Let's pioneer the future

2014 Annual Report

Ayala


CAMALOT XyflexPro+


Welcome to Volkswagen

The ability to continuously change to pursue different ways of thinking and doing business is the very lifeblood of Ayala. For over 180 years, we have pioneered in real estate, banking, telecommunications, water infrastructure, electronics manufacturing, business process outsourcing, and automotive dealership to sustain and enhance all our brands and the lives we touch. As we continue to grow our portfolio and set new tracks in power generation, transport infrastructure, and education, we invite you to dream big and to continue pioneering the future with us.

Let’s pioneer the future

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.

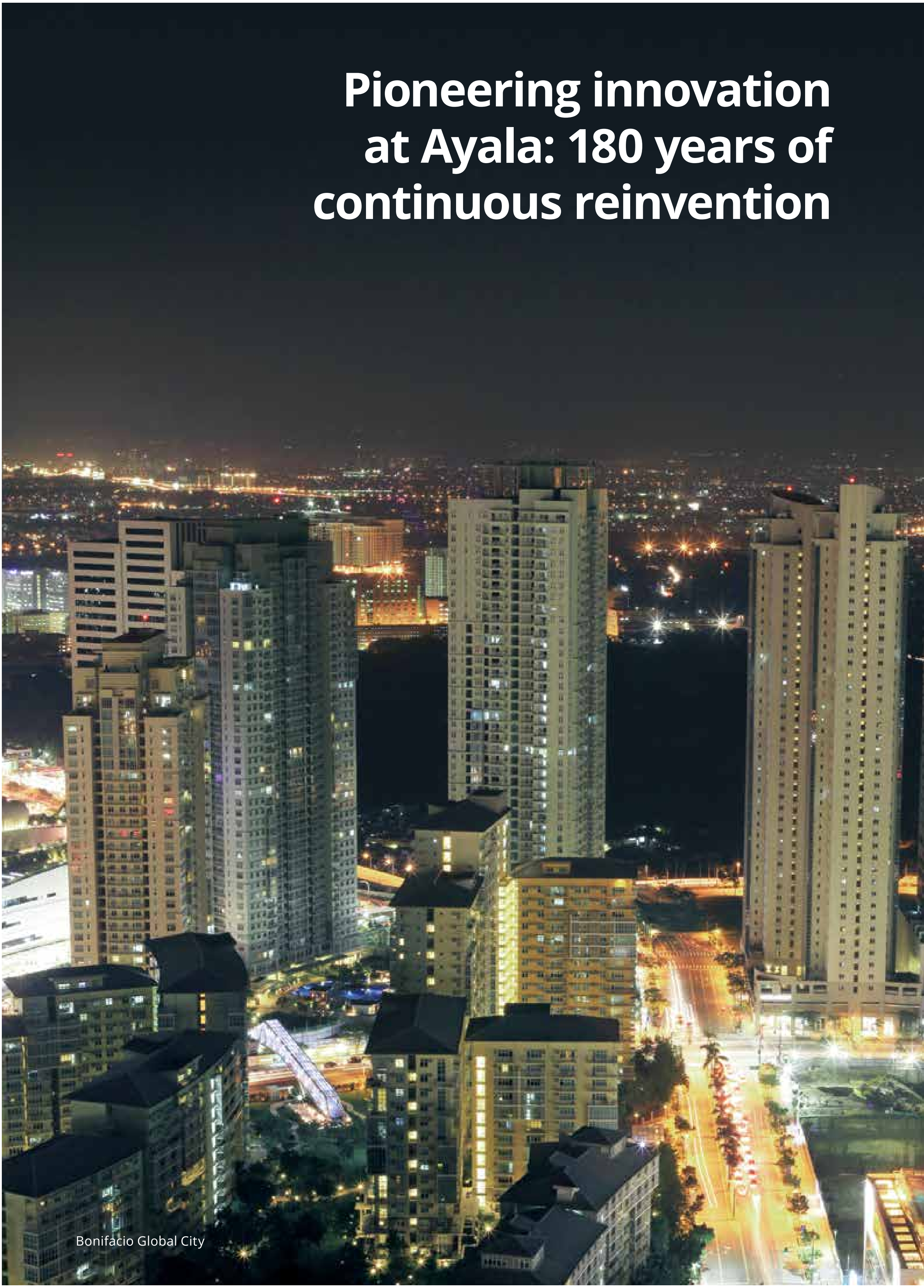
Anchored on values of integrity, long-term vision, empowering leadership, and with a strong commitment to national development, it fulfills its mission to ensure long-term profitability and value creation. Ayala provides career opportunities and creates synergies as it builds mutually beneficial partnerships 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.

Our Vision

By looking to the future and the potential it holds, Ayala has pioneered many firsts.

Our heritage in the Philippines and our reputation as a trusted international partner give us the confidence today to draw upon our unique experience, resources, and capabilities to tackle the challenges of tomorrow. Key to the future are our corporate citizens who we respect for their integrity, reward for their intelligent risk-taking, and support in their determination to make things happen. Through them we seek to pioneer a future where innovation thrives and where all our business practices make a positive contribution to the social, economic, and environmental development of the communities we serve.

Pioneering innovation at Ayala: 180 years of continuous reinvention



Bonifacio Global City

On its 180th year, Ayala continues to energize the spirit of adventure and innovation that had led our founders to explore new lands and pursue new frontiers since 1834. Keeping faith with the trailblazing and visionary spirit, our ventures have resulted into many groundbreaking businesses that have helped shaped many industries and the country's commercial history.

In our quest to push the boundaries of entrepreneurship to bring more good to more people, we have strived to continuously challenge our assumptions on what it means to do business, and how our decisions and actions can leave lasting, positive changes for society at large.

By placing a premium on constant reinvention, collaboration, and the highest standards of governance, the Ayala group of companies continues to navigate the complex maze of three centuries to become one of the largest and most respected business houses in the Philippines.

As we conclude the commemoration of Ayala's 180th anniversary in 2014—the first Philippine company to mark such a milestone—we look forward to an even brighter future by expanding our portfolio, introducing new and better products and services, improving internal efficiencies, exploring innovative ways of funding investments, developing new markets, and becoming a truly global corporate citizen.

Pioneering innovation has long been a hallmark of the Ayala group.

At Ayala, innovation means a variety of things. It means the development of new products, gadgets, devices, or technological breakthroughs that impact our daily lives. Innovation also means improving our day-to-day work, finding new ways of doing things to more efficiently and better serve our customers. Innovation is also about exploring new frontiers—penetrating new markets and creating completely new businesses. At a much larger scale, innovation is also about searching for potentially disruptive movements or game-changing developments that shift entire industries and societies.

Ultimately, we believe innovation is about creating something "different"—something better and more impactful. At the heart of it, innovation is identifying ways to create and add value.

We have a rich and established heritage of innovation at the Ayala group.

Bank of the Philippine Islands issued the nation's first ever banknotes and pioneered rural banking. More than a century later, BPI introduced 24-hour ATM banking, next-generation POS terminals, as well as various online and mobile banking innovations for the digital age.

We created a game-changing master plan that would transform Makati into the country's premier business center. Today, Ayala Land continues our tradition of large-scale urban planning with the development of other estates such as Bonifacio Global City and NUVALI. We have also delivered new solutions that cater to different market segments, introducing more affordable residential brands and real estate products.

In the 1990s, we identified disruptive trends in telecommunications and water utilities, and invested aggressively to build Globe Telecom and Manila Water. Today, Globe and Manila Water are leaders in their respective fields, and stand as benchmarks for product innovation, technology and infrastructure development, and leading-edge operational capabilities in each of their industries.

Through our electronics manufacturing business, we remain closely attuned to disruptive technology trends globally. In fact, at Integrated Micro-Electronics, our team of designers and engineers around the world are constantly experimenting with highly innovative technologies for automation and robotics.

At Ayala, we remain committed to our pioneering spirit and continue to challenge ourselves to innovate and reinvent ourselves.

In real estate, we continue to push the thinking around the development of liveable, sustainable, and smarter cities. Rapid urbanization has made us vulnerable to the impacts of climate change, consumption, resource use, and waste. At Ayala Land, we have started to integrate sustainability focus areas such as disaster-risk reduction, pedestrian and transit connectivity, and eco-efficiency in our various developments. Harnessing our expertise in urban planning, design, resource efficiency, analytics, and cutting edge

technology, our goal is to make our highly urbanized centers more livable, more convenient, more accessible, and more sustainable.

Through BanKO, our innovative microfinance venture with Globe and BPI, we continue to reach out to the vast majority of the population who have no access to banking services. By combining our banking and telecommunications expertise, BanKO aims to serve the 'unbanked' segment using mobile solutions delivered through a wide network of partner outlets, allowing access to savings and credit solutions, and consequently providing more opportunities for entrepreneurship, productivity, and a higher quality of life. To date, BanKO has nearly one million customers and more than 4,500 partner outlets where customers can cash in, cash out, and perform other banking transactions, enabling a sustainable mobile banking ecosystem.

We have also begun to lay the groundwork for innovation in the education space. Ayala Education has developed a pioneering education model designed to help expand the access of middle and lower income students to quality basic and higher education at an affordable cost, with the end goal of enhancing the employability of graduates. In partnership with UK-based Pearson, Ayala Education has set up APEC (Affordable Private Education Center) Schools, a chain of 12 high schools that offers innovative teaching methods at an affordable price. In higher education, we have launched LINC (Learning with Industry Collaboration) together with several university partners. LINC significantly increases the employability rate and starting salaries of its graduates by leveraging technology and strong industry partnerships, providing students with an English immersion environment, and focusing on job simulations, critical thinking, and skills relevant to entry-level business employment.

Finally, through Globe's Kickstart Ventures, we are harnessing entrepreneurship and supporting early-stage startups in the technology, mobile and digital spaces. Since its inception in 2012, Kickstart has become the Philippines' most active early-stage investor. Its portfolio includes some of the country's most promising tech startups that are innovating in the retail and e-commerce, finance, health, education, and social impact areas, using technology to address customer needs and persistent social issues.

These are examples of how the Ayala group continues to look for game-changing innovations—new ideas, new products and services, new businesses, and new ways of doing things that add greater value and enrich lives. As a group, we have always strived to stay relevant and dynamic, continuously seeking new ways to evolve in line with the development of our country, the people we serve, and the communities we operate in. This has been a key pillar to our longevity and success, and we remain steadfast in our commitment to pioneer change and innovate for the future.

A livable and sustainable community in NUVALI;
Technology start-up company presentation to Kickstart Ventures
Opposite page: Ayala group CEOs at the conglomerate's
1st Innovation Day in 2014

Ayala at a Glance

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

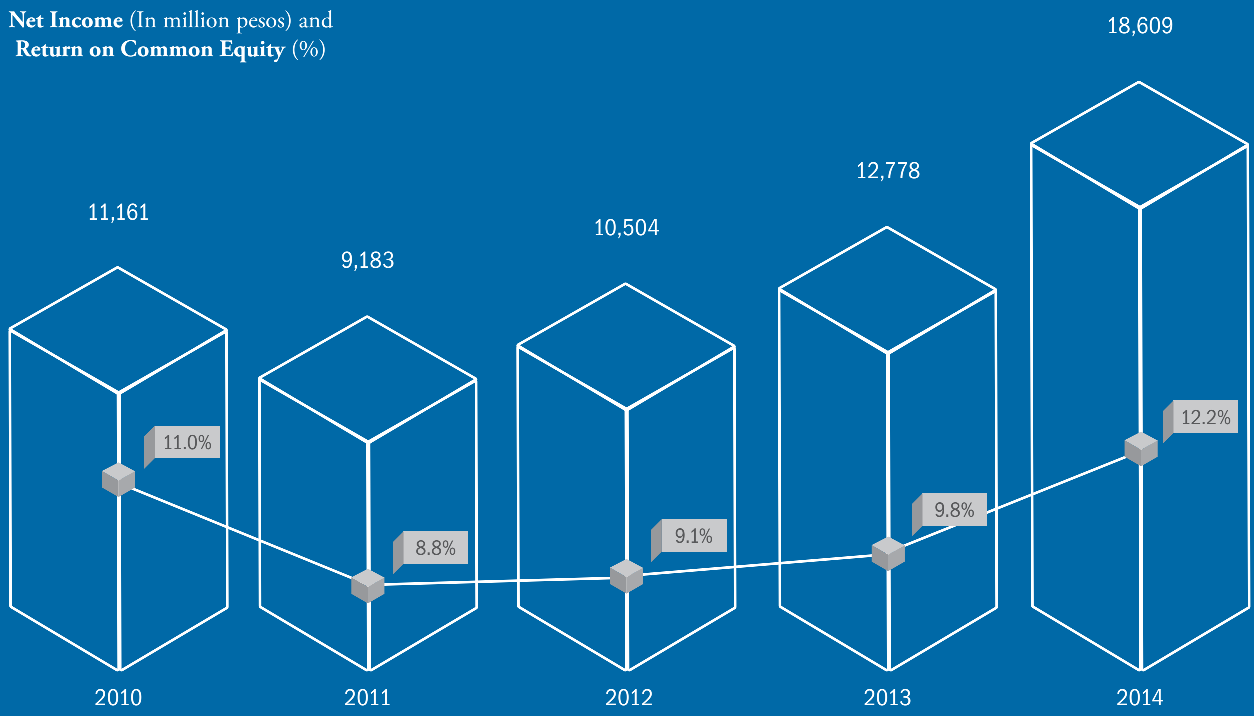
₱18.6B

2014 Net Income Attributable to Equity Holders

Five-Year Average Net Income Growth	Five-Year Average Return on Common Equity	Five-Year Total Shareholder Return CAGR
20.2%	**10.2%**	**24.0%**

726,048	**184,276**	**90,770**	**29.83**	**1.50**
Total Assets (In million pesos)	**Revenues** (In million pesos)	**Cash and Cash Equivalents** (In million pesos)	**Earnings per Share** (In pesos)	**Current Ratio**

Net Income (In million pesos) and **Return on Common Equity** (%)

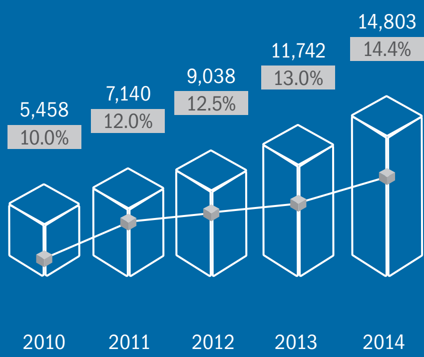


AyalaLand

Ayala Land Inc. is the leading developer of large-scale, mixed-use, and integrated estates in the Philippines.

Five-Year Average Net Income Growth (%)	Five-Year Average Return on Equity (%)	Five-Year Total Shareholder Return CAGR (%)
29.7	12.4	27.6

Net Income (In million pesos) and **Return on Equity** (%)

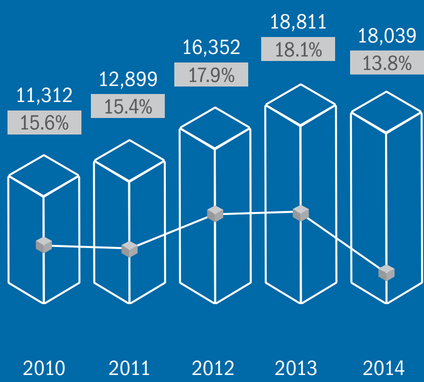


BPI

Founded in 1851, Bank of the Philippine Islands is an acknowledged leader in Philippine banking.

