total credit risk exposure	**₱62,265,985**	₱40,355,000	₱25,836,105

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2013

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	₱36,449,792	₱642,028	₱386,081	₱308,010	₱312,357	₱1,506,867	₱3,155,343	₱227,862	₱39,832,997
Electronics manufacturing	5,987,296	850,487	83,623	88,270	79,594	100,254	1,202,228	97,268	7,286,792
Water distribution and wastewater services	364,981	457,087	176,192	135,852	102,823	128,472	1,000,426	280,069	1,645,476
Automotive	528,171	233,620	86,221	61,346	26,533	27,638	435,358	21,861	985,390
Information technology and BPO	194,584	–	–	–	–	–	–	–	194,584
International and others	3,603	–	–	–	15	–	15	–	3,618
Advances to other companies	9,753,179	247,941	2,011	37,015	16,947	688,266	992,180	166,687	10,912,046
Related parties	2,610,919	161,100	59,408	37,735	27,212	208,115	493,570	40,983	3,145,472
Dividend receivable	1,412,577	–	–	–	–	–	–	–	1,412,577
Receivable from BWC	544,374	–	–	–	–	–	–	–	544,374
Receivable from officers and employees	376,636	90,203	4,063	1,415	3,087	29,635	128,403	2,003	507,042
Investment in bonds classified as loans and receivables	1,000,000	–	–	–	–	–	–	–	1,000,000
Others	72,871	12,934	1,653	1,029	539	3,067	19,222	–	92,093
Total	₱59,298,983	₱2,695,400	₱799,252	₱670,672	₱569,107	₱2,692,314	₱7,426,745	₱836,733	₱67,562,461

December 31, 2012

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
	(In Thousands)								
Trade:									
Real estate	₱28,110,008	₱788,525	₱554,974	₱345,323	₱141,362	₱670,966	₱2,501,150	₱204,782	₱30,815,940
Electronics manufacturing	4,966,938	712,284	147,711	59,139	22,403	42,473	984,010	100,950	6,051,898
Water distribution and wastewater services	340,050	889,469	142,404	73,984	87,826	114,424	1,308,107	59,133	1,707,290
Automotive	460,477	276,974	72,241	89,891	21,474	45,411	505,991	1,688	968,156
Information technology and BPO	131,455	31,880	–	–	–	–	31,880	–	163,335
International and others	5,489	636	381	–	1	–	1,018	–	6,507
Advances to other companies	6,240,952	55,343	77,737	358,567	11,316	378,880	881,843	56,012	7,178,807
Related parties	1,990,955	164,178	23,620	52,514	17,629	282,168	540,109	57,793	2,588,857
Dividend receivable	36,636	–	–	–	–	–	–	–	36,636
Receivable from officers and employees	499,942	61,474	2,352	760	742	13,271	78,599	2,080	580,621
Receivable from BWC	572,878	–	–	–	–	–	–	–	572,878
Investment in bonds classified as loans and receivables	1,000,000	–	–	–	–	–	–	–	1,000,000
Others	409,881	1,067	18,648	1,405	699	612	22,431	–	432,312
Total	₱44,765,661	₱2,981,830	₱1,040,068	₱981,583	₱303,452	₱1,548,205	₱6,855,138	₱482,438	₱52,103,237

January 1, 2012

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
	(In Thousands)								
Trade:									
Real estate	₱16,750,391	₱718,215	₱466,170	₱285,440	₱187,830	₱867,490	₱2,525,145	₱277,731	₱19,553,267
Electronics manufacturing	4,646,243	492,454	168,404	53,159	27,377	148,126	889,520	92,797	5,628,560
Water distribution and wastewater services	309,182	347,096	55,170	82,763	75,914	173,272	734,215	42,992	1,086,389
Automotive	233,644	109,822	77,627	37,640	15,829	24,410	265,328	36,003	534,975
Information technology and BPO	34,482	47,824	5,276	2,535	2,040	–	57,675	25,148	117,305
International and others	1,950	–	476	–	–	–	476	67	2,493
Advances to other companies	4,837,519	66,537	36,916	37,146	54,960	77,021	272,580	140,516	5,250,615
Related parties	2,252,492	40,218	18,149	12,150	10,717	171,398	252,632	22,456	2,527,580
Dividend receivable	815,220	–	–	–	–	–	–	–	815,220
Receivable from officers and employees	666,594	51,627	8,030	1,667	1,132	15,087	77,543	14,220	758,357
Receivable from BWC	599,342	–	–	–	–	–	–	–	599,342
Investment in bonds classified as loans and receivables	200,000	–	–	–	–	–	–	–	200,000
Others	2,000,194	733	–	–	–	32,446	33,179	–	2,033,373
Total	₱33,347,253	₱1,874,526	₱836,218	₱512,500	₱375,799	₱1,509,250	₱5,108,293	₱651,930	₱39,107,476

The table below shows the credit quality of the Group's financial assets as of December 31, 2013 and 2012 (amounts in thousands):

December 31, 2013

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱53,990,229	₱–	₱–	₱53,990,229	₱–	₱–	₱53,990,229
Short-term investments	119,345	–	–	119,345	–	–	119,345
FVPL financial assets	17,916,513	–	–	17,916,513	–	–	17,916,513
Accounts and notes receivables							
Trade							
Real estate	33,767,802	1,251,638	1,430,352	36,449,792	3,155,343	227,862	39,832,997
Electronics manufacturing	275,579	5,155,813	555,904	5,987,296	1,202,228	97,268	7,286,792
Water distribution and wastewater services	352,650	12,331	–	364,981	1,000,426	280,069	1,645,476
Automotive	528,171	–	–	528,171	435,358	21,861	985,390
Information technology and BPO	–	194,584	–	194,584	–	–	194,584
International and others	3,603	–	–	3,603	15	–	3,618
Advances to other companies	9,753,179	–	–	9,753,179	992,180	166,687	10,912,046
Related parties	2,278,449	332,470	–	2,610,919	493,570	40,983	3,145,472
Dividend receivable	1,412,577	–	–	1,412,577	–	–	1,412,577
Receivable from BWC	544,374	–	–	544,374	–	–	544,374
Receivable from officers employees	368,845	7,791	–	376,636	128,403	2,003	507,042
Investments in bonds classified as							
loans and receivables	1,000,000	–	–	1,000,000	–	–	1,000,000
Other receivable	71,119	1,752	–	72,871	19,222		92,093
AFS Investments					–		
Quoted shares of stocks	1,241,869	–	–	1,241,869	–	–	1,241,869
Unquoted shares of stocks	1,439,637	–	–	1,439,637	–	–	1,439,637
Quoted debt investments	103,301	–	–	103,301	–	–	103,301
Unquoted debt investments	–	–	–	–	–	–	–
	₱125,167,242	₱6,956,379	₱1,986,256	₱134,109,877	₱7,426,745	₱836,733	₱142,373,355

December 31, 2012

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱80,280,706	₱–	₱–	₱80,280,706	₱–	₱–	₱80,280,706
Short-term investments	296,503	–	–	296,503	–	–	296,503
FVPL financial assets	4,532,323	–	–	4,532,323	–	–	4,532,323
Accounts and notes receivables							
Trade							
Real estate	25,988,680	1,057,821	1,063,507	28,110,008	2,501,150	204,782	30,815,940
Electronics manufacturing	144,585	4,750,375	71,978	4,966,938	984,010	100,950	6,051,898
Water distribution and wastewater services	335,493	4,557	–	340,050	1,308,107	59,133	1,707,290
Automotive	460,477	–	–	460,477	505,991	1,688	968,156
Information technology and BPO	–	131,455	–	131,455	31,880	–	163,335
International and others	3,548	1,941	–	5,489	1,018	–	6,507
Advances to other companies	5,876,980	363,972	–	6,240,952	881,843	56,012	7,178,807
Related parties	1,343,659	647,296	–	1,990,955	540,109	57,793	2,588,857
Dividend receivable	36,636	–	–	36,636	–	–	36,636
Receivable from BWC	572,878	–	–	572,878	–	–	572,878
Receivable from officers employees	406,993	7,604	85,345	499,942	78,599	2,080	580,621
Investments in bonds classified as							
loans and receivables	1,000,000	–	–	1,000,000	–	–	1,000,000
Other receivable	408,130	1,751		409,881	22,431	–	432,312
AFS Investments							
Quoted shares of stocks	1,790,043	–	–	1,790,043	–	–	1,790,043
Unquoted shares of stocks	1,117,965	–	–	1,117,965	–	–	1,117,965
Quoted debt investments	99,501	–	–	99,501	–	–	99,501
Unquoted debt investments	236,411	–	–	236,411	–	–	236,411
	₱124,931,511	₱6,966,772	₱1,220,830	₱133,119,113	₱6,855,138	₱482,438	₱140,456,689

January 1, 2012

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱56,244,086	₱–	₱–	₱56,244,086	₱–	₱–	₱56,244,086
Short-term investments	1,613,058	–	–	1,613,058	–	–	1,613,058
FVPL financial assets	1,470,829	–	–	1,470,829	–	–	1,470,829
Accounts and notes receivables							
Trade							
Real estate	14,466,198	1,463,154	821,039	16,750,391	2,525,145	277,731	19,553,267
Electronics manufacturing	4,247,002	284,263	114,978	4,646,243	889,520	92,797	5,628,560
Water distribution and wastewater services	171,249	137,933	–	309,182	734,215	42,992	1,086,389
Automotive	201,599	32,045	–	233,644	265,328	36,003	534,975
Information technology and BPO	34,482	–	–	34,482	57,675	25,148	117,305
International and others	689	1,261	–	1,950	476	67	2,493
Advances to other companies	4,554,500	3,856	279,163	4,837,519	272,580	140,516	5,250,615
Related parties	1,728,795	4,713	518,984	2,252,492	252,632	22,456	2,527,580
Dividend receivable	815,220	–	–	815,220	–	–	815,220
Receivable from BWC	599,342	–	–	599,342	–	–	599,342
Receivable from officers employees	472,173	4,235	190,186	666,594	77,543	14,220	758,357
Investments in bonds classified as							
loans and receivables	200,000	–	–	200,000	–	–	200,000
Other receivable	1,814,542	–	185,652	2,000,194	33,179	–	2,033,373
AFS Investments							
Quoted shares of stocks	923,563	–	–	923,563	–	–	923,563
Unquoted shares of stocks	1,508,373	–	–	1,508,373	–	–	1,508,373
Quoted debt investments	874,161	–	–	874,161	–	–	874,161
Unquoted debt investments	439,071	–	–	439,071	–	–	439,071
	₱92,378,932	₱1,931,460	₱2,110,002	₱96,420,394	₱5,108,293	₱651,930	₱102,180,617

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, FVPL financial assets, quoted AFS financial assets,investment in bonds classified as loans and receivable,advances to other companies and related party receivables

High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, investment in bonds classified as loans and receivable, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short-term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet their obligation.

Low grade pertains to financial assets with the probability to be impaired based on the nature of the counterparty.

Trade receivables
Real estate, information technology and BPO and international and others - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment in the past; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade or transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

Water distribution and wastewater services - high grade pertains to receivables that are collectible within 7 days from bill delivery; medium grade pertains to receivables that are collectible from 11 to 30 days from bill delivery.

Automotive - high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Unquoted AFS financial assets - the unquoted investments are unrated.

33. Fair Value Measurement and Derivative Instruments

Fair Value of Financial and Nonfinancial Instruments

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the following financial instruments as of December 31, 2013 and 2012 and January 1, 2012 (amounts in thousands):

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL						
Held for trading	**₱17,916,513**	**₱17,916,513**	₱4,532,323	₱4,532,323	₱1,470,829	₱1,470,829
Derivative assets						
Embedded	**456,768**	**456,768**	184,276	184,276	119,939	119,939
Freestanding	**–**	**–**	–	–	2,765	2,765
Total financial assets at FVPL	**18,373,281**	**18,373,281**	4,716,599	4,716,599	1,593,533	1,593,533
LOANS AND RECEIVABLES						
Accounts and notes receivables						
Trade receivables						
Real estate	**39,325,490**	**39,362,376**	30,489,340	30,641,213	19,226,667	19,980,823
Nontrade receivables						
Investment in bonds classified as loans and receivables	**1,000,000**	**1,091,291**	1,000,000	1,040,801	200,000	214,518
Receivable from officers and employees	**274,900**	**274,972**	578,541	578,867	744,137	744,930
Total loans and receivables	**40,600,390**	**40,728,639**	32,067,881	32,260,881	20,170,804	20,940,271
Total other financial assets	**58,973,671**	**59,101,920**	36,784,480	36,977,480	21,764,337	22,533,804
AFS FINANCIAL ASSETS						
Quoted equity investments	**1,241,869**	**1,241,869**	1,790,043	1,790,043	923,563	923,563
Unquoted equity investments	**1,439,637**	**1,437,228**	1,117,965	1,117,965	1,508,373	1,508,373
Quoted debt investments	**103,301**	**103,301**	99,501	99,501	874,161	874,161
Unquoted debt investments	**–**	**–**	236,411	236,411	439,071	439,071
Total AFS financial assets	**2,784,807**	**2,782,398**	3,243,920	3,243,920	3,745,168	3,745,168
Total financial assets	**₱61,758,478**	**₱61,884,318**	₱40,028,400	₱40,221,400	₱25,509,505	₱26,278,972
FINANCIAL LIABILITIES AT FVPL						
Derivative liabilities						
Freestanding	**₱1,803**	**₱1,803**	₱–	₱–	₱1,515	₱1,515
Embedded	**1,667**	**1,667**	–	–	–	–
Total derivative liabilities	**₱3,470**	**₱3,470**	₱–	₱–	₱1,515	₱1,515
OTHER FINANCIAL LIABILITIES						
Noncurrent other financial liabilities						
Service concession obligation	**7,868,295**	**12,738,815**	7,371,965	13,004,644	6,916,998	8,733,961
Other noncurrent liabilities	**23,738,011**	**23,809,863**	23,008,929	23,265,120	9,748,382	9,542,916
Long-term debt	**178,027,343**	**186,432,252**	143,719,591	151,560,554	96,129,597	103,934,322
Total other financial liabilities	**209,633,649**	**222,980,930**	174,100,485	187,830,318	112,794,977	122,211,199
Total financial liabilities	**₱209,637,119**	**₱222,984,400**	₱174,100,485	₱187,830,318	₱112,796,492	₱122,212,714

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:

Financial assets at FVPL - Fair values of investment securities are based on quoted prices as of the reporting date. For other investment securities with no reliable measure of fair value, these are carried at its last transaction price.