Five-Year Average Net Income Growth (%)	Five-Year Average Return on Equity (%)	Five-Year Total Shareholder Return CAGR (%)
16.9	16.2	21.0

Net Income (In million pesos) and **Return on Equity** (%)

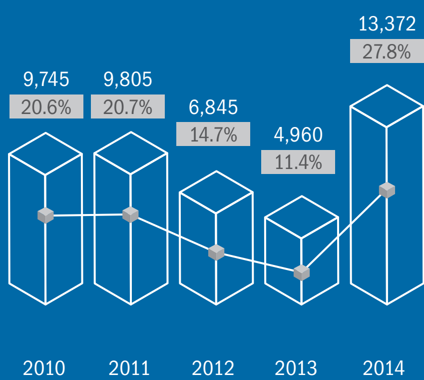


Globe

Globe Telecom Inc. is a major provider of telecommunications services that operates one of the largest and most technologically advanced mobile, fixed line, and broadband networks in the country.

Five-Year Average Net Income Growth (%)	Five-Year Average Return on Equity (%)	Five-Year Total Shareholder Return CAGR (%)
18.0	19.0	21.1

Net Income (In million pesos) and **Return on Equity** (%)

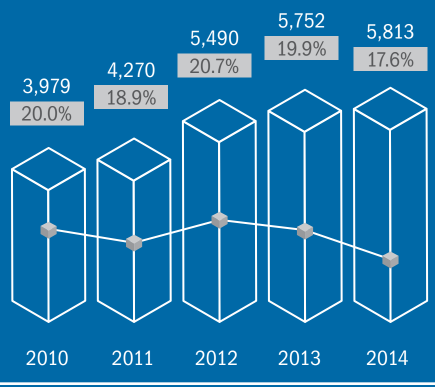


![MANILA WATER]

Manila Water Company Inc. is the sole provider of water and used water services in Metro Manila's East Zone and has new concessions in other growth areas and operations outside the Philippines.

Five-Year Average Net Income Growth (%)	Five-Year Average Return on Equity (%)	Five-Year Total Shareholder Return CAGR (%)
13.0	**19.4**	**16.0**

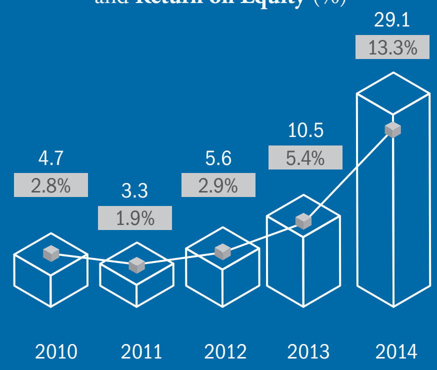
Net Income (In million pesos) and **Return on Equity** (%)



Integrated Micro-Electronics Inc. is a leading provider of electronics manufacturing services and power semiconductor assembly and test services in the region.

Five-Year Average Net Income Growth (%)	Five-Year Average Return on Equity (%)
50.2	**5.3**

Net Income (In million US dollars) and **Return on Equity** (%)



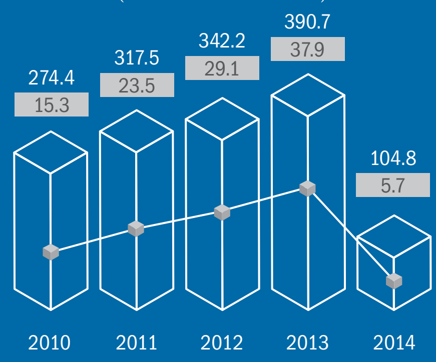
LiveIt Investments Ltd. is the holding company for Ayala's investments in the business process outsourcing sector.

Five-Year CAGR Excluding Stream*

Share of Revenues (%)	Share of EBITDA (%)
9.0	**79.0**

** Stream was sold in March 2014 for a net gain of $41 million and net proceeds of $139 million*

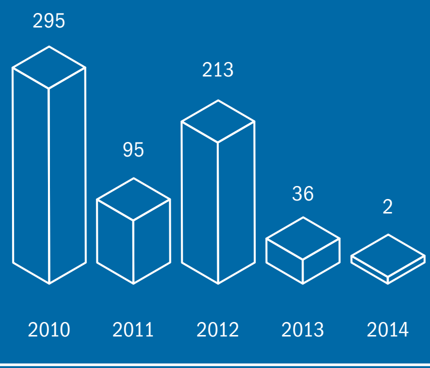
Share of Revenues and **EBITDA Including Stream, Except in 2014***
(In million US dollars)



AYALA AUTOMOTIVE

Ayala Automotive Holdings Corporation has the leading vehicle dealership network of both Honda and Isuzu brands and the distributorship and dealership network of Volkswagen passenger cars in the Philippines.

Net Income (In million pesos)

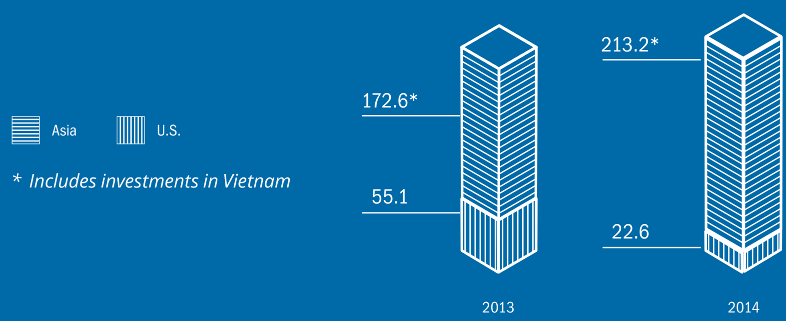


AG Holdings

A member of the Ayala group of companies

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

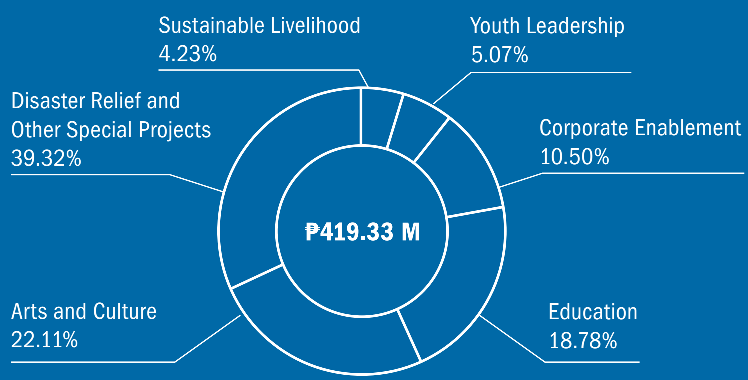
Net Asset Value
(In million US dollars)



Ayala Foundation

Ayala Foundation Inc. is the conglomerate's social development arm with four key program areas—Education, Youth Leadership, Sustainable Livelihood, and Arts and Culture.

2014 Uses of Funds



Five-Year Consolidated Financial Highlights

	AYALA LAND					BANK OF THE PHILIPPINE ISLANDS				
	2014	2013	2012[1]	2011[1]	2010	2014	2013	2012[1]	2011[1]	2010
FOR THE YEAR (In million pesos)										
Revenues	95,197	81,523	59,932	47,668	37,814	55,787	52,498	47,385	41,758	38,407
Net Income Attributable to Equity Holders	14,803	11,742	9,038	7,140	5,458	18,039	18,811	16,352	12,899	11,312
Cash Dividends to Common Shares	5,871	4,067	2,856	1,911	1,211	7,076	6,401	8,180	6,401	6,122
Cash Dividends to Preferred Shares	62	62	46	60	60					
AT YEAREND (In million pesos)										
Total Assets	388,944	325,474	254,116	166,399	121,675	1,450,197	1,195,364	985,241	843,565	878,146
Cash and Cash Equivalents	34,586	40,761	32,122	27,286	18,019	250,373	270,179	142,372	106,154	146,638
Short-Term Investments	301	17	17	195	1,434	67,171	92,153	128,501	86,359	123,972
Total Borrowings	124,666	101,902	74,778	39,041	20,971	33,680	28,230	33,315	25,853	31,868
Equity Attributable to Equity Holders	106,940	98,470	81,993	62,184	56,857	144,063	104,535	96,696	86,939	81,031
PER SHARE (In pesos)										
Earnings - Basic	1.05	0.84	0.68	0.55	0.41	4.62	5.19	4.60	3.63	3.38
Earnings - Diluted	1.05	0.83	0.67	0.55	0.41	4.62	5.19	4.60	3.63	3.38
Book Value of Common Shares	7.44	6.86	5.87	4.67	4.26	36.64	29.37	27.19	24.45	22.78
Cash Dividend to Common Shares	0.41	0.29	0.21	0.15	0.09	1.80	1.80	2.30	1.80	1.80
FINANCIAL RATIOS										
Current Ratio	1.22	1.45	1.41	1.64	1.67					
Debt-to-Equity Ratio	1.17	1.04	0.91	0.63	0.37					

1 Restatement pertains to impact of adoption of new accounting standards on employee benefits (PAS 19) and on consolidation (PFRS 10)
2 In million US dollars, except for share data in US dollars
Please refer to page 282 for the glossary of financial terms

	AYALA CORPORATION				
	2014	2013	2012[1]	2011[1]	2010
FOR THE YEAR (In million pesos)					
Revenues	184,276	159,412	130,571	110,828	98,071
Net Income Attributable to Equity Holders	18,609	12,778	10,504	9,183	11,161
Cash Dividends to Common Shares	2,928	2,877	2,344	2,124	1,945
Cash Dividends to Preferred Shares	1,281.4	529	543	554	944
AT YEAREND (In million pesos)					
Total Assets	726,048	599,664	510,904	369,039	315,370
Cash and Cash Equivalents	90,770	65,655	80,286	56,297	53,143
Short-Term Investments	1,103	119	297	1,613	3,994
Total Borrowings	258,845	205,681	175,085	111,268	82,837
Equity Attributable to Equity Holders	185,664	143,476	124,098	106,353	107,541
PER SHARE (In pesos)					
Earnings - Basic	29.83	20.53	17.03	14.17	17.13
Earnings - Diluted	29.35	20.39	16.92	14.07	17.01
Book Value of Common Shares	261.63	230.68	208.78	183.98	164.37
Cash Dividend to Common Shares	4.80	4.80	4.00	4.00	4.00
FINANCIAL RATIOS					
Current Ratio	1.50	1.46	1.46	1.76	1.89
Debt-to-Equity Ratio	1.39	1.43	1.41	1.05	0.77

	GLOBE TELECOM				
	2014	2013	2012[1]	2011[1]	2010
	99,025	90,500	82,742	77,765	72,739
	13,372	4,960	6,845	9,805	9,745
	9,953	8,877	8,606	8,206	10,588
	286	24	33	81	–
	179,507	159,079	148,012	130,065	130,628
	16,757	7,421	6,760	5,159	5,869
	65,276	69,301	61,779	48,679	50,371
	54,542	41,639	45,698	47,586	46,869
	100.60	37.25	51.45	73.81	73.29
	100.36	37.22	51.38	73.57	73.12
	330.03	308.05	339.15	353.55	348.15
	75.00	67.00	65.00	62.00	80.00
	0.77	0.65	0.74	0.60	0.61
	1.20	1.66	1.35	1.02	1.07

	MANILA WATER				
	2014	2013	2012[1]	2011[1]	2010
	16,357	15,926	14,553	12,004	11,013
	5,813	5,752	5,490	4,270	3,979
	1,611	1,560	1,214	1,138	934
	362	346	278	264	224
	74,860	72,858	67,127	60,897	48,621
	6,052	6,780	5,540	5,235	2,413
	400	94	–	658	1,546
	25,471	26,252	24,071	23,268	14,134
	34,508	30,477	26,488	22,538	19,815
	2.36	2.34	2.24	1.71	1.85
	2.36	2.34	2.23	1.71	1.85
	16.66	14.92	13.01	10.79	9.43
	0.81	0.76	0.60	0.56	0.46
	1.16	1.12	0.83	1.24	1.09
	0.74	0.86	0.91	1.03	0.71

	INTEGRATED MICRO-ELECTRONICS[2]				
	2014	2013	2012[1]	2011[1]	2010
	844	745	662	575	412
	29.1	10.5	5.6	3.3	4.7
	2.3	–	–	1.4	3.0
	0.8	0.9	2.7	4.9	2.4
	553	488	453	442	339
	118	49	56	54	38
	100	93	91	79	56
	244	193	194	185	169
	0.017	0.006	0.002	0.001	0.002
	0.017	0.006	0.002	0.001	0.002
	0.13	0.10	0.10	0.10	0.11
	0.0014	–	–	0.0010	0.0024
	1.73	1.53	1.56	1.51	1.23
	0.41	0.48	0.47	0.43	0.33

We remain committed to continuing our pioneering tradition, committed to touching many aspects of Filipinos' lives, committed to aligning our goals to the national agenda and reshaping industries that we believe are integral in sustaining our country's economic growth.

Chairman's Message

Fellow Shareholders:

Over the last few years, the Philippines has found itself in a unique period of economic opportunity as the country continued to reap the gains of a revitalized economy. The country has continued on a steady path of growth as the economy surpassed forecasted expectations, even as the global economic environment continued to remain volatile.

At Ayala, we capitalized on the positive economic momentum and pursued an aggressive growth strategy. 2014 was a strong year for the Ayala group, with net earnings growing by nearly half over the previous year and reaching a record high. We saw our stock price close at ₱694 per share at the end of the year, a 38 percent growth from last year, with our market capitalization reaching the ₱430 billion mark as of December 31, 2014.

Most of our major business lines did well in 2014, with combined equity earnings from all our listed businesses growing by 28 percent. Our core businesses in real estate, telecommunications, and water distribution attracted investment and growth opportunities in their individual sectors, compensating for the relatively flat earnings from our banking unit. In addition, our international businesses registered significant growth in earnings in relative terms.

We continued to strengthen our new portfolio of businesses in power generation and transport infrastructure, two sectors that we believe are critical pillars needed to support and sustain our country's economic growth well into the future. To date, we have committed combined equity contributions of nearly $1 billion to these two sectors, and achieved significant milestones in both of these spaces over the last year.

In the power sector, we believe we have assembled a strong portfolio of conventional and renewable energy projects. In 2014, we completed the commissioning of our new 81 megawatt wind farm, North Luzon Renewable Energy Corporation, as well as the successful 19 MW expansion of Northwind. In December 2014, we also achieved financial close for GNPower Kauswagan, a 540 MW coal facility in Lanao Del Norte.

In transport infrastructure, our consortium won the bid for the redevelopment and extension of LRT Line 1, the largest public-private partnership project awarded today. We believe this is a significant addition to our growing portfolio of PPP infrastructure projects, which includes our Muntinlupa-Cavite Expressway and our automated rail ticketing system.

Looking forward, we continue to be optimistic about our Philippine business climate and our group's overall growth trajectory. For 2015, we have set aside ₱185 billion in combined group capital spending, mainly to support the aggressive expansion plans of our real estate and telecommunications units as well as continued investments in our power and infrastructure initiatives. At the parent level, we will focus on the effective execution of our existing power and infrastructure projects, but, in parallel, we continue to be on the lookout for new value enhancing opportunities in these sectors. All these efforts support our strategic imperatives of increasing our return on common equity to 15 percent, and generating at least 10 percent equity earnings contribution from our non-listed businesses. We are optimistic we can achieve our ₱20 billion net income target in 2015, a year ahead of the plan.