Derivative instruments - The fair value of the freestanding currency forwards is based on counterparty valuation. The embedded call and put options of IMI were valued using the binomial option pricing model. This valuation technique considers the probability of PSi's share price, which is based on a 5-year discounted cash flow valuation, to move up or down depending on the volatility, the risk free rate and exercise price that is based on a 12-month trailing EBITDA. Valuation inputs such as discount rates were based on credit adjusted interest rates while interest rate volatility was computed based on historical rates or data.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 0.23% to 13.25% in 2013, 0.30% to 13.25% in 2012 and 1.22% to 13.25% in 2011.

AFS quoted equity investments - Fair values are based on the quoted prices published in markets.

AFS unquoted equity investments - Fair value of equity funds are based on the net asset value per share. For other unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost less impairment, if any.

AFS unquoted debt investments - Fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 1.82% to 6.13% in 2013, 1.80% to 7.18% in 2012 and 2.88% to 7.60% in 2011.

Accounts payable and accrued expenses, customers' deposits, short-term debt and current portion of long-term debt and service concession obligation - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Customers' deposits - non-current - The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used for Peso-denominated loans were 1.25% to 4.08% in 2013 and 1.37% to 7.11% in 2012 while the discount rates used for the foreign currency-denominated loans ranged from 0.09% to 4.27% in 2013, 0.13% to 3.01% in 2012 and 1.02% to 3.16% in 2011.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi-annual/annual basis and deposits) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 0.23% to 6.16% in 2013, 0.28% to 6.37% in 2012 and 1.29% to 5.27% in 2011.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The following table shows the fair value hierarchy of the Group's assets and liabilities as at December 31, 2013, 2012 and January 1, 2012 (amounts in thousands):

2013

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVPL	**₱–**	**₱12,799,097**	**₱5,117,416**	**₱17,916,513**
Derivative assets				
Embedded	**–**	**–**	**456,768**	**456,768**
AFS financial assets				
Quoted equity investments	**1,241,869**	**–**	**–**	**1,241,869**
Unquoted equity investments	**–**	**1,156,055**	**281,173**	**1,437,228**
Quoted debt investments	**103,301**	**–**	**–**	**103,301**
	₱1,345,170	**₱13,955,152**	**₱5,855,357**	**₱21,155,679**

(Forward)

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	**₱–**	**₱–**	**₱40,453,667**	**₱40,453,667**
Investments in associates and joint ventures*	**157,782,802**	**–**	**–**	**157,782,802**
	₱157,782,802	**₱–**	**₱40,453,667**	**₱198,236,469**
Recurring financial liabilities measured at fair value				
Derivative liabilities				
Freestanding	**₱–**	**₱1,803**	**₱–**	**₱1,803**
Embedded	**–**	**–**	**1,667**	**1,667**
	₱–	**₱1,803**	**₱1,667**	**₱3,470**
Recurring financial liabilities for which fair values are disclosed:				
Noncurrent other financial liabilities				
Service concession obligation	**₱–**	**₱–**	**₱12,738,815**	**₱12,738,815**
Other noncurrent liabilities	**–**	**–**	**23,809,863**	**23,809,863**
Long-term debt	**–**	**–**	**186,432,252**	**186,432,252**
	₱–	**₱–**	**₱222,980,930**	**₱222,980,930**
Non-recurring nonfinancial assets for which fair values are disclosed:				
Noncurrent assets held for sale	**₱–**	**₱–**	**₱3,328,712**	**₱3,328,712**
Nonfinancial assets for which fair values are disclosed:				
Investment properties	**₱–**	**₱–**	**₱232,927,400**	**₱232,927,400**

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

2012

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVPL	₱723,700	₱4,302	₱3,804,321	₱4,532,323
Derivative assets				
Embedded	–	–	184,276	184,276
AFS financial assets				
Quoted equity investments	1,790,043	–	–	1,790,043
Unquoted equity investments	–	1,117,965	–	1,117,965
Quoted debt investments	99,501	–	–	99,501
Unquoted debt investments	–	236,411	–	236,411
	₱2,613,244	₱1,358,678	₱3,988,597	₱7,960,519
Recurring assets for which fair values are disclosed:				
Loans and receivables	₱–	₱–	₱31,682,014	₱31,682,014
Investments in associates and joint ventures*	146,050,834	–	–	146,050,834
	₱146,050,834	₱–	₱31,682,014	₱177,732,848
Recurring financial liabilities for which fair values are disclosed:				
Noncurrent other financial liabilities				
Service concession obligation	₱–	₱–	₱13,004,644	₱13,004,644
Other noncurrent liabilities	–	–	23,265,120	23,265,120
Long-term debt	–	–	151,560,554	151,560,554
	₱–	₱–	₱187,830,318	₱187,830,318
Nonfinancial assets for which fair values are disclosed:				
Investment properties	₱–	₱–	₱228,959,300	₱228,959,300

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

2011

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVPL	₱–	₱4,455	₱1,466,374	₱1,470,829
Derivative assets				
Embedded	–	–	119,939	119,939
Freestanding	–	2,765	–	2,765
AFS financial assets				
Quoted equity investments	993,563	–	–	993,563
Unquoted equity investments	1,508,373	–	–	1,508,373
Quoted debt investments	874,161	–	–	874,161
Unquoted debt investments	–	439,071	–	439,071
	₱3,376,097	₱446,291	₱1,586,313	₱5,408,701
Recurring assets for which fair values are disclosed:				
Loans and receivables	₱–	₱–	₱20,195,341	₱20,195,341
Investments in associates and joint ventures*	₱88,222,162	–	–	88,222,162
	₱88,222,162	₱–	₱20,195,341	₱108,417,503
Recurring financial liabilities measured at fair value				
Derivative liabilities				
Freestanding	₱–	₱1,515	₱–	₱1,515
Recurring financial liabilities for which fair values are disclosed:				
Noncurrent other financial liabilities				
Service concession obligation	₱–	₱–	8,733,961	8,733,961
Other noncurrent liabilities	–	–	9,542,916	9,542,916
Long-term debt	–	–	103,934,322	103,934,322
	₱–	₱–	122,211,199	122,211,199
Nonfinancial assets for which fair values are disclosed:				
Investment properties	₱–	₱–	₱211,774,600	₱211,774,600

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

There was no change in the valuation techniques used by the Group in determining the fair market value of the assets and liabilities.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

A reconciliation of the beginning and closing balances of Level 3 financial assets at FVPL are summarized below:

	2013	2012	2011
At January 1	**₱3,988,597**	₱1,586,313	₱903,851
Additions	**1,702,033**	2,498,264	871,555
Disposals/ redemptions	**(451,939)**	–	(229,613)
Recognized in statement of income	**616,666**	(95,980)	40,520
At December 31	**₱5,855,357**	₱3,988,597	₱1,586,313

The fair value of the embedded put and call option of IMI are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period and PSi's cost of equity as of valuation date.

The following are the estimated changes in the fair values of the embedded derivatives assuming the estimated EBITDA used in the fair value calculation would vary by 5% (amounts in thousands):

	2012
	Increase (Decrease) in net income
Estimated EBITDA is 5% higher	
Call option	₱–
Estimated EBITDA is 5% lower	
Call option	–

In 2012, an amendment to the investors' agreement regarding the call strike price was made. The new agreement defines call and put strike price at a fixed amount of US$150,000. Hence, the fair value of the put and call options would not be affected by the changes in the estimated EBITDA

Derivatives

	2013	2012
Derivative Assets		
Conversion option of AIVPL	**₱456,768**	₱66,996
Embedded call options of IMI	**–**	117,280
	₱456,768	₱184,276
Derivative Liabilities		
Conversion option of AIVPL	**₱1,604**	₱–
Freestanding currency forwards of IMI	**1,803**	–
	₱3,407	₱–

Freestanding Derivatives
In 2013 and 2012, IMI entered into various short-term currency forwards with an aggregate notional amount of US$37.0 million and US$13.0 million, respectively. As of December 31, 2013 and 2012, the outstanding forward contracts have a net positive fair value of US$0.04 million and nil and US$0.03 million, respectively. Net fair value gains (loss) recognized in 2013, 2012 and 2011 amounted to (US$0.4) million, nil and US$0.9 million, respectively (see Note 23).

Embedded derivatives

MWC

₱2.0 Billion and ₱1.5 Billion Loans
MWC has two 7-year loans with an aggregate amount of ₱3.5 billion where it has the option to prepay the whole loan or any part of the loan. For each Tranche, MWC will pay the amount calculated as the greater of the present value of the remaining cash flows of the relevant Tranche discounted at the yield of the "comparable benchmark tenor" as shown on the Bloomberg MART1 page or one hundred percent (100%) of the principal amount of the relevant Tranche being prepaid.

The prepayment option of MWC effectively has two components: a long call option and a short put option. The long call option entitles MWC to buy back the issued loan at the face amount while the short put option enables the counterparty bank to sell back the loan to MWC at the market price (present value of future cash flows discounted at prevailing market rates).

The long call option has a strike price equal to the face amount. Most likely, MWC will exercise the long call option if the market value of the loan is higher than the face amount (in the money). However, if the market value of the loan is lower than the face amount (out of the money), the option will not be exercised.

On the other hand, the put option enables the counterparty bank to demand payment based on the market value of the loan. Therefore, the strike price of the option is identified as the market value of the loan. Based on analysis, the put option is not the usual option availed to protect the holder from future decline of an asset's market value. By setting the strike price at market value, the put option provides protection to the holder, as a writer of the call option, from possible losses resulting from the exercise of the call option.

Based on the payoff analysis, the value of the long call and the short put options are offsetting resulting to net payoff of zero. Consequently, no value for the embedded derivatives is recognized.

₱4.0 Billion Bonds Embedded Call Option
MWC has an embedded call option on the ₱4.0 billion Peso Bonds issued on October 22, 2008. The embedded call option gives MWC the right to redeem all, but not in part, the outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date. On issue date, MWC recognized separately the fair value of the embedded call option, resulting in recognition of a derivative asset and loan premium amounting to ₱210.6 million. The embedded derivative is carried at FVPL while the loan premium is amortized at effective interest rate over the life of the loan.

On October 23, 2011, the derivative asset was derecognized upon redemption of the ₱4.0 billion Peso Bonds. The loss recognized due to the derecognition of derivative asset amounted to ₱229.6 million.

₱10.0 Billion Notes Payable
MWC has an embedded call option on the ₱10.0 Billion Corporate Notes issued on April 8, 2011. The embedded call option gives MWC the right to redeem all, but not in part, the outstanding notes starting on the seventh anniversary. The amount payable to the holder in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the notes on the optional redemption date. As of December 31, 2011, the option was assessed as not clearly and closely related to the host contract since the amortized cost of the loan does not approximate the prepayment at each option exercise date. However, as of inception date, the value of the option is not material. As of December 31, 2012, the option has been reassessed which resulted to the option as clearly and closely related to the host contract since the amortized cost of the loan approximates the prepayment at each option exercise date.

₱5.0 Billion Notes
MWC has an embedded call option on the ₱5.00 Billion Corporate Notes issued on August 16, 2013. The embedded call option gives MWC the right to redeem all but not in part the outstanding notes starting on the 3rd anniversary. The amount payable to the holder in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102%-100.5% of the principal amount and accrued interest on the notes, depending on the optional redemption date.

As of December 31, 2013, the option was assessed as clearly and closely related to the host contract since the amortized cost of the loan approximates the prepayment at each option exercise date. However, as of inception date, the value of the option is not material.

IMI Group
IMI Philippines
In 2013 and 2012, IMI Philippines entered into various short-term currency forwards with an aggregate notional amount of US$37.0 million and US$13.0 million, respectively. As of December 31, 2013 and 2012, the outstanding forward contracts have a net negative fair value of US$0.04 million and nil, respectively. Net fair value gains (loss) recognized in 2013, 2012 and 2011 amounted to (US$0.4) million, US$1.6 million and US$0.9 million, respectively.

PSi Equity Call and Put Option
As discussed in Note 24, the acquisition of PSi gave rise to a long equity call option and written equity put option for IMI Philippines.

As of December 31, 2013 and 2012, the call option has zero value and US$2.86 million (₱117.4 million), respectively, while the put option has a zero value on both years. Net fair value gain on the options amounted nil, US$0.1 million (₱5.3 million) and US$5.4 million (₱221.7 million) in 2013, 2012 and 2011 respectively. The call option is included as part of “Other current assets” while the put option is included as part of “Other current liabilities” in the consolidated statement of financial position.

AIVPL Group

Note A
In conjunction with the transactions contemplated by the Subscription Agreement among the Borrower, Lender and Actis, in February 2010, Integreon has settled $22.15 million of the total outstanding notes receivables. Consequently, upon settlement of the notes, the marked to market valuation amounting to $1.75 million, which had been recognized in prior years pertaining to the convertible promissory notes of $7.30 million was reversed and charged to “Other expenses” account. Simultaneously, Integreon has issued a new 14% one-year convertible promissory note with a principal of $7.30 million. Certain provisions of the promissory note are as follows:

1. The lender has a conversion option, which set forth that the principal can be converted to Class A-4 preferred shares, for a period of thirty (30) days beginning on the Final Maturity Date at a price of US$55.91 per share.

2. The Borrower has the option to prepay the loan in full or in part together with the accrued interest, which upon exercise shall annul the optional conversion option of the lender on the extent of the principal paid.

On February 15, 2011, AIVPL, Integreon and Actis have approved amendments on the 14% convertible note, with a principal amount of $7.30 million dated February 16, 2010, as follows:

a) The Final Maturity Date is extended to February 15, 2012 and if unpaid, interest shall continue to accrue at the rate of 15% per annum until such time Integreon has settled the note.
b) The Optional Conversion Period shall be from February 16, 2011 through March 15, 2012.
c) The Lender has the right to exercise the Conversion Option as many times during the Optional Conversion Period provided that Conversion amount shall not exceed the principal amount.

As a result of the amendments made on the note, this effectively terminated the rights and obligations of AIVPL associated with the loan. Thus, the derivative liability initially recognized on February 16, 2010 expired. The amended note introduced new rights and these have been recognized as derivative asset in the consolidated statement of financial position.

On July 15, 2012, AIVPL, Integreon and Actis have approved amendments on the 14% convertible note, with a principal amount of $7.30 million dated February 16, 2010, as follows:

a) The Final Maturity Date is extended from February 15, 2012 to February 15, 2014;
b) The Borrower is liable for the principal sum of $7.30 million, plus accrued interest at the rate of a) fourteen percent (14%) p.a. until February 15, 2012; and b) twelve percent (12%) p.a. from February 16, 2012 until the Final Maturity Date.
c) The Optional Conversion Period shall be from February 15, 2014 through March 16, 2015.
d) The Lender has the option to extend the Final Maturity Date to a date that is one (1) year from the immediately preceding Final Maturity Date. This option shall be exercised during the Optional Conversion Period.

The abovementioned amendments to the note effectively terminated the rights and obligations of AIVPL associated with the loan. The derivative asset initially recognized on February 16, 2011 has expired, and thus has been reversed. The amended note introduced new rights and these have been recognized as derivative asset in the consolidated statement of financial position.