Ayala, now more than ever, is in a steeper growth trajectory. As this unprecedented growth in the economy continues to present attractive opportunities, we continue to challenge ourselves to innovate and to re-invent ourselves as we seek to address new opportunities. Across all of our businesses, we are pushing ourselves to constantly think of new ways to create greater value for our customers and the markets we serve. We remain watchful of disruptive trends and seek opportunities to find new businesses and new sources of growth. We have also started innovative, pocket-sized business platforms, in various sectors, including education and healthcare; sectors that we believe will be increasingly important to inclusive growth in the years to come.

We are also of the firm belief that the only way our country's growth can be truly sustainable is if progress is felt across all segments of the population. Our larger goal at the Ayala group is to continue to find ways to create shared value and inclusive growth. We believe that we can play a key role in providing products and services that meet a broader set of needs, at new price points, with initiatives such as Ayala Land's affordable housing products, or our microfinance venture with Globe and BPI called BanKO. We have embedded this concept of shared value into the core of our businesses and into the very fabric of our operations.

In closing, we are excited about the future and the prospects it brings. We remain committed to continuing our pioneering tradition, committed to touching many aspects of Filipinos' lives, committed to aligning our goals to the national agenda and reshaping industries that we believe are integral in sustaining our country's economic growth.

We thank our board of directors for their rigor and engagement across a variety of working committees, our management team for their continued effective professional commitment, our many business partners for their willingness to work hand in hand with us, and our fellow shareholders for their continued support, confidence and trust in Ayala. We look forward to an enduring partnership as we continue to pioneer the future.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

President's Report

Fellow Shareholders:

We are pleased to report that Ayala's consolidated net income grew by 46 percent to ₱18.6 billion, primarily driven by the solid performance of our real estate, telecommunications, and electronics manufacturing units, and boosted by a net gain from the sale of one of our business process outsourcing assets, Stream Global Services. This compensated for the lower contribution from our banking unit. Ayala's strong earnings performance was bolstered by the 42 percent jump in equity earnings, which reached ₱24.9 billion, and translated to our return on common equity improving to 12.2 percent.

Without the impact of the accelerated depreciation from our telecom unit's network transformation initiative in the previous year, Ayala's core net income actually grew 25 percent in 2014. Ayala's profits have been growing above 20 percent for the past three years.

Real Estate

Ayala Land sustained robust growth with a 26 percent growth in net income to a record ₱14.8 billion in 2014. Demand for Ayala Land's products continued to be strong throughout the year. Property development revenues climbed 21 percent from the prior year as a result of new bookings and the completion of existing residential projects. Residential sales take-up remained strong, hitting an all-time high of ₱102 billion, 11 percent higher year on year. In addition, Ayala Land continued to build up its recurring income business, with malls, office, hotels

We are confident that the growth momentum in 2014 will continue in the coming year. Looking forward, we remain committed to our overall growth trajectory as a group.

and resorts, and property development and construction, accounting for 38 percent of its net income in 2014.

Banking

Bank of the Philippine Islands saw a 4 percent decline in earnings to ₱18 billion as a result of lower trading gains compared to 2013. However, core banking revenues from net interest income grew 15 percent to ₱34.8 billion on the strength of a 27 percent increase in loans, while non-interest income declined by 5 percent due to a sharp contraction in trading gains from the prior year. Despite the large expansion in loan portfolio, the bank maintained strong asset quality and capitalization ratios in 2014, with gross 90-day non-performing loans improving to 1.5 percent of total loans.

Telecommunications

Globe Telecom recorded substantial growth, almost tripling its net income year on year to ₱13.4 billion. This was primarily driven by lower accelerated depreciation charges from its network transformation. The robust revenue growth from sustained demand for data connectivity across the mobile, broadband and fixed line businesses also drove the year-on-year increase. The solid revenue growth, which balanced out subsidy and operating expenses, drove the 8 percent increase in Globe's EBITDA to ₱39.3 billion. Total mobile subscriber base stood at 44 million in 2014, a 14 percent growth year on year.

Water

Despite facing regulatory challenges, our water business ended 2014 at a steady pace, growing net earnings by 1 percent. Manila Water posted a 4 percent growth in East Zone billed volume, backed by slight increases in service connections. Businesses outside the East Zone concession accounted for 11 percent of net income in 2014, with Boracay, Clark, Laguna, as well as Vietnam affiliates posting double-digit growth. Manila Water continues to pursue new projects, with the Cebu Bulk Water Supply Project delivering its first water on January 5, 2015. Manila Water was also awarded an extension of its concession in Clark Water for another 15 years to 2040. In December 2014, Manila Water was awarded a 10-year project to reduce nonrevenue water in Zamboanga City.

Electronics Manufacturing and Business Process Outsourcing

Our electronics business, Integrated Micro-Electronics Inc., nearly tripled its net income to $29.1 million on the back of a 13 percent growth in revenues to $844.5 million, outpacing the global electronics manufacturing sector which grew by 6 percent. IMI successfully completed its follow-on offering in December 2014. It listed 215 million common shares, raising ₱1.6 billion in proceeds and increasing its public float level to 19 percent.

In business process outsourcing, LiveIt Investments Ltd. reported significant net income, mainly attributable to the divestment of Stream Global Services Inc., which resulted in a P1.8 billion net gain for Ayala.

Power Generation and Transport Infrastructure

We continue to scale up and build our portfolio of new businesses in power generation and transport infrastructure. In power, AC Energy has so far assembled 700 megawatts of attributable capacity in both conventional and renewable power generating assets. This translates to over $700 million in equity committed over the past three years in the power sector, underscoring our commitment to help augment the country's power requirements which we believe is vital to sustaining economic growth.

In transport infrastructure, we have assembled a portfolio of public-private partnership projects, including our first PPP project, the Muntinlupa-Cavite Expressway (MCX), formerly known as Daang Hari-South Luzon

Expressway Link Road; the Automated Fare Collection System project, and most recently, the LRT 1 Cavite Extension project, which we won in partnership with the Metro Pacific and Macquarie groups. Overall, we have committed up to $250 million in equity for these infrastructure projects.

Healthy Balance Sheet

At the parent level, we spent a record ₱37.5 billion in capital expenditures in 2014, 75 percent higher than the previous year. This was spent primarily to fund our investments in banking, power, and transport infrastructure. Our balance sheet remains strong as we maintained a comfortable gearing level with net debt-to-equity at the parent level of 0.24 to 1 at the end of 2014. In 2014, we raised a total of $1.3 billion from various fundraising exercises, including the issuance of exchangeable bonds, preferred shares, loan drawdowns, and an equity placement. We ended the year with ₱48.3 billion in cash and ₱52.7 billion in net debt at the parent level. Overall, this healthy balance sheet positions us well to pursue investments in new businesses and execute our growth strategy, as well as cover our common share dividend and interest expense.

Outlook

Overall, we are confident that the growth momentum in 2014 will continue in the coming year. We expect the performance of each of our key business units to remain upbeat with mostly double-digit earnings growth expected in 2015. This should allow us to achieve our original 2016 target of ₱20 billion a year earlier.

Even as we set ambitious growth targets for ourselves, we remain cognizant of our responsibility to continually make a positive impact on the environment and the communities we serve. Supporting the implementation of this core value is our groupwide sustainability policy. This covers operations, products and services, the supply chain, our human resource practices, community involvement, and our overall management approach. We have started benchmarking the Ayala group against global sustainability indices and best practices, and we have implemented a comprehensive 360º framework to monitor key sustainability indicators and metrics that we focus on.

Looking forward, we remain committed to our overall growth trajectory as a group. We will also be focused on executing against our plans, especially in our new sectors of power generation and transport infrastructure. As we reflect on the past year, we owe much of our success to the leadership, commitment, and the shared vision of our Ayala management team and staff, our Board of Directors, as well as the support and trust of our valued partners and stakeholders. We thank all of you for your support.

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

Business review

We continue to pioneer in various industries as we align our goals with the national development agenda

Globe Gen3 Store

Sustaining our growth momentum

2014 was a banner year for Ayala's performance

Our net earnings grew 46 percent to ₱18.6 billion on the sustained growth momentum of our real estate, telecommunications, and electronics manufacturing businesses, and value realization from our BPO asset.

Our business units are pursuing investment opportunities within their individual spaces under a positive macroeconomic environment. They have benefited from the aggressive growth strategy they executed a few years ago, and their strong performance has, in turn, allowed us to optimize earnings and value at the parent level.

We continue to strengthen our positions in power generation and transport infrastructure—two sectors that have potential to become new growth platforms for Ayala.

As the overall business environment continues to be encouraging, we have earmarked ₱185 billion in capital expenditure this year to support the expansion plans of our core businesses and ramp up new investments. We have set a performance target of ₱20 billion in net income by 2016, which we aspire to achieve a year ahead of the plan.

Real Estate

Ayala Land Inc.

Considered to be the leading developer of large scale, mixed-use, integrated estates in the Philippines, Ayala Land pioneered the development of the Makati Central Business District, Cebu IT Park, Bonifacio Global City, and NUVALI, and followed on to replicate its time-tested formula to create new living concepts such as Arca South, Alviera, and Altaraza.

The sustained momentum in the real estate sector pushed Ayala Land's profits to ₱14.8 billion in 2014, a 26 percent growth from the previous year. Real estate revenues reached ₱93.04 billion*, fuelled by the solid performance of its property development and commercial leasing operations, which rose 21 percent and 18 percent, respectively.

The opening of new gross leasable areas, full-year operations of new shopping centers and offices, and higher occupancy and average rent lifted the 18 percent growth in Ayala Land's commercial leasing revenues to ₱21 billion. In addition, its growing hotels and resorts portfolio, which jumped 40 percent to ₱5.6 billion from 2013, contributed to growth in commercial leasing revenues.

Residential revenues grew 26 percent to ₱55.9 billion* on the back of new bookings and completion of existing residential projects. Residential sales takeup remained strong, reaching a record ₱102 billion, 11 percent higher year on year. Sales from overseas Filipinos likewise improved as it now comprise 24 percent of Ayala Land's residential bookings, which grew 13 percent to ₱76.7 billion. The sale of office spaces in Bonifacio Global City and Cebu likewise bolstered Ayala Land's real estate revenues in 2014.

* Includes accretion income

Ayala Land continued to build up its recurring income business, with malls, office, hotels and resorts, and property development and construction, accounting for 38 percent of its net income in 2014.

Following the successful conclusion of its "5-10-15" strategic plan, Ayala Land rolled out its new growth plan dubbed, "2020-40". Under the new plan, Ayala Land aims to grow at an average pace of 20 percent annually with a target of reaching ₱40 billion in net income by 2020.

Ayala Land aims to achieve this target by expanding its recurring income portfolio, particularly in shopping centers, offices, and hotels, while maintaining its solid position as the leading and most diversified residential developer in the Philippines.

In addition, Ayala Land will leverage its existing landbank as well as secure new sites in new growth centers across the country. Similarly, it will continue to maximize opportunities in its existing mature estates such as Makati, Bonifacio Global City, Alabang, and Cebu primarily by developing more leasable assets. Ayala Land will also accelerate the development of newly acquired estates such as The Circuit in Makati, Vertis North in Quezon City, and Arca South in Taguig by introducing various product offerings. As of yearend 2014, Ayala Land has secured a total of 8,639 hectares in gross developable landbank throughout the Philippines.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In million pesos except per share amounts and ratios)

	2014	2013
Total assets	388,944	325,474
Stockholders' equity*	106,940	98,470
Revenues	95,197	81,523
Net income attributable to equity holders	14,803	11,742
Per share		
Earnings	1.05	0.84
Ratios		
Current ratio	1.22	1.45
Debt-to-equity ratio	1.17	1.04
Return on equity	14.4%	13.0%

* Excludes noncontrolling interests

Montecito in NUVALI, Laguna
Opposite page: Fairview Terraces in Quezon City

Financial Services

Bank of the Philippine Islands

Founded in 1851, the Bank of the Philippine Islands is the oldest bank in the Philippines. BPI, together with its subsidiaries, offers a wide range of financial products and solutions that serve both retail and corporate clients from a wide range of sectors—individuals, enterprises, and corporations of all sizes, government agencies, and multinational corporations. Its services include consumer banking and lending, asset management, insurance, securities distribution, foreign exchange, leasing, and corporate and investment banking.

BPI has been an acknowledged leader in Philippine banking. It is also a recognized pioneer in financial technology, having introduced various industry firsts, such as automated teller machines, cash deposit machines, express assist machines, a point-of-sale debit system, kiosk banking, phone banking, internet banking, and mobile banking. With over 800 branches and over 2,500 ATMs and CDMs, BPI has the largest combined network of branches and ATMs in the Philippines, servicing close to seven million depositors.

The performance of Bank of the Philippine Islands in 2014 was driven by growth in its core lending business, with increased investments in technology and headcount in order to drive business in the long term. The bank posted a net income of ₱18 billion, a 4 percent decline from 2013, which included significant gains from securities trading. Total comprehensive income increased by 26 percent to ₱18.0 billion.

₱3.4 billion, less than half of the ₱6.9 billion recognized in 2013. As of yearend 2014, Held for Trading and Available for Sale securities portfolios totaled ₱67.2 billion, a 27 percent reduction relative to year-ago levels.

Net of securities and foreign exchange trading income, non-interest income grew 13 percent to ₱19.0 billion.

BPI's loan portfolio grew 27 percent to reach ₱800 billion, as deposits climbed to ₱1.2 trillion, a 19 percent increase year on year. As a result, net interest income grew 15 percent, to ₱34.8 billion in 2014.

Non-interest income amounted to ₱21.0 billion for the year, 5 percent lower than prior year. Income from securities and foreign exchange trading was

Operating expenses grew by 12 percent, on the bank's investment in infrastructure, technology, and additional headcount. The yearend cost-to-income ratio was 53.7 percent. The bank's headcount at yearend was 14,542, higher by 12 percent year on year.

BPI maintained strong asset quality and capitalization ratios as of the end of 2014. Gross 90-day NPLs improved to 1.52 percent of total loans, from 1.74 percent as of yearend 2013. BPI's reserve levels, which attribute no value to collateral, rose to 109.3 percent of NPLs, from 108.6 percent in the prior year. Equity capital was ₱144 billion at yearend, resulting in a Basel III Capital Adequacy Ratio of 14.85 percent and CET 1 ratio of 13.97 percent. BPI's ROE declined by 4.3 percentage points to 13.8 percent, partly due to the stock rights offer in February 2014 where the bank raised ₱25 billion of capital.

Through a conscious and concerted campaign in 2014, BPI ramped up its client-focused innovation initiatives. This is reflected in the 27 percent growth in cross-selling, which excludes deposit accounts. For retail transactions, its presence in the mobile space has grown tremendously. In two years, enrollments in the bank's mobile app grew by 60 percent to almost 800,000, and active users increased by 71 percent, with close to 100 percent usage among those enrolled. In terms of transaction count, 80 million transactions have so far been carried out through its app, a threefold growth from the prior year. The BPI Express Mobile app has consistently been the most downloaded app in the free finance category in both the App Store and Google Play.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In million pesos except per share amounts and ratios)

	2014	2013
Total assets	1,450,197	1,195,364
Stockholders' equity*	144,063	104,535
Revenues	55,787	52,498
Net income attributable to equity holders	18,039	18,811
Per share		
Earnings	4.62	5.19
Book value	36.64	29.37
Ratio		
Return on equity	13.8%	18.1%

* Excludes noncontrolling interests

Opposite page: Continuing customer focus and technology innovation

Telecommunications

Globe Telecom Inc.