As of December 31, 2013 and 2012, the fair value of the compound embedded derivatives representing the Conversion Option and the Term Extension Option amount to $0.65 million and $0.36 million, respectively.

As of December 31, 2013 and 2012, the carrying amount of the note amounted to $7.49 million and $7.68 million, respectively. This is determined using EIR at 11.0%, after the effect of separating the compound embedded derivative upon issuance of the note.

Note B

On April 27, 2012, Stream issued a convertible promissory note to AIVPL amounting to $4.72 million, which bears interest of 10% p.a, compounded annually, calculated on the basis of a 360-day year and actual days elapsed. The note will mature on April 29, 2013.

Certain provisions of the promissory note are as follows:

a) *Conversion option* - The Lender may elect at any time after the Maturity Date, upon delivery of written notice to the Borrower, at least two (2) days prior to the date specified therein for conversion, to convert the note to a number of units of membership interest in Stream, determined by dividing the (i) the outstanding principal amount that has not been repaid, together with all accrued and unpaid interest thereon, as of the date of conversion, by (ii) a conversion price equal to $3.25 per unit, subject to certain adjustments.

b) *Prepayment option* - The Borrower has the option to prepay all (but not less than all) of the unpaid principal balance of the Note, together with all accrued interest thereon and all other sums payable thereunder.

On April 19, 2013, Stream, NewBridge and certain holders of convertible promissory notes entered to an exchange agreement which the original convertible promissory notes issued on April 27, 2012 was amended and restated into new convertible promissory notes dated April 19, 2013. The new convertible promissory note issued to NewBridge amounting to $4.72 million has the following amended provisions:

a) The Final Maturity Date is on April 29, 2014.
b) The Borrower is liable for the principal sum of $4.72 million, plus accrued interest commencing on April 27, 2012 at the rate of 10% p.a. compounded annually, calculated on the basis of a 360-day year and actual days elapsed.
c) The Conversion price shall be equal to $325 per share, subject to certain adjustments.

Management has assessed that the prepayment option is clear and closely-related to the host contract, thus has not been separately accounted for.

Fair Value Changes on Derivatives
The net movements in fair values of the Group's derivative instruments as of December 31 follow (amounts in thousands):

Derivative Assets

	2013	2012
Balance at beginning of year	**₱184,276**	₱122,704
Initial value of long call option	**–**	1,027
Net changes in fair value of derivatives	**389,772**	128,945
	574,048	252,676
Fair value of settled instruments	**(117,280)**	(68,400)
Balance at end of year	**₱456,768**	₱184,276

Derivative Liability

	2013	2012
Balance at beginning of year	**₱–**	₱1,515
Net changes in fair value of derivatives	**3,470**	(1,515)
Balance at end of year	**₱3,470**	₱–

Net changes in fair value of derivative asets and liabilities was recognized in the consolidated statement of income under "Other Income". However, the net changes in fair value of IMI Group's freestanding currency forward are recognized in the consolidated statements of comprehensive income under "Foreign exchange gains (losses)" (see Note 23).

34. Registration with the Philippine Export Zone Authority (PEZA) and Board of Investments (BOI) Incentives

Some activities of certain subsidiaries are registered with the PEZA. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

On March 23, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Laguna, Brgy. Barandal, Calamba City, Laguna. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of four (4) years commencing from March 2011.

On December 13, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Avida Towers Cebu Tower 1, Asiatown I.T. Park, Lahug, Cebu City. The project has been granted an Income Tax Holiday for a period of four (4) years commencing from December 2011.

On December 14, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Avida Towers San Lazaro Tower 5, Lot 5 E Block 50 C Pista St., Brgy. 350, Zone 035 Sta. Cruz, Manila, Avida Towers Cebu Tower 2, Asiatown I.T. Park, Lahug, Cebu City and Avida Towers Sucat Tower 7, Dr. A. Santos Ave., Brgy. San Dionisio, Parañaque City. The projects have been granted an Income Tax Holiday for a period of three (3) years commencing from December 2011.

35. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing and financing activities are as follows:

2013

- Conversion of subscription and advances of the Company from ACEHI amounting to ₱3.4 billion into 33.9 million common shares in 2013.
- In November 2013, the Company acquired 37.6 million ADHI Class B common shares for a total consideration of ₱13.2 billion. Outstanding payable to ADHI arising from this transaction amounted to ₱9.9 billion.
- LAWC's payable to LTI amounting to ₱343.75 million representing 55% of the total purchase price amounting to ₱625.00 million as of December 31, 2013.
- Noncontrolling interest in shares of subsidiary through business combination pertaining to purchase of water assets from LTI amounting to ₱281.96 million.
- Capitalization of office equipment under finance lease amounting to ₱134.5 million.
- Transfers from land and improvements to inventories amounting to ₱14.7 billion.
- Transfers from land and improvements to investment properties amounting to ₱1.5 billion.
- Transfers from inventories to investment properties and property and equipment amounting to ₱26.1 million in 2013.
- Transfers from investment properties to property and equipment amounting to ₱157.4 million.
- Transfers from property and equipment to other assets amounting to ₱2.2 billion.

2012

- Conversion of subscription and advances from ACEHI amounting to ₱2.2 billion into 21.8 million common shares in 2012.
- In 2012, the Company acquired 309.3 million common shares of DBS in BPI and 15.0 million ADHI Class B common shares for a total consideration of ₱21.6 billion and ₱3.98 billion, respectively. As of December 31, 2013 and 2012, outstanding payable to DBS amounted to ₱4.3 billion and ₱12.8 billion, respectively. The decrease in accounts payable and accrued expenses relating to this transaction were classified under investing activities.
- Conversion of receivable from BHL amounting to US$2.7 million (₱110.8 million) into 0.3 million redeemable preferred shares in 2012.
- Subscription of the Company to 1.4 million common shares of AC Infra, which amounted to ₱140.0 million in 2012. The related amount is recorded under subscription payable.
- In 2012, cash activity pertaining to service concession assets amounting to ₱907.8 million and ₱189.2 million were classified under investing and operating activities, respectively.
- Contingent consideration for the purchase of KDW amounting to ₱90.2 million as of December 31, 2012 (see Note 12).
- Capitalization of office equipment under finance lease amounting to $32 million.
- Transfers from land and improvements to inventories amounting to ₱1.2 billion.
- Transfers from investment properties to inventories amounting to ₱116.1 million.
- Transfers from investment properties to property and equipment amounting to ₱96.1 million.
- Transfers from property and equipment to other assets amounting to ₱764.4 million.
- Other noncash items pertain to business combinations in 2012 and 2010 (see Note 24).

2011

- Exchange of interest in ARCH Capital for additional interest in TRG shares (see Note 12).
- Recognition of contingent consideration arising from the acquisition of wind power companies amounting to ₱397.0 million (see Note 24).
- Issuance of 200 million of IMI Philippines' shares in exchange for EPIQ shares (see Note 24).
- Declaration of a 20% stock dividend on all common stockholders of the Company.
- Conversion of notes receivable amounting to ₱47.5 million into Series G Preferred shares of stock of an investee company classified as investments in bonds and other securities.
- Certain investment properties with an aggregate carrying value of ₱15.1 million were donated by the Group to various organizations.

36. Interest in a Joint Operation

MDC has a 51% interest in Makati Development Corporation - First Balfour, Inc. Joint Venture (the Joint Venture), a joint operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig. The application of PFRS 11 does not have significant impact on the Group's accounting of its interest in a joint operation since it already reported its share in interest in a joint operation using proportionate consolidation.