Globe Telecom is a major provider of telecommunications services in the Philippines, serving 44 million mobile subscribers and 2.8 million wired and wireless broadband customers living a highly digital lifestyle.

Formed out of a partnership between Ayala and Singtel, the company operates one of the largest and most technologically advanced mobile, fixed line, and broadband networks in the country, and maintains distributors of over-the-air reload spanning over 967,000 retailers, suppliers, and business partners nationwide.

Globe Telecom Inc. posted another banner year with net income surging 170 percent to ₱13.4 billion on the back of strong topline growth, lower accelerated depreciation, and higher EBITDA. Its core net income, which excludes the impact of accelerated depreciation arising from its network transformation, likewise grew 25 percent year on year to ₱14.5 billion.

Consolidated service revenues reached ₱99 billion, besting the previous high of ₱90.5 billion in 2013, driven by the solid performance of its mobile, broadband, and fixed line data businesses.

Mobile

Mobile telephony revenues grew 7 percent to ₱78.1 billion, propelled by growth in the Globe Postpaid and mass-market TM brands. Driven by the rapid expansion of the postpaid base, which stood at 2.3 million at the end of 2014, Globe Postpaid revenues improved 11 percent to ₱29.9 billion year on year. Its prepaid segment, TM had another banner year with a 14 percent growth in revenues and a 21 percent increase in customer base compared to 2013.

Despite the continued pressures on yields with the increasing multi-SIM incidence in the market, as well as the popularity of value-based bucket and unlimited offers for voice and SMS services, total prepaid revenues rose by 5 percent to ₱48.2 billion, signaling its return to a growth track.

Total mobile subscriber base stood at 44 million as of end- 2014, up by a solid 14 percent from 38.5 million a year ago.

Broadband

The rapid growth momentum for Globe broadband businesses continued in 2014, registering steady double-digit growth for both revenues, which jumped 22 percent, and customer base, which rose 37 percent year on year. Globe ended the year with nearly 2.8 million broadband subscribers, registering strong growth across fixed broadband, wireless broadband and long-term evolution solutions. The introduction of affordable products and competitive tablet bundles throughout the year and the expanded pervasiveness of the fixed and wireless broadband networks stimulated the robust performance in 2014.

Fixed Line

Globe's fixed line data segment likewise posted 17 percent growth in revenues from ₱4.7 billion in 2013 to ₱5.5 billion in 2014, as the corporate demand for various communications and connectivity solutions continued to grow. Likewise, the fixed line voice segment improved by 7 percent to ₱2.8 billion from ₱2.6 billion last year, given the continued popularity of bundled internet and landline plans.

Operating expenses grew by 11 percent from ₱54 billion in 2013 to ₱59.8 billion in 2014. Higher spending across all accounts, except for interconnectivity and re-contracting costs, was largely to support management strategies, business, subscriber, and data network expansion, and post-Yolanda restoration activities. Notwithstanding this, total consolidated EBITDA reached a record ₱39.3 billion in 2014, up 8 percent from 2013, as the revenue gains fully offset the increase in operating expenses. Consolidated EBITDA margin for 2014 remained steady at 40 percent year on year.

Globe paid out ₱10 billion in cash dividends in 2014, representing 86 percent of the core net income in 2013. This was consistent with the company's dividend policy of distributing 75 to 90 percent of the prior year's core net income.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In million pesos except per share amounts and ratios)

	2014	2013
Total assets	179,507	159,079
Stockholders' equity*	54,542	41,639
Revenues	99,025	90,500
Net income attributable to equity holders	13,372	4,960
Per share		
Earnings	100.60	37.25
Book Value	330.03	308.05
Ratios		
Current ratio	0.77	0.65
Debt-to-equity ratio	1.20	1.66
Return on equity	27.8%	11.4%

* Excludes noncontrolling interests

Opposite page: Enhanced retail experience for Globe customers

Water Infrastructure
Manila Water Company Inc.

Manila Water Company Inc. is the exclusive provider of water and used water services to more than six million people in the East Zone of Metro Manila, comprising a broad range of residential, commercial, and industrial customers. The East Zone encompasses 23 cities and munipalities spanning a 1,400 square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the following towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay, and Teresa.

Extending its success in the East Zone, Manila Water has existing operations in Boracay, Clark Freeport Zone, Cebu, and Laguna in the Philippines, and Ho Chi Minh City in Vietnam.

Manila Water ended 2014 at a steady pace, registering one percent growth in consolidated net income to ₱5.8 billion, primarily driven by improved billed volume and higher contribution from new businesses.

Despite the absence of a tariff adjustment, the East Zone concession posted profits of ₱5.1 billion on the back of a 4 percent growth in billed volume due to a modest increase in service connections. Manila Water maintained its nonrevenue water in the East Zone at 11.3 percent.

Beyond the East Zone

Manila Water's operating units outside the East Zone concession all sustained their growth momentum as a result of solid growth in billed volume. Laguna AAA Water Corporation registered a 52 percent increase in profits to ₱164 million fuelled by strong billed-volume growth following the acquisition of the water reticulation and sewerage system of Laguna Technopark Inc. in January 2014 and new service connections.

Boracay Island Water Company posted strong double-digit growth with ₱96 million in net income, 32 percent higher year on year as a result of bigger sales volume from increased tourist arrivals and the rate adjustment implemented in January 2014.

Clark Water Corporation recorded a net income of ₱100 million, 17 percent higher than the previous year. Clark Water was awarded a 15-year extension of its concession agreement until 2040.

Manila Water's Vietnam-based associates, Thu Duc Water, Kenh Dong Water, and Saigon Water Infrastructure Corporation, contributed a total of ₱357 million in earnings.

Cebu Manila Water Development Inc. delivered its first batch of water to the Metro Cebu Water District. This marked the successful activation of the Cebu Bulk Water Project in January 2015, which provides Cebu City with 18 million liters per day in the first year and 35 mld in succeeding years.

New Opportunities

Manila Water continues to explore opportunities in water infrastructure. In January 2015, it signed a joint venture agreement with the Zamboanga City Water District for a 10-year nonrevenue water reduction project. The project aims to save 10 million cubic meters throughout the life of the project.

Overseas, the company has partnered with Mitsubishi Corporation in signing a memorandum of understanding with the Yangon City Development Committee for a proposed NRW reduction project in Yangon City, Myanmar. Meanwhile, a feasibility study for a pilot district metering area has been submitted. This is expected to pave the way for more water supply projects in the country.

Results of the arbitration proceedings related to the rate rebasing process in the East Zone are not yet completed pending final decision from the Appeals Panel.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In million pesos except per share amounts and ratios)

	2014	2013
Total assets	74,860	72,858
Stockholders' equity*	34,508	30,477
Revenues	16,357	15,926
Net income attributable to equity holders	5,813	5,752
Per share		
Earnings	2.36	2.34
Book value	16.66	14.92
Ratios		
Current ratio	1.16	1.12
Debt-to-equity ratio	0.74	0.86
Return on equity	17.6%	19.9%

* Excludes noncontrolling interests

Opposite page: Lakbayan educational tour;
Lingap project for schools

Electronics Manufacturing

Integrated Micro-Electronics Inc.

Integrated Micro-Electronics Inc. is a leading provider of electronics manufacturing services and power semiconductor assembly and test services. The company serves original equipment manufacturers in diversified markets, including those in the automotive, telecommunications infrastructure, industrial, storage device, medical, and consumer electronics industries.

The key services that IMI provides are design and engineering solutions; advanced manufacturing engineering capabilities; new product introduction services; manufacturing solutions; reliability test, failure analysis, and equipment calibration capabilities; test and systems development; and support and fulfillment.

Committed to top-quality and innovative solutions, IMI has become the preferred partner of leading global OEMs.

Integrated Micro-Electronics Inc. recorded solid growth in 2014 with net income growing nearly threefold to $29.1 million from its year-ago level. Revenue growth was robust, up by 13 percent, to $844.5 million, outpacing the global electronics manufacturing services industry, which posted around 6 percent growth.

IMI's China operations posted a 17.5 percent increase in revenues to $325.6 million driven by volume expansion in the telecommunications segment as IMI successfully positioned itself to take on a pivotal role in China's 4G technology rollout, which increased the demand for telecommunications infrastructure devices.

Propelled by the sustained expansion of automotive unit production worldwide, IMI's Europe and Mexico operations posted a 14.4 percent increase in revenues to $268.6 million year on year, comprising 32 percent of total revenues.

EMS operations in the Philippines earned $204.9 million in revenues, an 8.3 percent year-on-year growth, bolstered by the strong ramp up in its storage device and automotive electronics businesses. PSi Technologies Inc posted $44.9 million in revenues, up 4.3 percent from 2013 on greater demand for power semiconductors.

Public Offering

IMI successfully completed its follow-on offering in December 2014. It listed 215,000,000 common shares at the Philippine Stock Exchange at an offer price of ₱7.50 per share. IMI raised ₱1.6 billion in proceeds. The net proceeds will be used for capital expenditure, business expansion, refinancing of debt, and bolstering of technical manufacturing capabilities of key sites.

REVENUE GROWTH
(In percent)

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In million US dollars except per share amounts and ratios)

	2014	2013
Total assets	553	488
Stockholders' equity*	244	193
Revenues	844	745
Net income attributable to equity holders	29	10
Per share		
Earnings	0.017	0.006
Book value	0.13	0.10
Ratios		
Current ratio	1.73	1.53
Debt-to-equity ratio	0.41	0.48
Return on equity	13.3%	5.4%

* Excludes noncontrolling interests

IMI Bulgaria employees at an automotive electronics line
Opposite page: IMI public offering ceremony

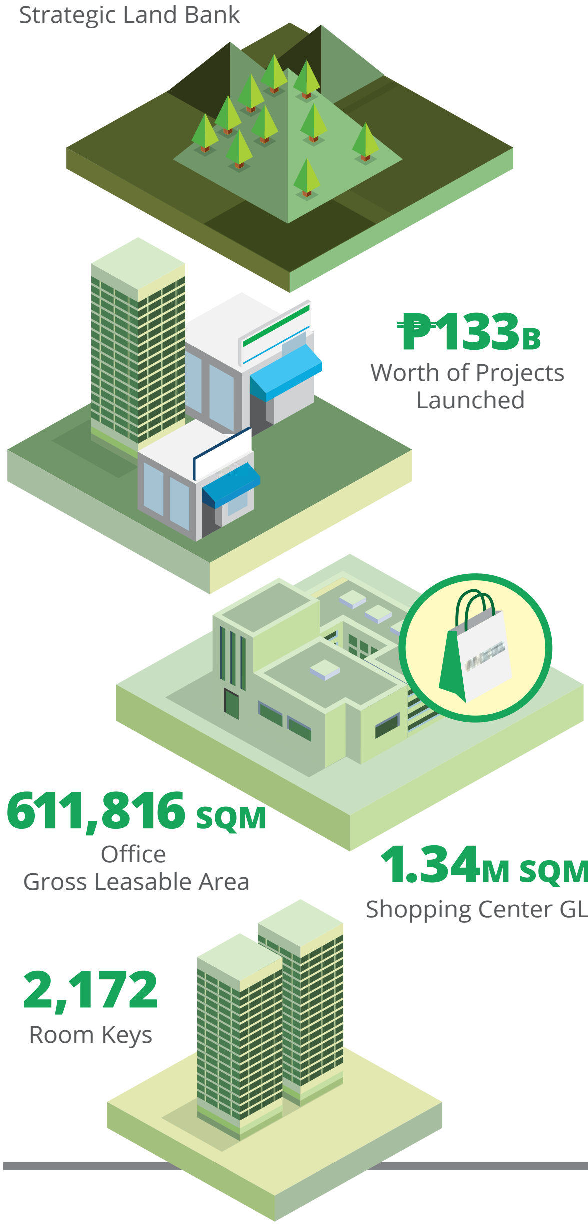
Innovation at Work

New ideas, new products and services, new businesses, and new ways of doing things add greater value and enrich lives

AyalaLand

Ayala Land introduces new concepts in property development in its estates

8,639HA
Strategic Land Bank



₱133B
Worth of Projects Launched

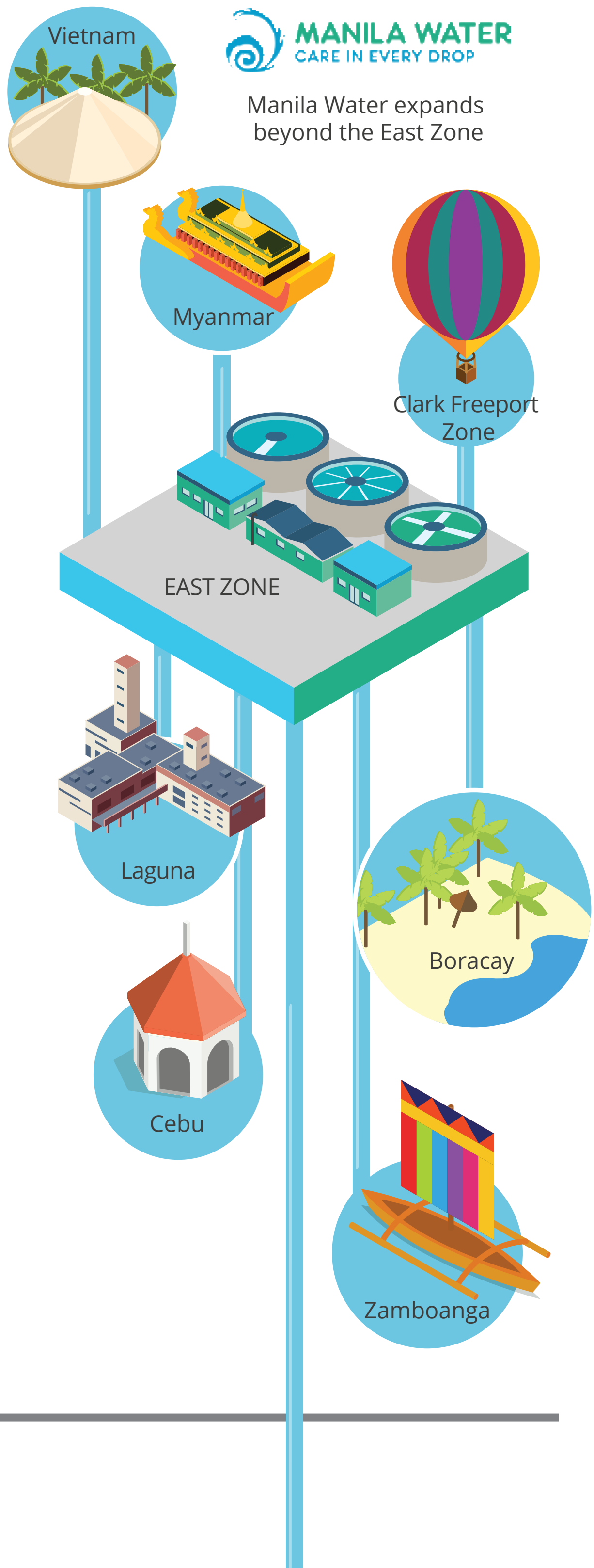
611,816 SQM
Office Gross Leasable Area

1.34M SQM
Shopping Center GLA

2,172
Room Keys

MANILA WATER
CARE IN EVERY DROP

Manila Water expands beyond the East Zone



BPI

The Bank of the Philippine Islands continues to pioneer new technologies in the banking industry

8 out of 10
BPI clients' transactions are carried out through electronic channels.