The Project, which started on January 31, 2007, is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 square meters, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation. The project was completed on October 30, 2009. Activities in 2011 to 2013 mainly pertain to winding down operations and punch listing works.

The share of MDC in the net assets and liabilities of the Joint Operation at December 31, 2013 and 2012 and January 1, 2012 which are included in the consolidated financial statements follow:

	2013	2012	2011
		(In Thousands)	
Current assets:			
Cash and cash equivalents	**₱65,045**	₱33,217	₱24,622
Amounts due from customers for contract work	**–**	10,582	10,582
Other current assets	**51,698**	55,317	54,809
Total assets	**₱116,743**	₱99,116	₱90,013
Total liabilities	**₱18,986**	₱49,330	₱66,968

The following is the share of the MDC on the net income of the Joint Venture:

	2013	2012	2011
		(In Thousands)	
Revenue from construction contracts	**₱–**	₱–	₱2,069
Contract costs	**(1,031)**	(994)	(9,687)
Interest and other income	**946**	1,175	2,490
Income (loss) before income tax	**(85)**	181	(5,128)
Provision for income tax	**85**	(181)	(148)
Net loss	**₱–**	₱–	(₱5,276)

The Joint Venture's Management Board declared and paid cash dividends amounting to ₱185.3 million in 2010. Based on 51% share, MDC received ₱94.5 million cash dividends in 2010.

Provision for income tax pertains to the final tax on interest income.

37. Commitments

The Company acted as guarantor to AYCFL's term loans and credit facilities as follows:

Description of Facility	Date Contracted	Amount drawn as of December 31, 2013	2013 Outstanding balance as of December 31	2012 Outstanding balance as of December 31
		(Amounts in thousands)		
US$50.0 million transferable term loan facility	April 15, 2008	US$50,000	**US$–**	US$40,000
US$229.2 million transferable term loan facility	December 16, 2010	229,200	**229,200**	229,200
US$150 million transferable term loan facility	March 28, 2011	50,000	**50,000**	–
US$20.0 million revolving credit facility	September 28, 2012	Undrawn	–	–
US$225 million transferable term loan facility	November 28, 2013	Undrawn	–	–
			US$279,200	US$269,200

The Company unconditionally guaranteed the due and punctual payment of advances if, for any reason AYCFL does not make timely payment. The Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies. The Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the advances.

ALI Group
On February 10, 2010, ALI signed a lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City. The lease commitment is expected to be completed in 2060 after the 50-year lease term. The lease may be renewed for another 25 years upon mutual agreement of the parties. ALI offered to develop a mall with an estimated gross leasable area of 38,000 square meters.

On March 25, 2010, ALI entered into an assignment of lease agreement whereby ALI assigned its rights and obligations granted to or imposed under the lease agreement to its subsidiary, SBTCI. The lease payments to SBMA started from the commencement of the commercial operation of the mall last April 26, 2012 which was completed during the same period.

On October 27, 2006, an ALI subsidiary entered into a land lease agreement with a third party for a term of 25 years. The lease generally provides for a monthly rent based on a certain percentage of gross revenue.

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to a subsidiary, in exchange for equity.

As part of the bid requirement, ALI procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the subsidiary obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

On October 18, 2010, ALI undertook to cause the planning, developing and construction of Anvaya Golf and Sports Club, Inc.'s leisure and recreational facilities. ALI shall ensure the development and construction by second quarter of the year 2013 for an estimated total development cost of ₱920.0 million.

Parent Company's Concession Agreement
In 2012, the Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari - SLEX Link Road (the Project). Under the concession agreement, the Company will:

a. Purchase the advance works on Segment I of the Project from Alabang - Sto. Tomas Development, Inc. and finance and construct the remaining works thereof.
b. Finance, design, and construct Segment II of the Project.
c. Undertake the operations and maintenance of the Project.
d. Impose and collect tolls from the users of the Project.
e. Grant business concessions and charge and collect fees for non-toll user related facilities and toll user related facilities situated in the Project.

The Company is authorized to adjust the toll rates once every two years in accordance with a prescribed computation as set out in the concession agreement and upon compliance with the rules and regulations on toll rate implementation as issued or may be issued by the Toll Regulatory Board.

In the event that the Company is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the concession agreement from the users of the Project, the Company shall be entitled to either of the following:

a. Compensation from the DPWH of the toll income forgone by the Company which shall be calculated based on a prescribed computation under the concession agreement.
b. Extension of the concession period to compensate the Company for the forgone toll income which shall be mutually agreed by the Company and the DPWH.

The Company shall pay the DPWH an amount equal to 5% of all gross revenues arising from non-toll user and toll user related facilities situated within the Project.

The concession period shall commence on the date of the issuance of the Notice to Proceed with Segment II and shall end on the date that is 30 years thereafter, unless otherwise extended or terminated in accordance with the concession agreement. Any extension of the concession period shall in no event be beyond 50 years after the date of the issuance of the Notice to Proceed with Segment II.

As of December 31, 2013 and 2012, the Company's capital commitment for construction of service concession asset amounted to ₱665.8 million.

MWC Group
MWC's Concession Agreement (Agreement)
The significant commitments of MWC under the Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS amounting to US$70.0 million in favor of MWSS as a bond for the full and prompt performance of MWC's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70.0
Second (January 1, 2003 - December 31, 2007)	70.0
Third (January 1, 2008 - December 31, 2012)	60.0
Fourth (January 1, 2013 - December 31, 2017)	60.0
Fifth (January 1, 2018 - December 31, 2022)	50.0
Sixth (January 1, 2013 - December 31, 2027)	50.0
Seventh (January 1, 2028 - December 31, 2032)	50.0
Eighth (January 1, 2033 - May 6, 2037)	50.0

Within 30 days from the commencement of each renewal date, MWC shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.

Upon not less than 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100 million to ₱395 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with MWC);

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. To ensure that at all times, MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

Failure of MWC to perform any of its obligations that is deemed material by MWSS-RO may cause the Agreement to be terminated.

In 2013, MWC submitted the Rate Rebasing Proposals to MWSS for final evaluation as set forth in the Concession Agreement. On September 10, 2013, MWSS-RO issued Resolution No. 13-09-CA providing for the MWSS rate rebasing negative adjustment of negative 29.47% to MWC's 2012 average basic water charge of ₱24.57 per cubic meter. The adjustment was supposed to be implemented in 5 equal tranches of negative 5.894% per charging year. Consequently, MWC objects to MWSS' Rate Rebasing Determination and thus brings the matter before the Appeals Panel, pursuant to the dispute resolution mechanism in the Concession Agreement sections 9.4 and 12. MWC formally filed its Dispute Notice on September 24, 2013, which officially commenced the arbitration process pursuant to the Concession Agreement with MWSS.

On December 10, 2013, the MWSS Board of Trustees thru R.O. Resolution No. 13-012 CA, approved the implementation of a Status Quo for Manila Water's Standard Rates and FCDA for any and all of its scheduled adjustments, until such time that the Appeals Panel has issued the Final Award for the 2013 Rate Rebasing determination. The adjustments resulting from the status quo for FCDA shall be reckoned upon resumption of said adjustments, subject to the principle of no-over recovery or no-under recovery.