7M
Customers

The BPI Express Mobile App
is the most downloaded financial app in the App Store and Google Play

2,575
ATMs and Cash Deposit Machines

Globe

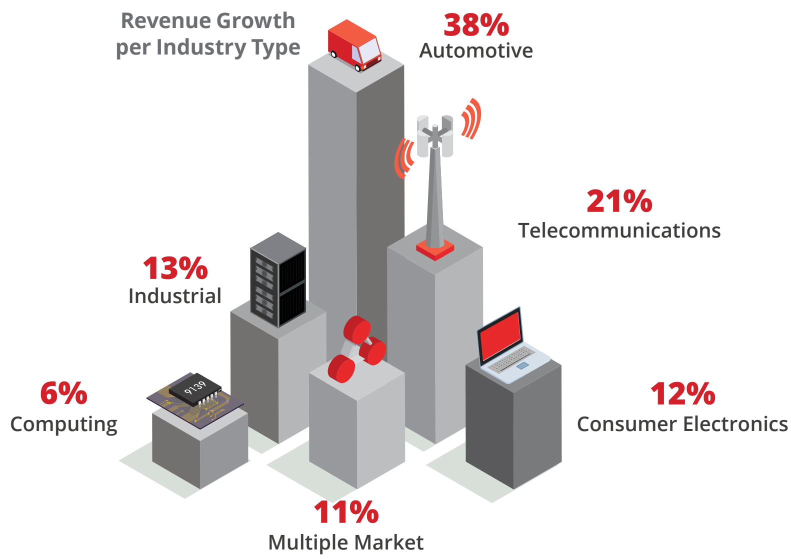
Technology innovations create a wonderful world for Globe customers

44M
Mobile Subscribers

2.8M
Wired and Wireless Broadband Subscribers

IMI

IMI serves OEMs in diversified markets



Power Generation

AC Energy Holdings Inc.

AC Energy Holdings Inc. continues to build a diversified portfolio of conventional and renewable power generation assets through acquisitions and development of greenfield projects.

AC Energy gathered momentum as it completed several power generation projects in 2014. This puts it closer to attaining its target of assembling over 1,000 megawatts of attributable capacity from power plants that are both operational and under construction by 2016.

By yearend, AC Energy's attributable capacity reached over 700 MW from both conventional and renewable power generating assets, with a total of over $700 million in equity committed over the past three years. This highlights the company's commitment to contribute to augmenting the country's power requirements, a neccesity to sustaining economic growth.

Growing Capacity

In 2014, South Luzon Thermal Energy Corporation started commissioning the first unit of its 2 x 135 MW coal-fired power plant in Calaca, Batangas. SLTEC is a 50-50 joint venture between AC Energy and Trans-Asia Oil and Development Corporation. The plant is scheduled to start commercial operations in the first quarter of 2015. The second 135 MW unit of the plant is currently being constructed and is expected to be completed by the end of 2015.

The 600 MW power plant of GN Power Mariveles, of which AC Energy owns 17 percent, started its commercial operations in early 2014. The power plant is expected to increase its reliability after completion of its warranty outage in the first quarter of 2015.

In December 2014, AC Energy was also able to secure financing for the phased construction of a 4 x 135 MW coal-fired power plant in Kauswagan, Lanao del Norte in Mindanao. The plant is being developed by GN Power Kauswagan Ltd. Co., a limited partnership among AC Energy, the Philippine Investment Alliance for Infrastructure (PINAI) fund, and Power Partners Ltd. Co. Construction of the plant is expected to commence in early 2015, and it should be operational by 2017.

Tapping Renewable Energy

As AC Energy builds base load capacity, it also recognizes the need to develop renewable energy sources. Since 2011, AC Energy has assembled a total of 133 MW of wind farm capacity, which is one of the largest in the wind sector in the country today.

The 19 MW expansion of Northwind Power Development Corporation in Bangui, Ilocos Norte was completed in October 2014 and has since been successfully delivering power to the grid. The expansion has raised the total capacity of Northwind's facility to 52 MW.

In addition, AC Energy also completed its 81 MW wind farm in Pagudpud, Ilocos Norte through its affiliate North Luzon Renewable Energy Corporation. The plant has been operational since November 11, 2014. Both wind farms have received the Certificate of Endorsement for Feed-in-Tariff from the Department of Energy.

AC Energy is prepared to commit more investments in power projects. The company hopes to contribute more meaningfully to the Ayala group's earnings in the coming years as power plants gradually reach expected operational efficiencies. The team remains committed and focused on delivering reliable and sustainable energy that will help supplement the country's power needs while also delivering value to its business partners and communities in which it operates.

Clockwise from the top: SLTEC power plant in Batangas, GN Power Mariveles power plant in Bataan, NLREC wind farm in Ilocos Norte

Transport Infrastructure

AC Infrastructure Holdings Corporation

AC Infrastructure Holdings Corporation selectively pursues toll road, rail, and airport projects under government's public-private partnership program.

AC Infra entered 2014 with exciting opportunities to participate in the growth of the country's transport infrastructure sector having sealed two new concession agreements under the government's public-private partnership program.

Since 2011, the company has been actively participating in PPP bids together with strategic partners. It has successfully won three sizable projects and has committed around $250 million in equity for these.

In October 2014, the company, through Light Rail Manila Corporation, the consortium composed of AC Infra, Metro Pacific Light Rail Corporation, and Macquarie Infrastructure Holdings (Philippines) Pte. signed the concession agreement for the ₱65 billion Light Rail Transit Line-1 extension project. Under the agreement, LRMC, in which AC Infra has a 35 percent stake, will operate and maintain the existing LRT Line 1 from Roosevelt Avenue in Quezon City up to Baclaran in Pasay City. The partnership will also construct an 11.7 km extension to Bacoor, Cavite, consisting of eight new stations that will traverse the cities of Parañaque and Las Piñas. A new station that shall directly connect LRT 1 and MRT 3 for transferring commuters will be built by the Department of Transportation and Communications and handed over to LRMC for operations and maintenance within five years of the signing date. Following the signing of the concession agreement, the consortium targets to take over the operations of the rail line by October 2015.

AC Infra, through a consortium comprising the Ayala group's Bank of the Philippine Islands and Globe Telecom, and the First Pacific group's Metro Pacific Investments Corporation, Smart Communications, and

Meralco Finserve also secured in January 2014 the 10-year concession to build and maintain the Automated Fare Collection System for LRT Lines 1 and 2 and MRT Line 3, which have a combined ridership of close to 1.5 million passengers daily.

AFCS targets to deliver the new electronic payment system initially for all three rail lines by the second half of 2015. Once fully in place, AFCS is expected to provide commuters an easier and quicker mode of payment through a tap-and-go system as they ride through the LRT and MRT lines. Over time, it plans

to build the e-payments ecosystem to include other forms of public transport, retail, and private transport “use cases”.

AC Infra, in partnership with AboitizLand, also submitted the highest bid in the tender for the Cavite Laguna Expressway. The project is a 47 km toll road to be constructed to connect key towns in the provinces of Cavite and Laguna. Unfortunately, the government chose to invoke its right under its bid rules to cancel the bidding process and subsequently decided to rebid the project.

AC Infra’s first PPP project, the Muntinlupa-Cavite Expressway or MCX, a toll road connecting the Daang Hari Road to the South Luzon Expressway is nearing completion. Construction completion is expected by the first half of 2015. Once in operation, MCX will decongest traffic in that area and improve access to Cavite, Muntinlupa, and Las Piñas.

In the near term, AC Infra will remain focused on successfully completing and delivering these projects while continuing to explore opportunities to build its transport infrastructure portfolio.

Signing of the concession agreement for LRT line 1
Opposite page: Muntinlupa-Cavite Expressway

Business Process Outsourcing

LiveIt Investments Ltd.

LiveIt Investments Ltd. is the holding company for Ayala's investments in the business process outsourcing sector. After selling Stream, its voice BPO investee, in March 2014 for a net gain of $41 million, LiveIt has three investees in the Legal and Research (Integreon Managed Solutions Inc.), Ad/Marketing Production (Affinity Express Holdings Limited), and Finance, Accounting, and Human Resources (IQ BackOffice Inc.) spaces with total employees of over 4,500 located in 18 sites.

LiveIt reported significant income, mainly attributable to the divestment of Stream Global Services Inc., which resulted in a net gain of $41 million (₱1.8 billion) from the sale of its 29 percent stake. The net proceeds from the sale amounted to $139 million. LiveIt's share in revenues from its three remaining investee companies (Integreon, Affinity Express and IQ Back Office) grew by 10 percent to $105 million, and its share of EBITDA rose 43 percent to $6 million.

In 2015, LiveIt expects further growth and margin improvement as a result of additional scale and the anticipated gradual improvement of its main market in the US.

	Integreon	AffinityX	IQ BackOffice
Services	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 2,200 employees in the US, UK, South Africa, India, China, and the Philippines	Over 1,800 employees in the US, India, and the Philippines	Over 500 employees in the US, India, and the Philippines
Revenues	$114 million	$ 29 million	$11 million
Awards & Development	Expanded Philippine, India, and US delivery centers Recognized as one of 20 best companies in the service industry by the International Association of Outsourcing Professionals®	Rebranded as AffinityX, a technology-driven provider of high-value, high-growth digital marketing services to channels serving more than 15 million small and medium sized businesses across US, UK, and Australia Received ISO 9001:2008 quality management systems certification for both Philippine and India platforms	Rolled out a next generation cloud-based talent management software application in partnership with Oracle Partnered with Intacct for a cloud-based full service accounting solution to deliver multi-location financial and operational reports real time

Education

Ayala Education Inc.

Ayala started investing in the education business through Ayala Education Inc. (formerly LiveIt Global Services Management Institute), after recognizing the large demand for quality Filipino talent from the IT-BPO and other service industries, such as banking, telecommunications, retail and tourism. Ayala Education's vision is to deliver excellent, affordable education that can significantly enhance the career potential of students, by equipping them with real-world skills through programs designed in close partnership with prospective employers.

Basic Education

APEC (Affordable Private Education Centers), Ayala Education's joint venture with Pearson, the world's leading learning company, is a chain of secondary schools that provides quality education at an affordable price for middle and lower income households. In 2014, APEC opened 11 new high schools across Manila, Quezon City, Pasig, Marikina, and Caloocan, and offered Grade 7 in its first year. APEC is now serving 1,350 students, and plans to expand into more Metro Manila cities as well as neighboring provinces.

Higher Education

LINC (Learning with Industry Collaboration) addresses the higher education market by delivering a highly differentiated educational experience through the application of learning technologies, constructivist methodology, English immersion, and deep industry partnerships. In 2014, its Professional Employment Program enabled hundreds of graduates at LINC's partner universities to secure white collar jobs at leading multinational and local companies, with starting salaries 30+ percent higher than the average graduate. LINC has also been piloting a Senior High School program in anticipation of the implementation of the K-12 Law.

First batch of students at an APEC school

Automotive Distributorship and Dealership

Ayala Automotive Holdings Corporation

Ayala Automotive Holdings Corporation is Ayala's holding company for automotive investments. It has the leading vehicle dealership network of both Honda and Isuzu brands and is the Philippine distributor of Volkswagen passenger cars.

Ayala Automotive ended the year with break-even income with the start-up costs of its Volkswagen operations cushioned by the higher income delivered by its Honda and Isuzu operations.

Despite industry growth, vehicle sales of Honda Cars Philippines ended at par with last year's results, due to the early sell out of some models in the second quarter. With the introduction of new models in the fast growing segments, Honda is well positioned to recapture a bigger share of the market in 2015.

The Ayala dealerships sustained leadership in the Honda network with Honda Cars Alabang as the top-selling dealer in the nationwide network.

Isuzu Philippines Corporation registered strong sales largely due to brisk sales of its light trucks, pick-ups, and the all new mu-X midsize SUV. The Ayala dealerships cornered a larger share of network sales with Isuzu Pasig as the top dealer nationwide and Isuzu Cebu as the leading provincial dealer.

Automobile Central Enterprise Inc. opened new Volkswagen dealerships in Quezon City and Cebu and a satellite showroom in Alabang. Together with the Global City dealership and Greenfield Service Center in Mandaluyong City, Volkswagen has a total of five facilities for a bigger market coverage. Several new models were introduced in 2014, highlighted by the return of the iconic Beetle and the launch of the Polo and Jetta sedans.

In support of Volkswagen's objective to be one of the most fuel efficient and environmentally friendly car brands, ACEI launched the Eco Fun Run series which highlighted Volkswagen's efficient, eco-friendly turbocharged direct injection and turbocharged stratified engines. Class-leading fuel mileage ratings were established for the VW model line-up. For 2015, new models include the Golf GTI, Passat, and Polo Hatchback.

Ayala Automotive recognizes that its operating environment continues to be very challenging and highly competitive. It remains firm in its commitment to deliver superior quality products and after-sales services. Ayala Automotive will continue to pursue excellence in its endeavors, particularly in creating value-adding responses to the constantly evolving needs of its customers and stakeholders.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In million pesos)

	2014	2013
Revenues	11,726	10,729
Consolidated net income	2	36
Car unit sales	10,613	10,111

International Investments

AG Holdings Ltd.

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

In Asia, AG Holdings has made commitments to ARCH Funds I and II, which continue to increase in value and provide cash distributions to its investors. It also committed capital to ARCH Fund III, which is currently in the process of acquiring properties for its portfolio. AG Holdings continues to support the growth of its investee companies in Vietnam by subscribing to the convertible bond offering of Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII). It received over $7 million in profit distributions from its other investments in Asia.

ARCH Fund I is currently in its exit stage as it approaches the end of its fund life. It has returned 100 percent of the capital invested and expects to distribute the gains from the Funds' remaining property in Macau, China.

ARCH Fund II has investments in 11 projects, including four projects which have been fully divested. About 80 percent of the current investments are in residential projects in Thailand and China. Investments in Thailand include a resort development consisting of a luxury beachfront hotel, condominiums, and hillside villas on a land area of 72 hectares in Phuket and a residential development project in Bangkok. In China, investments include two mixed-use residential, home office, and retail development projects in Chongqing and a mixed-use residential, retail, and hotel development project in Yangzhou. The Fund also invested in the remaining undeveloped phases of the multi-phase residential development near the fast-growing and dynamic Cotai Strip in Macau, China.

AINA, AG Holdings' North American subsidiary, continued on its positive trend, coinciding with a stabilization and modest recovery of the US real estate market. AINA continues to preserve and maximize the value of its remaining properties in Fontana, California, and Kansas City, Missouri. It will also continue to deploy capital opportunistically.

ARCH's residential project in Macau
Opposite page: VW BGC showroom

Social Commitment

Ayala Foundation Inc.

As the Ayala group's social development arm, Ayala Foundation Inc. 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.

In 2014, partnerships fueled Ayala Foundation's initiatives into becoming more relevant, more impactful, and more sustainable. This spirit of collaboration—heralded by the foundation's "As One We Can" campaign launched in 2013—served as a rallying point in making positive change through its program pillars: Education, Youth Leadership, Sustainable Livelihood, and Arts and Culture.

Education
One of the highlights in 2014 was the 10th anniversary of Text2Teach, a mobile education intervention in English, Mathematics, Science, and Values Education. This program, implemented in partnership with Microsoft, Globe, the Department of Education, and local governments, has reached over 300,000 students from over 1,000 public elementary schools in 78 cities and municipalities. Text2Teach was recognized by Public Affairs Asia in Hong Kong with a Gold Standard Award for Public-Private Partnerships. The program is on the way to being mainstreamed into the public education system.

The Center of Excellence in Public Elementary Education continues to provide high-quality and values-driven education for poor but bright students from Manila and Batangas.

Ayala Foundation launched the Training Institute to bring the CENTEX experience to public elementary schools across the country. In 2014, the Training Institute trained and mentored 565 teachers and reached four schools.

Youth Leadership
Ayala Young Leaders Congress, the flagship youth leadership program of the Ayala group, added 81 promising student leaders to its roster of over 1,200 alumni, who continue to bring the AYLC brand of servant leadership to various sectors of society.

Leadership Communities continued to harness the youth's passion for service through projects that address pressing issues in the local community. In 2014, LeadCom reached 241 community youth, who implemented 41 community projects that benefited 2,688 community members.

Sustainable Livelihood
A key program area for the foundation in 2014 was sustainable livelihood. It was implemenetd in four communities (El Nido, Palawan; Calauan, Laguna; Talipanan, Oriental Mindoro; and Tondo, Manila) by way of connection to markets, skills training, and product development support. The foundation's sustainable

livelihood initiatives directly helped 500 individuals and their families.

Arts and Culture

The Ayala Museum and Filipinas Heritage Library remained as two of the top private institutions for Philippine art, history, and culture. In July, the museum's "Inspire Every Day" campaign drew over 3,300 guests on launch day.

The museum presented compelling exhibitions in 2014. FHL also launched a mobile app called Filipiniana Online, an online portal making rare materials about the Philippines accessible.

Disaster Rehabilitation and Recovery

Rehabilitation and recovery efforts for communities severely affected by Typhoon Yolanda/Haiyan were aided by partnerships. Initiatives focused on education and sustainable livelihood in northern Negros Occidental, with additional support in Leyte. The foundation turned over two school buildings, helped provide fishing boats and pedicabs, set up sari-sari stores, and aided in the rehabilitation of farm lands.

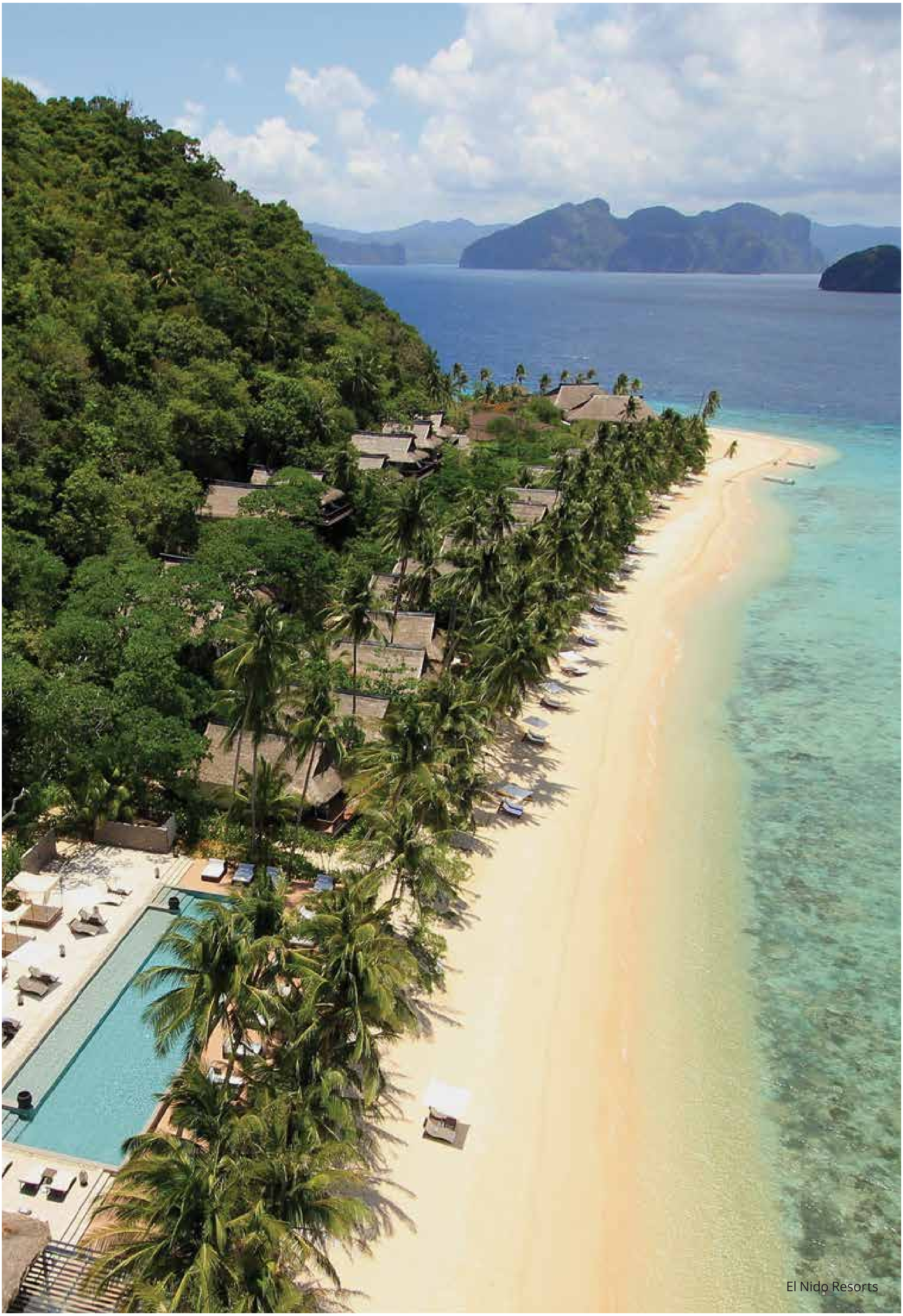
Heritage preservation through livelihood training was the strategy in helping rebuild the watchtower of the Dauis Church in Bohol, a heritage structure that was severely damaged by a 7.2-magnitude earthquake in 2013. The foundation worked closely with Escuela Taller to train out-of-school youth in Bohol in heritage reconstruction, in order to begin work on the Dauis watchtower.

Ayala Museum's "Inspire Every Day" campaign
Donation of boats to fisherfolk in Negros Occidental
Opposite page: Ayala Young Leaders Congress 2015

Serendra in Bonifacio Global City

Sustainability

We innovate by benchmarking our systems against global best practices in sustainable development


El Nido Resorts

Ayala's 360° Sustainability Framework

In a span of 180 years, Ayala has built an enterprise on strong ethical principles and an unwavering commitment to national development

As one of the biggest, oldest, and most diversified Philippine conglomerates, we have always recognized that our inherent profit motive runs parallel with our responsibility to protect the country's natural resources and improve the quality of people's lives wherever we operate.

Ayala's commitment to growing shared economic, social, and environmental values remains strong and is embodied in the following areas:

Management Approach
We continue to improve our economic value while managing our impact on the environment and society. We practice good governance and remain responsive to our stakeholders' inputs and expectations on sustainability. We continuously pursue opportunities to improve our operating efficiencies and further satisfy shareholder requirements.

Business Sustainability
We continue to broaden our market presence while exploring new business opportunities. We create synergies within our group and explore strategic partnerships to improve margins, reduce costs, and increase efficiency. We will continue to make value-accretive investments in sectors critical to economic development.

Operations
We are committed to optimizing our energy and water consumption and controlling solid waste and greenhouse gas emissions. We integrate environmental parameters into business operations and establish green practices in the workplace. We aim to apply best practices, go beyond regulatory compliance, and adopt global voluntary standards on environmental and social responsibility.

Products and Services
We take innovative approaches to improve customer value and enhance customer experience; empower more customers, including those with limited access to essential goods and services; and improve the quality of life of communities. We always consider environmental and social factors when developing our products and services. We design these in ways that lessen their environmental impact, safeguard customer welfare, and enhance our support for community development.

Supply Chain
We have established social and environmental parameters in accrediting suppliers and prefer those that observe sustainability practices. We support community development by providing opportunities to community-based entrepreneurs and cooperatives with the use of our buying volume.

Human Resources
We put prime importance on our employees' well-being. We ensure that they work in the safest and healthiest work environments that also encourage professional and personal growth. We promote our employees' initiatives that enhance sustainable business practices.

Community Involvement
We promote quality education, gainful micro-enterprises, a healthy environment, and cultural development in our communities.

OUR SUSTAINABILITY FRAMEWORK

Ayala's 360º Sustainability Framework embodies our sustainability philosophy as a business group. We developed this framework by studying our impacts on the environment, society, and economy amid global, national, and local sustainability challenges. We identified external factors and revisited our internal assumptions that affect our businesses. We developed management strategies to help us mitigate risks and take advantage of emerging opportunities.

This framework gives a comprehensive view of the material aspects, indicators, and metrics that are relevant to our businesses. We will regularly assess our performance on these parameters by integrating results into our periodic internal reporting processes.

Environment

The environmental dimension of our framework guides our business units in efficiently creating value from the consumption of resources, while conscientiously protecting and conserving key elements of the natural habitat around us. It helps us measure the productivity of our operations with respect to such environmental indicators as the consumption of materials, energy and water, and the disposal of waste, toxic discharges, and emissions.

We benchmarked our 2013 performance against peers in select industries using Corporate Knights Capital's Global 100 Index, which is widely recognized for its transparent and objective assessment of corporate sustainability. While some of our material indicators need improvement, we are at par with some of the world's most sustainable corporations in terms of productivity for waste management.

Recognizing resource scarcity as a major global sustainable development challenge, our property subsidiary, Ayala Land, invests in materials management measures to minimize waste in construction by using advanced software to determine exact material specifications and to recover wastes and transform them back into raw materials. It also uses raw materials with significant recycled content and reuses formwork to lessen demand for virgin materials.

As a group, we manage our energy consumption to ensure that our operations are productive, financially healthy, and environmentally sound. Moreover, we aim for energy sufficiency by investing in traditional and renewable energy generation sources.

Both the Philippine Water Code and the Philippine Clean Water Act guide our water extraction and utilization. Whenever available, we use surface water. Management of runoff water is integrated in the designs of property development of Ayala Land to increase water table recharge and prevent flooding. Manila Water and its subsidiaries continue to provide access to affordable and clean water by minimizing system losses and replacing almost all water pipes in the original service area, adopting right standards for infrastructure in expansion sites, maintaining water supply at optimal levels, monitoring water pumping schedules, and addressing pilferage through community programs.

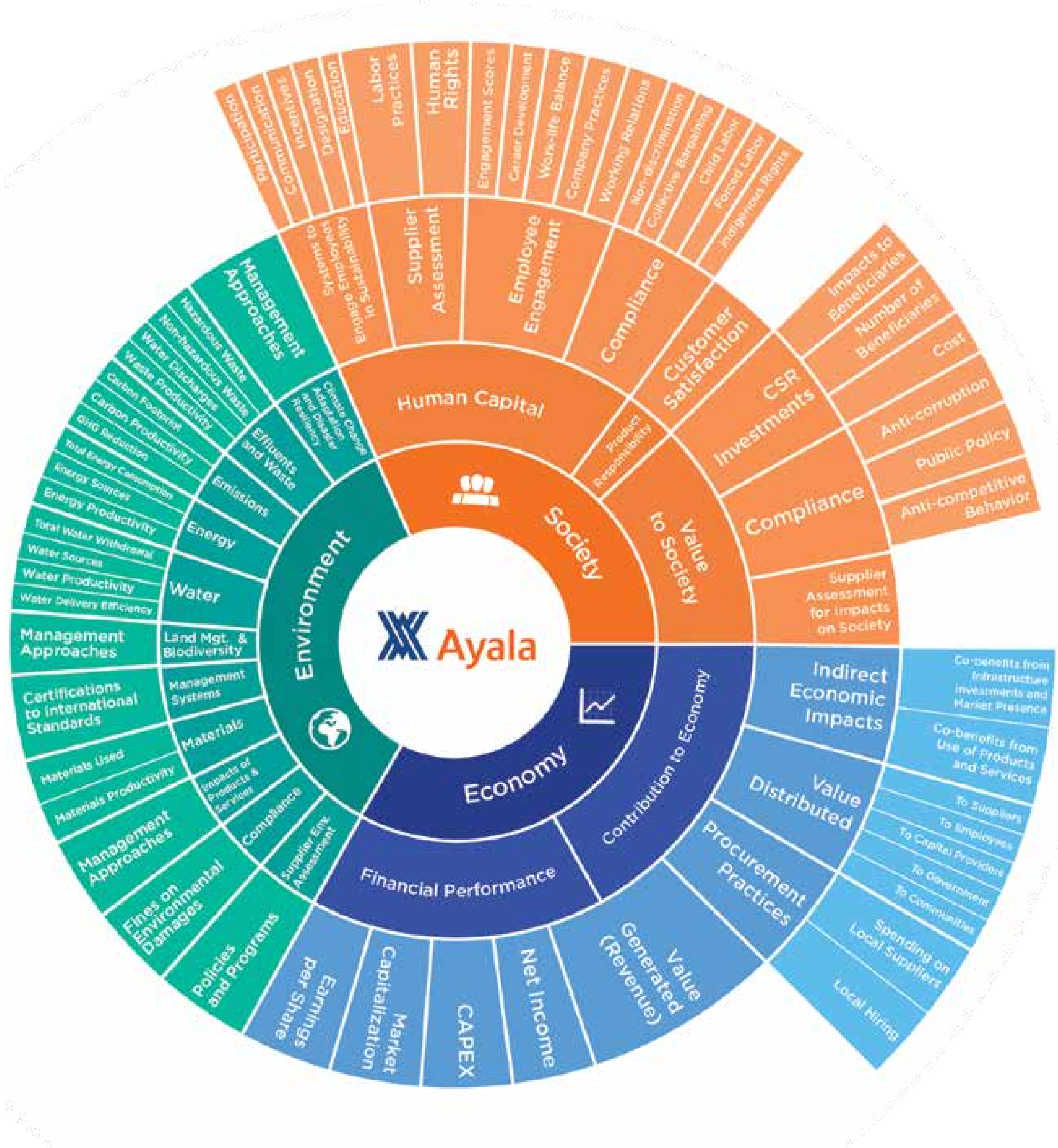
We voluntarily monitor, manage, and report greenhouse gas emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. We monitor our carbon footprint from fuel consumption, purchased electricity, and energy consumed in the use of our products.

In addition to the management of our consumption of natural resources and of GHG emissions, Ayala is committed to protect and restore biodiversity in natural habitats where it operates. We undertake comprehensive studies of flora and fauna which guide our design and implementation of each project to minimize potentially harmful impacts on biodiversity. These also inform our restoration initiatives, awareness campaigns, and collaborations with stakeholders.

We consider all our environmental impacts and integrate them into our product design, service delivery, manufacturing processes, and customer engagement programs. We promote sustainable consumer behavior and lifestyle choices through our products and services.

Society

The social aspect covers our commitment to nurture our human capital, satisfy our customers, and serve the local communities that we work with.



Our 360º Sustainability Framework gives a comprehensive view of the material aspects, indicators, and metrics that we focus on. The framework was first published in 2014, in our fifth conglomerate sustainability report that discussed the Ayala group's sustainability performance from January 1 to December 31, 2013.

The 2013 Sustainability Report was prepared in accordance with the Core Global Reporting Initiative G4 Guidelines as well as the AA1000 Accountability Principles Standard 2008 on inclusivity, materiality, and responsiveness. It received a Materiality Matters Check from GRI and external assurance from TÜV Rheinland on 31 material aspects and 42 indicators. It may be viewed on our website at www.ayala.com.ph/sustainability.

The 2014 Sustainabilty Report will be published in 2015.