<u>LAWC's Concession Agreement</u>
The significant commitments of LAWC under its concession agreement with POL are as follows:

a. To pay POL concession fees;

b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;

c. To design, construct and commission the new facilities during the cooperation period;

d. To provide and manage the services;

e. To bill and collect payment from the customer for all services;

f. To extract raw water exclusively from all sources of Raw Water; and

g. To negotiate in good faith with POL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

<u>BIWC's Concession Agreement</u>
The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. To pay concession fees, subject to the following provisions:
    i. Assumption of all liabilities of the BWSS as of Commencement Date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within the Boracay island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;
    ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;

iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable in semi-annual installments at the first month of each quarter and not exceeding:

Month	Maximum Amount
January	₱10,000,000
July	10,000,000

iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	20,000,000, subject to annual CPI adjustments

c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;

d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

f. To operate, maintain, repair, improve, renew and as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);

g. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and

h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US$2.5 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.5
Second	2.5
Third	1.1
Fourth	1.1
Fifth	1.1

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

Upon not less than 10 days written notice to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

Technical services agreement
Simultaneous with the execution of BIWC's concession agreement, BIWC and MWC executed a Technical Services Agreement by which MWC is being paid by BIWC a technical services fee equivalent to 4% of the annual gross revenue of BIWC, for rendering the following services to BIWC:

a. Financial management, including billing and collection services, accounting methods and financial control devices; and

b. Operations and project management, including facility operations and maintenance, and infrastructure project management.

<u>CWC's Concession Agreement</u>
The significant commitments of CWC under its concession agreement with CDC are follows:

a. To pay franchise and rental fees of CDC;

b. Finance, design, and construct the New Facilities - defined as any improvement and extension works to (i) all Existing Facilities - defined as all fixed and movable assets specifically listed in the Concession Agreement; (ii) the Construction Work - defined as the scope of construction work set out in the Concession Agreement; and (iii) other new works that do not constitute refurbishment or repair of Existing Facilities undertaken after the Commencement Date;

c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the Existing Facilities, except for the private deep wells set out in the Concession Agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the Company; and manage, own, operate, repair, maintain, decommission and refurbish the New Facilities;

d. Treat raw water and wastewater in CSEZ;

e. Provide and manage all water and wastewater related services (the Services) like assisting locator of relocating of pipes and assess internal leaks;

f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

MWC Management Contracts

Vietnam Project
On July 22, 2008, MWC entered into a Performance-Based Leakage Reduction and Management Services Contract with Saigon Water Corporation. The contract involves the following components:

a. General requirements;
b. District Metering Area establishment;
c. Leakage reduction and management services;
d. System expansion work;
d. Emergency and unforseen works; and
e. Daywork schedule

In 2013, 2012 and 2011, total revenue from the Vietnam Project amounted to ₱174.9 million, ₱169.5 million and ₱162.5 million, respectively. Total costs related to the Vietnam Project amounted to ₱96.2 million, ₱124.5 million and ₱171.7 million in 2013, 2012 and 2011, respectively.

MWC contracts with the Maynilad Water Services, Inc. (Maynilad)

In relation to the Concession Agreement with MWSS, MWC entered into the following contracts with Maynilad:

a. Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.

b. Joint Venture Arrangement that will operate, maintain, renew, and as appropriate, decommission common purpose facilities, and perform other functions pursuant to and in accordance with the provisions of the Agreement and perform such other functions relating to the concession (and the concession of the West Zone Concessionaire) as the Concessionaires may choose to delegate to the joint venture, subject to the approval of MWSS.

c. In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Project). Total loan facility is US$116,602,000 with maturity of 20 years including 5 years grace period. Interest rate is 3% per annum. MWSS then entered into a Memorandum of Agreement with MWC and Maynilad for MWC and Maynilad to shoulder equally the repayment of the loan, to be part of the concession fees.

38. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group’s financial position and results of operations.

MWC
On October 13, 2005, the Municipality of Norzagaray, Bulacan jointly assessed the MWC and Maynilad Water Services, Inc. (the "Concessionaires") for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. It is the position of the Concessionaires that these properties are owned by the Republic of the Philippines and that the same are exempt from taxation.

Total provisions for real property taxes amounted to ₱638.7 million, ₱554.8 million and ₱570.0 million as of December 31, 2013, 2012 and January 1, 2012.

The Group is contingently liable for lawsuits or claims filed by third parties (substantially labor-related and civil cases) which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. The Group has been advised by its internal and outside counsels that it is possible, but not probable, that the actions will succeed and accordingly, no provision for probable losses on these cases was recognized.

39. Assets Held in Trust

MWSS
MWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or MWC.

The Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to MWC on Commencement Date based on MWSS' closing audit report amounted to ₱4.6 billion with a sound value of ₱10.4 billion.

A re-appraisal of the MWSS facilities mentioned above as of December 31, 2004 was conducted by Cuervo Appraisers. The final appraisal report was submitted last November 2006 showing a total reproduction cost of ₱27.0 billion with a sound value of ₱17.2 billion.

In 2009, MWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of the MWSS assets on record as of December 31, 2008. Total reproduction cost as of December 31, 2008 amounted to ₱37.7 billion with a sound value of ₱22.9 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On October 27, 2006, MWC has renewed the lease for 5 years, with expiry of October 27, 2011. Rent expense amounted to ₱17.0 million and ₱19.8 million in 2013 and 2012, respectively. These are included under "Rental and utilities" in the consolidated statement of income.

POL
LAWC is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with POL. The legal title of all property in existence at the commencement date shall be retained by POL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to POL in its then condition at no charge to POL or LAWC.

In 2011, LAWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of POL assets on record as of December 31, 2010. Total reproduction cost as of December 31, 2010 amounted to ₱434.5 million with a sound value of ₱205.9 million.

TIEZA
BIWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to TIEZA in its then-current condition at no charge to TIEZA or MWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.3 million.

CDC
CWC is granted the right to occupy, operate, repair, maintain, decommission and refurbish all fixed and movable assets specifically listed in the concession agreement with CDC. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by CWC on the facilities as well as title to new facilities procured by CWC in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

The net book value of the facilities transferred to CWC on commencement date based on CDC's closing audit report amounted to ₱1.376 billion.

40. Renewable Energy Act of 2008

Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective on January 30, 2009. The Act aims to:
(a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems,and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, Renewable Energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the Department of Energy (DOE), in consultation with the Board of Investments, shall be entitled to the following incentives, among others:

i. Income Tax Holiday (ITH) - For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;

Duty-free Importation of RE Machinery, Equipment and Materials - Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;

ii. Special Realty Tax Rates on Equipment and Machinery - Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed one and a half percent (1.5%) of their original cost less accumulated normal depreciation or net book value;

iii. NOLCO - the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;

iv. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of ten percent (10%) on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;

v. Accelerated Depreciation - If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;

vi. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy shall be subject to zero percent (0%) VAT;

vii. Cash Incentive of RE Developers for Missionary Electrification - An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to fifty percent (50%) of the universal charge for power needed to service missionary areas where it operates the same;

viii. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

ix. Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass will be promulgated which shall include, but not limited to, the following:

a. Priority connections to the grid for electricity generated from emerging renewable energy resources;
b. The priority purchase and transmission of, and payment for, such electricity by the grid system operators; and
c. Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years.

The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in the Act and in accordance with the feed-in-tariff rules to be promulgated by the Energy Regulatory Commission (ERC) in consultations with the National Renewable Energy Board. On July 27, 2012, ERC approved the feed-in tariff of 8.53kWh for wind renewable energy resource. The approved subsidy will be reviewed and readjusted, if necessary, after its three-year initial implementation or when the target installed capacity for each renewable resource set by the DOE has been met.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act. On May 25, 2009, the DOE issued the Implementing Rules and Regulations of the Act which became effective on June 12, 2009.