MATERIALITY MATTERS
Global Reporting Initiative™
AT THE TIME OF PUBLICATION THE G4-17 TO G4-27 DISCLOSURES WERE CORRECTLY LOCATED IN THIS G4 CONTENT INDEX AND FINAL REPORT.
2014

"Our larger goal in the Ayala group is to improve the quality of life for communities by creating shared value and inclusive growth. We have moved decisively across the group to embed the concept of shared value into our businesses with a deep focus on social and economic inclusion."

Jaime Augusto Zobel de Ayala
4th Ayala Sustainability Summit, October 13, 2014

Essential to our growth is our 30,000-strong local workforce with a passion for excellence and innovation. At Ayala, we are committed to offering an environment where they can grow and develop professionally. We treat our employees fairly and reward them based on performance and contributions to the achievement of our goals. We also instill sustainability into our corporate culture through training, designation of roles, and employee participation programs. In turn, our employees work together to ensure that the needs of our customers and communities are properly addressed. We value our customers as partners in growing our businesses. Our stakeholder engagements are designed and implemented to understand them well.

We aim to improve the quality of life of our communities through strategic and innovative projects founded on the principles of creating shared value and inclusive growth.

By working together and creating synergies within the Ayala group, we also bring our respective resources and expertise to strengthen our community-building efforts. We build alliances with like-minded private and non-government organizations, both local and international, as well as government agencies, to scale up and broaden the reach of our social initiatives.

We also encourage our people to contribute their time and resources to numerous initiatives within the group and within partner organizations.

Economy

As one of the largest companies in the Philippines, the Ayala group continues to create employment and distribute economic wealth over time. Ayala has built and nurtured strong and beneficial relationships with institutions that share its principles and its vision to deliver excellent and innovative products and services, enter new markets, and return value to its shareholders.

With our disciplined approach to investment evaluation and strategy execution, and our commitment to high standards of governance in our companies, we endeavor to preserve the trust we have earned from our investors and our partners. All our businesses contribute significantly to the country's economic growth and we remain committed to supporting the national development agenda. Our recent investments in power generation, transport infrastructure, and low-cost quality education are ways for us to help the government address significant gaps and issues in these sectors.

We ensure that our financial growth benefits not only our businesses but also our entire value chain. In 2013, we distributed about three-quarters of the wealth that we created to our stakeholders, including shareholders, suppliers, loan providers, employees, government agencies, and various communities. We help create jobs in businesses that support our operations. As we expand our operations, we also pave the way for economic progress in areas where we build and operate.

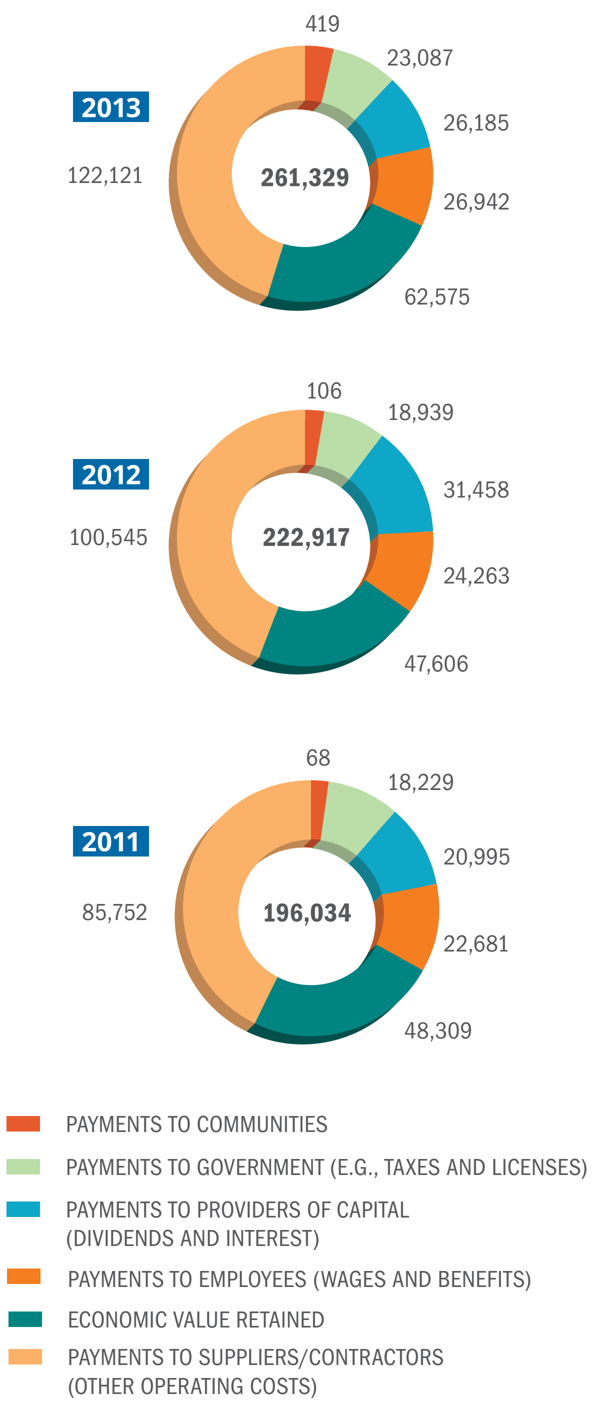
LOOKING FORWARD

With our 360º Sustainability Framework as a guide, we in the Ayala group gain a better understanding of our role in creating shared value for all. As we enhance our systems to monitor, report, and analyze efforts that impact our triple-bottom line, we are able to take a more proactive stance in addressing sustainability concerns. We will continue to benchmark our systems against best practices to improve our environmental performance, nurture our human capital, and work with more communities as we pursue our financial goals and growth strategies.

As we move forward, we remain committed to putting our capital to work in ways that build capacities across our businesses, drive sustainable growth, and improve the quality of life of a greater number of Filipinos.

Economic Value Generated and Distributed

(In million pesos)



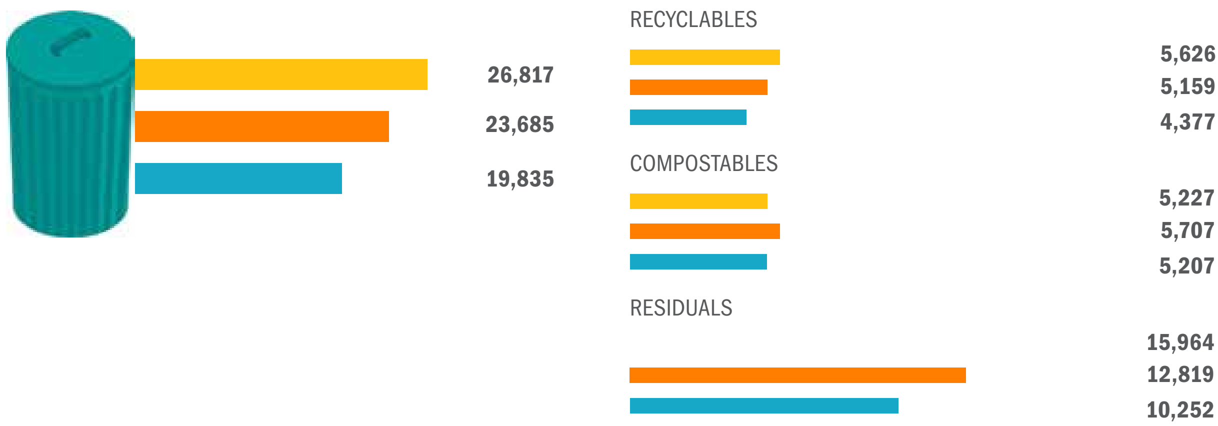
Waste productivity:
A new metric for benchmarking

Waste productivity relates economic performance to waste generation. This new metric measures total revenue generated per tonne of non-hazardous and hazardous wastes produced. Benchmarking against Corporate Knights Capital's 2014 Global 100 Index, our waste productivity for 2013 was at par with the world's best. We ensure that non-hazardous and hazardous wastes generated are properly managed and disposed of in accordance with government regulations.

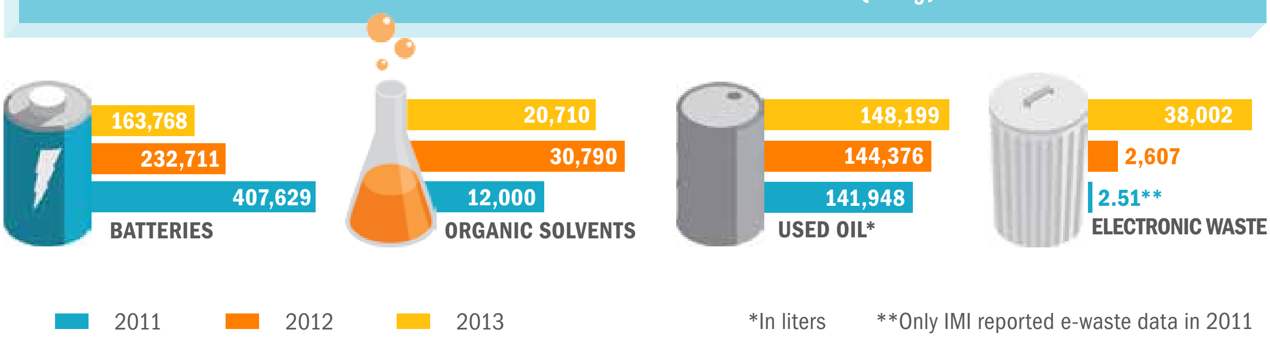
WASTE PRODUCTIVITY (In million pesos revenue per tonne of waste)

This benchmark is based on the median values of companies in the same sector. The conversion rate US$1 = P28.11 uses the 2013 purchasing power parity of the Big Mac Index developed by *The Economist*. Reported data are from our real estate and telecommunications businesses; there are no available benchmarks for electronics manufacturing services and automotive dealership.

NON-HAZARDOUS WASTES GENERATED AND PROPERLY MANAGED (In tonnes)



HAZARDOUS WASTES GENERATED AND PROPERLY DISPOSED OF (In kg)



*In liters **Only IMI reported e-waste data in 2011

As we take a more proactive stance towards addressing sustainability concerns, we set even higher standards for our performance and leverage on group synergies to widen the reach and benefits of our sustainability programs.

Greenbelt, Makati

Corporate governance

We set higher standards for ourselves as we prepare for economic integration in the region

Raising the bar of good governance

Responsible corporate governance is a constant and priority commitment of Ayala

We consider good governance as a means of ensuring long-term sustainability and relevance in the rapidly changing markets where we compete. More positively, we see it as a principal driver of growth, value creation, and competitiveness.

Governance comprises mechanisms of disclosure, transparency, responsibilities of the Board of Directors and Management, and the rights and equitable treatment of shareholders. For these structures and processes to be diligently implemented, we see to it that they are supported by mechanisms that enable employees at all levels to keep alive governance practices that ensure the highest ethical standards and strictest regulatory compliance.

Ayala is in full compliance with the Code of Corporate Governance and its corporate governance practices have been consistently cited in various polls and publications locally and in the region. Poll results published by *Asiamoney* ranked Ayala among the best in the Philippines for Corporate Governance, Disclosure and Transparency, Responsibilities of the Management and the Board of Directors, and Corporate Social Responsibility. Ayala was ranked first in Corporate Governance in the country by *FinanceAsia* and *Alpha Southeast Asia* in 2014.

We see governance as a key factor in maintaining Ayala as a trusted provider of its customers' needs, an attractive investment proposition, a valuable business partner, a judicious supporter of government's development goals, and a significant contributor to improving people's lives.

By going beyond legal compliance, we are committed to raising the bar of good governance for ourselves, the business community, and the Philippine economy.

As we reiterate the established objectives of Corporate Governance, we cite the structures and processes that Ayala has established to enable our board, management, and employees to achieve these objectives.

"It is imperative that enterprises create and enforce stronger ethical standards in the governance of business. This will go a long way in building investor confidence, which then translates to tangible benefits such as lower cost of capital, better valuations, and, ultimately, sustained growth."

Fernando Zobel de Ayala
Financial Executives Institute of the Philippines
Inaugural Meeting, January 2015

We clearly define the vision and strategies of the company and the ways of monitoring management performance

BOARD STRUCTURE AND PROCESS

Key Roles and Responsibilities

As mandated by the Board Charter, the Board of Directors establishes the vision, strategies, key policies, and procedures of the company, and the mechanisms to monitor, evaluate and improve management performance.

The Board leads the review of the company's vision and mission every year, and revisits the annual corporate strategy and its implementation.

The Board ensures the adequacy of internal control mechanisms for good governance, and the proper implementation of the company's Code of Conduct and Ethics. The Board also promotes and enhances shareholders' rights.

For 2014, the Board has reviewed and affirmed the true and fair representation of the annual financial statement report.

Composition

We provide for a highly competent and complementary mix of talents in the Board:

- Ayala's Board of Directors is composed of seven directors who have diverse experience, background, and disciplines in the areas of business, finance, and law.
- Directors are elected annually and serve for a term of one (1) year.
- 71 percent of the Board is composed of non-executive and independent directors.
- None of the independent directors owns more than 2 percent of the outstanding capital stock.
- The profile of each director is found in the Board of Directors section of this report on page 82.

We ensure an independent minority representation in the Board

Independent Directors

Independent directors, aside from their fees and shareholdings, have no interest or relationship with the company that may hinder their independence from the company or management, or which could reasonably be perceived to interfere with their exercise of independent judgment in carrying out their responsibilities as directors.

The seven-member Board includes three independent directors who make up more than 40 percent 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 Delfin L. Lazaro are non-executive directors.

As of 2014, Ayala's independent directors have served the company for an average of 5.3 years, well within the maximum nine-year term for independent directors. None of the directors nor Senior Management has worked for Ayala's external auditor.

The non-executive and independent directors met once in 2014 without the presence of any of the executive directors and/or management.

We have set clear roles for the Board and its committees and support continuing improvements in their performance

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, with the schedule of board meetings determined before the start of each financial 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. In accordance with company policy, board members are required to abstain from participating in the board discussion on a particular agenda item where they may have a conflict of interest. All of the directors had perfect attendance in the Board's six meetings in 2014.

The presence of at least two-thirds of the number of directors constitutes a quorum, as fixed in the Articles of Incorporation, for the transaction of business.

Consistent with the Guidelines in Conducting Performance Assessments, the Board conducts an annual survey to monitor and improve the performance of the Board as a whole, its committees, and that of the individual directors. The assessment surveys cover four areas of Board performance: 1) effectiveness of Board processes and meetings, 2) fulfillment 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 board meeting immediately following the completion of the survey.

Board Committees

The Board has established committees to assist in exercising its authority in monitoring the performance of the company. The committees, as described on pages 66 to 67, provide an organized and focused means for the directors to achieve specific goals and address issues, including those related to governance.

From the Audit and Risk Committee, the Risk Management Committee was created in June 2014 to focus on risk management discussion. It held its first meeting in November 2014.

Training of Directors

Ayala sets an annual training budget for directors and encourages them to attend continuous professional progams. New directors are likewise encouraged to attend an orientation program in corporate governance.

We hold an annual Corporate Governance and Risk Management summit as part of the continuing education program for our Board and Management. In February 2014, our directors, except for Mr. Antonio

Continue to page 68

Board Committees

The Board of Directors creates committees that it deems necessary to aid in good governance.