ACEHI and its subsidiaries expect that the Act will impact their future operations and financial results. The impact of the Act will be disclosed as the need arises.

Northwind
On January 18, 2010, Northwind filed its intent with the REMB for the conversion of its Negotiated Commercial Contract into Wind Energy Service Contract and Registration as RE Developer as provided for under the Act. On November 9, 2010, the DOE issued a Provisional Certificate of Registration as an RE Developer in favor of Northwind, subject to negotiation and execution of a Wind Energy Service Contract to replace the Negotiated Commercial Contract.

On April 6, 2011, Northwind filed with the ERC an application for a FiT. The FiT will provide for a fixed rate per kilowatt of electricity produced over a period of fifteen years. On June 6, 2011, the ERC granted Northwind a provisional FiT rate of ₱9.30 per kilowatt hour which shall be effective and collected only upon the final approval of the FiT for emerging renewable energy technologies, specifically for wind energy.

41. Events after the Reporting Period

The Company

a) In January 2014, the Parent Company obtained a 5-year peso loan from BPI amounting to ₱8 billion. The loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of sixty basis points (0.60%) per annum or 95% of the BSP RRP, whichever is higher.

b) On January 3, 2014, the Parent Company paid cash dividends on common shares of ₱2.40 per share to common shareholders of record as of December 19, 2013.

AC Infrastructure Holdings Corporation

a) On January 30, 2014, the Department of Transportation and Communications (DOTC) notified the AF Consortium composed of AC Infrastructure Holdings Corporation, BPI Card Finance Corporation, Globe Telecom, Inc., Meralco Financial Services Corporation, Metro Pacific Investments Corporation and Smart Communications Inc., as the winning bidder for the ₱1.72-billion contactless Automatic Fare Collection System Project (AFCS). The AFCS will upgrade the Light Rail Transit and Metro Rail Transit ticketing system by speeding up payments, reducing queuing time and allowing passengers seamless transfers from one rail line to another.

Bank of the Philippine Islands

a) On November 6, 2013, the BOD of BPI approved the offering for subscription of up to 370.4 million common shares of BPI by way of a stock rights offering to eligible registered holders of common shares as of January 16, 2014 at the entitlement ratio of 1 rights share for every 9.602 existing common shares held by such eligible shareholders. The stock rights offer started on January 20, 2014 and ended on January 30, 2014 (see Note 12).

b) On November 6, 2013, the BOD of BPI approved the declaration of cash dividend on common shares of ₱0.90 per share to common shareholders of record 15 working days from receipt of approval of the BSP and distributable on the 15th working day from said record date. The BSP approved the dividend declaration on December 6, 2013 to stockholders of record as of January 3, 2014 and payable on January 24, 2014.

c) On January 20, 2014, the offer period for the stock rights offering of BPI started at an offer price of ₱67.50 per rights share. The offer period on January 30, 2014 wherein AC, MHI and ADHI participated in the stock rights offering by subscribing to 114.4 million, 7.7 million and 58.9 million common shares, respectively, amounting to ₱7.7 billion, ₱0.5 billion and ₱3.98 billion, respectively.

LiveIt Investments, Ltd.

a) On January 7, 2014, LiveIt Investments Ltd., together with Ares Management and Providence Equity Partners, sold their 100% ownership interest in Stream Global Services Inc. to Convergys Corporation (See Note 41).

Ayala International Holdings, Inc.

a) Ayala International Holdings, Ltd., a subsidiary of BHI, acquired an approximately 17 percent ownership interest in GNPower Mariveles Coal Plant Ltd. Co. (GMCP) under the terms of the Sale and Purchase Agreement that it entered into with an affiliate of a fund advised by Denham Capital. GMCP is the owner of the 600-megawatt coal-fired power plant in Mariveles, Bataan. Total consideration in relation to this transaction amounted to US$162 million.

Globe Telecom Inc.

a) On February 10, 2014, the BOD of Globe approved the declaration of the first semi-annual cash dividend on common shares of ₱37.50 per share to stockholders of record as of February 26, 2014.

Ayala Land, Inc.

a) On January 24, 2014, ALI entered into a Joint Venture Agreement with AboitizLand, Inc. for the development of an approximately 15-hectare property in Mandaue City into a mixed-used city center. ALI subsequently assigned to its subsidiaries, Cebu Holdings, Inc. and Cebu Property Ventures & Development Corporation, the right to subscribe to ten percent (10%) and five percent (5%), respectively, of the authorized capital stock of the joint venture company that will be established. ALI shall retain the remaining thirty five percent (35%) stake in the joint venture company.

b) On February 21, 2014, the BOD of ALI approved the following:
   - Declaration of cash dividend on common shares of ₱0.21 per share to stockholders of record as of March 7, 2014.
   - Declaration of annual cash dividends of 4.75% per annum or ₱0.0047 per share on the unlisted voting preferred shares to all shareholders of record as of June 16, 2014
   - Issuance of bonds in the amount of ₱15 billion with a tenor of up to 11 years.
   - Acquisition of 40% interest in Philippine Integrated Energy Solutions, Inc. (PhiEnergy) of Mitsubishi Corporation. PhilEnergy will be a wholly-owned subsidiary of ALI after the transaction.

Manila Water Company, Inc.

a) On January 9, 2014, LagunaAAA Water Corporation, a subsidiary of MWCI, signed a Third Omnibus Loan and Security Agreement with the Development Bank of the Philippines through the Philippine Water Revolving Fund amounting to ₱833 million.
b) On February 20, 2014, the BOD of MWC approved the following:
   - Declaration of cash dividend of ₱0.40 per share on the outstanding common share and ₱0.04 per share on the outstanding participating preferred shares to stockholders of record as of March 6, 2014.
   - Commitment to provide up to 85% of the funding requirements of its corporate social responsibility arm, Manila Water Foundation, Inc.
   - Infusion of additional equity investment in its wholly owned Singapore subsidiary, Manila Water Asia Pacific Pte. Ltd. in the amount of US$45,000 for its operational purposes

Integrated Micro-Electronics, Inc.

a) On February 17, 2014, the BOD of IMI approved the declaration of the cash dividend on common shares of US$0.00140 or ₱0.06 per share to stockholders of record as of March 3, 2014.

AYC Finance, Ltd.

a) In January, 2014, AYC Finance, Ltd. entered into a loan with a foreign bank, with the Company as guarantor, for US$345 million at a rate of ranging from 0.87% to 1.35% basis points over the 1-, 3- or 6- month LIBOR at AYCFL's option.

42. Approval of the Consolidated Financial Statements

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2013, 2012 and 2011 and for each of the three years in the period ended December 31, 2013 were endorsed for approval by the Audit and Risk Committee on March 5, 2014 and authorized for issue by the Board of Directors (BOD) on March 10, 2014.

Glossary

EBITDA

Earnings before interest, taxes, depreciation and amortization

ROE

Return on equity (net income attributable to equity holders/ average equity attributable to equity holders)

TSR CAGR

Compounded annual growth rate of total shareholder return

EPS BASIC

Earnings per share (net income attributable to equity holders/ average outstanding common shares)

EPS DILUTED

Earnings per share adjusted for dilutive effect of the Company and subsidiaries' employee stock options

CURRENT RATIO

Total current assets / total current liabilities

DEBT-TO-EQUITY RATIO

Total short-term loans and long-term debt / equity attributable to equity holders

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Shareholder Services and Assistance
For inquiries regarding dividend payments, change of address and account status, and lost or damaged stock certificates, please write or call:

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