EXECUTIVE COMMITTEE

- Exercises the Board's powers in the intervening periods between Board meetings
- Acts by majority vote of all its members on such specific matters within the competence of the Board as provided for in the By-Laws and applicable laws, rules, and regulations, except with respect to:

  1. Actions requiring shareholders' approval
  2. Filling of vacancies in the Board
  3. Amendment or repeal of By-Laws or the adoption of new By-Laws
  4. Amendment or repeal of any resolution of the Board which by its expressed terms cannot be amended or repealed
  5. Distribution of cash dividends
  6. Exercise of powers delegated by the Board exclusively to other committees, if any

AUDIT COMMITTEE

- Assists the Board of Directors in fulfilling its responsibility for oversight of the organization's corporate governance processes, with the following particular duties:

  1. Regularly reports to the Board on the results of the audits conducted by the independent and internal auditors, the integrity of the company's financial statements, the appropriateness and effectiveness of the systems of internal controls, risk management, and governance processes
  2. Recommends the appointment or re-appointment of the independent auditors; reviews and approves all audit, audit-related, and permissible non-audit services provided by the independent auditors to Ayala and the related fees to ensure that their independence is not compromised
  3. Reviews and approves the Internal Audit Charter to ensure the independence and effectiveness of the internal audit function; ensures that the internal audit function is adequately resourced and all its activities are performed in accordance with the International Standards for the Professional Practice of Internal Auditing
  4. Reviews and approves the overall scope and plans for the respective audits of the company's internal auditors and independent auditors, and the results of their assessment of the company's internal controls and overall quality of the financial reporting process
  5. Reviews the quarterly and annual financial statements and all related disclosures with Management and the independent auditors
  6. Reviews and assesses the adequacy of the Audit Committee Charter at least annually, requesting Board approval for proposed changes
  7. Conducts self-assessment to evaluate the effectives of their performance as against the requirements of its Charter and in accordance with the SEC Memorandum Circular Number 4, Series of 2012

- Reports annually to the Board of Directors, describing the committee's composition, responsibilities and how they were discharged, and any other information required by law; confirms annually that all responsibilities outlined in its charter have been carried out. The activities of the Audit Committee are further discussed in its report to the Board of Directors on pages 90 to 91.

RISK MANAGEMENT COMMITTEE

- Assists the Board of Directors in fulfilling its oversight responsibilities in relation to risk governance
- Ensures that management (1) maintains a sound risk management framework and internal control system and (2) identifies material risk exposures and assesses their impact on achieving the company's objectives
- Promotes open discussion of risks faced by Ayala and its subsidiaries
- Determines the advisability, and reviews and evaluates the terms and conditions, of any material or significant related party transactions and their required reporting disclosures

The activities of the Risk Management Committee are further discussed in its report to the Board on pages 92 to 93.

BOARD COMMITTEE MEMBERSHIP

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

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

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 such policies

- Regularly reviews and evaluates the financial affairs of the company and carries out other duties delegated by the Board

Four meetings in 2014:

- Approval of the final terms of the $300 Million AYC Finance Limited Exchangeable Bonds

- Approval of LRT 1 and CALAX Project Bid

PERSONNEL COMMITTEE

- Establishes a policy for a formal and transparent procedure for determining salaries of officers and directors

- Oversees the administrative processes regarding salaries of senior management and other key personnel

Two meetings in 2014:

- Approval of performance bonus and merit increase of employees for 2014 and the Employee Stock Ownership Plan (ESOWN) for 2014

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 SEC. The committee shall be guided by the company's mission and vision in the fulfilment of its functions.

Three meetings in 2014:

- Review and approval of final list of nominees for directors for election at the 2014 annual stockholders' meeting

- Appointment of the Chief Finance Officer and Finance Group Head and the Corporate Strategy and Development Group Head

Continued from page 65
Jose U. Periquet, and Senior Management participated in the said summit administered by the Institute of Corporate Directors. Mr. Periquet attended a Corporate Governance seminar conducted by Sycip Gorres Velayo & Co. on July 21, 2014. Both ICD and SGV & Co. are accredited training providers of the Securities and Exchange Commission.

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 Committee meeting attended; and 4) ₱50,000.00 per diem for other committee meetings attended.

In 2014, the following directors received gross remuneration as follows:

Director	Gross Remuneration
Yoshio Amano	₱3,300,000.00
Delfin L. Lazaro	2,700,000.00
Xavier P. Loinaz	3,100,000.00
Antonio Jose U. Periquet	2,700,000.00
Ramon R. del Rosario, Jr.	3,350,000.00
Total	**₱15,150,000.00**

None of the non-executive directors has been contracted and compensated by Ayala for services other than those provided as a director. Likewise, the non-executive directors and independent directors are not entitled to stock options and performance bonuses from Ayala.

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 three percent of the company's authorized capital stock. The grantee is selected based on performance over a three-year period.

As executive directors, Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala do not receive remuneration for attending board meetings.

Management defines business targets in more specific terms and allocates clear responsibilities

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. It informs the Board regularly, promptly, and comprehensively about any issues concerning the company's strategy, risk management, and compliance, and regularly updates the Board of the implementation of the company's strategy.

Jaime Augusto Zobel de Ayala is the Chief Executive Officer and concurrently serves as Chairman of the Board, while Fernando Zobel de Ayala is the President and Chief Operating Officer.

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 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, and to facilitate the flow of strategic and operational information among the company's decision makers.

The Board of Directors, through the Audit and Risk Management Committees, reviews the company's internal controls and risk management systems.

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.

We implement an integrated framework for enterprise risk management

RISK MANAGEMENT: AN ACT OF BALANCING RISK AND REWARD

Risk lies in every sector of our businesses and presents both positive and negative opportunities. Hence, an effective risk management system is necessary to explore and maximize positive opportunities and mitigate adverse outcomes of the negative ones in order to secure long-term value for our stakeholders.

Risk Governance Structure

Our risk governance structure is applied at all levels in the company and within the group.

- The Board retains the overall responsibility for setting Ayala's risk appetite and risk tolerance and for reviewing our risk management process.

- The Risk Management Committee, constituted by the Board in June 2014 to assist in discharging this responsibility, focuses on the robustness of the risk management process. It reviews the appropriateness of risk appetite and risk tolerance in our pursuit of business objectives.

- The Management Committee is the principal executive forum for the review of enterprise, project, and investment risks. It is responsible for the assurance of the risk management framework approved by the Board.

- The Chief Risk Officer advocates the enterprise risk management for the company and for the group. He oversees the entire risk management function through the Group Risk Management Unit that implements programs and activities designed to improve our risk-taking capability.

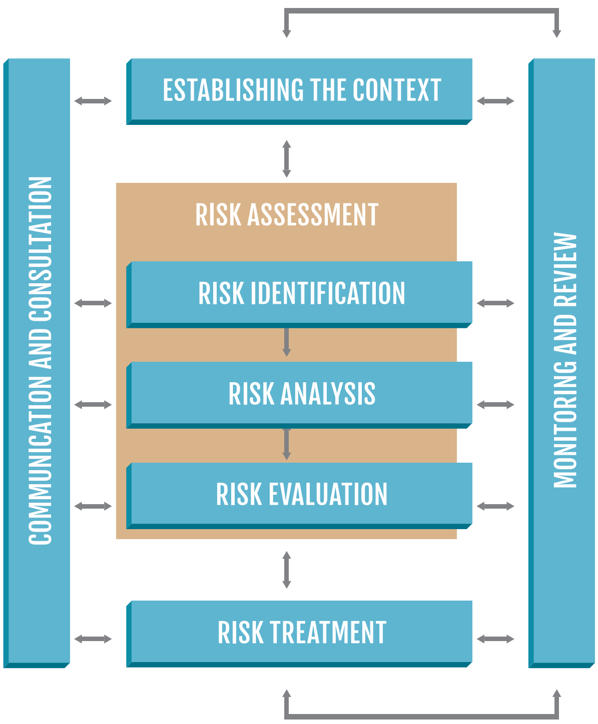
- The Internal Audit Unit assists the Audit Committee by conducting internal reviews of the company's operations, and in particular, the review of material controls in critical risk areas. It also looks into the effectiveness and adequacy of the risk management process.

- Our business units ensure compliance with risk management policies, and monitor and report risk profiles and implement actions. They embed risk management in their day-to-day activities.

Risk Management Process

Adopting the ISO 31000 Risk Management Framework, we started 2014 with a Black Swans workshop, facilitated by risk experts, to understand existing and potential risks that may impact achievement of business objectives. In understanding our value drivers, we identified key trends and key risk indicators for constant monitoring.

As part of the review of our enterprise risk management framework, we revisited our risk tolerance matrix. The degree of impact was determined to include financial, reputational, and regulatory considerations; probability of occurrence was focused on speed of change and complexity of environment, among others.



The company holds an annual meeting with shareholders as well as regular briefings with investment and financial analysts; the Board of Directors meets at least six times a year; discussions are open and independent views are given due consideration

“Governance in the public and private sectors are ways for us to differentiate ourselves as a country. In the private sector, governance remains a very important component of how we see ourselves and the kind of standards we want to reach. It is something we continue to improve on and learn from.”

Jaime Augusto Zobel de Ayala
Ayala Corporate Governance Summit, February 2015

Using this risk matrix, we identified and prioritized key risks and accordingly allocated resources without losing sight of tail-end risks. Through collaboration and consultation, Management, assisted by the Group Risk Management Unit, identified existing key controls and directed actions for continuous improvement. Constant monitoring and regular reporting on key risks were done in 2014.

Finally, we annually assess our risk management maturity level in the areas of governance and organization, risk management strategy, reporting and communication, tools and technology, and culture and capability. Results provide input to improvements of our risk management framework.

Enterprise Risk Profile

For over 180 years, Ayala has established a strong reputation for integrity and good corporate governance that makes it a company of choice for its stakeholders. As a holding company, we strive to maintain a balanced portfolio at all times, consistently aligning sustainability with long-term strategic objectives.

Management prioritizes key risks that could negatively affect brand reputation, especially those attributed to inadequate governance and a weak internal control system, and risks that could prevent our portfolio from delivering on strategic plans. We also considered capital market risk factors such as foreign exchange, interest rates, and credit events that may expose Ayala to actual cash losses and volatility. Beyond financial considerations, we are likewise cognizant of the changing legal and regulatory environment of the sectors and industries where we have investments. These risk factors may potentially impact our capability to fund existing investments and future enterprises.

Natural disasters and human-made hazards also figure prominently in our risk assessment. We understand these types of risks in areas that we own, manage, or operate.

We also value our employees and their contribution to the execution of our plans and strategies.

In response, Management developed a holistic approach to managing critical risks and to understanding the interdependency of risks and consequences of subsequent actions. Of equal importance are our strategies to reduce operational risks on a day-to-day basis.

Group Risk Management Approach

As a holding company, many of Ayala's risks are derived from its subsidiaries and affiliates. Their performance also significantly impacts the viability and brand of Ayala itself. In addition, risks related to the regulatory environment, talent, and disasters are also present in Ayala's subsidiaries and affiliates. The conglomerate nature of our business warrants a groupwide mitigation strategy.

It is with this on the agenda that the Ayala Enterprise Risk Management Council, the group's association of risk practitioners established in 2012, works on alignment of framework, building capabilities, and forging synergies to promote a culture of risk awareness towards a sustainable and resilient conglomerate.

We will continue to develop programs that include engaging and communicating on risk more effectively, bringing greater clarity to risk management strategy and risk management framework, introducing consistency in the process and language used for risk assessment, and reporting across the business service lines.

We believe that any framework of internal control must be in line with our core values and culture that promotes good risk management processes. While our current processes and reporting capabilities provide us with an appropriate risk framework, we continue to enhance our assessments considering external factors that may impact the achievement of our objectives.

A more detailed discussion of risk management is presented in the Annual Corporate Governance Report available in our website.

We support reliable accountability and audit mechanisms

ACCOUNTABILITY AND AUDIT

The Audit Committee oversees the performance of external and internal auditors. Its roles and responsibilities are outlined in the expanded Audit Committee Charter, also available in our website. The internal audit function is governed by a separate Internal Audit Charter.

Independent Public Accountants

The independent auditor of the company is SGV & Co., with Jessie D. Cabaluna as the partner-in-charge since 2012. In accordance with regulations issued by the Securities and Exchange Commission, the audit partner principally handling the company's account is rotated every five (5) years.

The independent auditors are directly responsible to the Audit Committee in helping ensure the integrity of the company' financial statements and financial reporting process. The Audit Committee oversees the work of the independent auditor and ensures that it has unrestricted access to records, properties and personnel to enable performance of the required audit.

There were no disagreements with the company's independent auditor on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedures.

The committee recommended to the Board and stockholders the re-appointment of the independent auditor and appropriate audit fees for 2014.

The Audit Committee has an existing policy to review and to pre-approve the audit and non-audit services rendered by the company's independent auditor. It does not allow Ayala to engage the independent auditor for certain non-audit services expressly prohibited by SEC regulations to be performed by an independent auditor for its audit clients. This is to ensure that the independent auditor maintains the highest level of independence from the company, both in fact and appearance.

The Audit Committee has reviewed the nature of non-audit services rendered by SGV & Co. and the corresponding fees and concluded that these are not in conflict with the audit functions of the independent auditors. The aggregate fees billed by SGV & Co., including VAT, in the past two years are shown below:

External Auditor Fees

(In million pesos)	2014	2013
Audit and Audit-Related	₱13.64	₱9.74
Non-Audit	1.96	0.56
Total	**₱15.60**	**₱10.30**

Audit and Audit-Related Fees

These include audit of Ayala's annual financial statements and midyear review of financial statements in connection with the statutory and regulatory filings or engagements for the years ended 2014 and 2013. These also include assurance and services that are reasonably related to the performance of the audit or review of Ayala's financial statements pursuant to the regulatory requirements.

Non-Audit Fees

These include one-time, nonrecurring special projects/ consulting services and seminars. The 2014 non-audit fees include accounting advisory services in relation to the bid for Southwest Integrated Transport System Project, issuance of Comfort Letter for Exchangeable Bonds issued, review of Ayala Rewards Circle, and validation of votes during the annual stockholders' meeting.

Internal Audit

It is the policy of Ayala to establish and support an Internal Audit function as a fundamental part of its Corporate Governance practices. The Internal Audit Unit reports functionally to the Audit Committee of the Board of Directors and administratively to the President and Chief Operating Officer or his designate.

Internal Audit adopts a risk-based audit approach in developing its annual work plan, which is re-assessed quarterly to consider emerging risks. The Audit Committee reviews and approves the annual work plan and all deviations therefrom, and ensures that internal audit examinations cover the evaluation of adequacy and effectiveness of controls encompassing the company's governance, operations, information systems, reliability and integrity of financial and operational information, safeguarding of assets, and compliance with laws, rules and regulations. The committee also ensures that audit resources are reasonably allocated to the areas of highest risk.

The audit team is composed of certified public accountants, certified internal auditors, certified risk management assurance practitioners, IT auditors, and a Fellow of the Institute of Corporate Directors. The internal auditors are members of the Institute of Internal Auditors-Philippines and adopt the International Professional Practices Framework promulgated by the IIA Inc. (USA).

In November 2014, the Internal Audit Unit successfully completed a thorough third-party quality assessment review conducted by PricewaterhouseCoopers. Internal Audit continues to maintain the "Generally Conforms" rating from the 2007 external review. The rating, considered the highest possible score for the QAR, confirmed that Internal Audit's activities conform to the International Standards for the Professional Practice of Internal Auditing.

Ayala's Internal Audit also collaborates with the internal audit functions of the subsidiaries and affiliates to promote sharing of knowledge and/or best practices through the Ayala Group Internal Audit Network.

In 2014, the annual AGIAN conference was held with the theme "Sustaining Relevance through Innovation" to emphasize that internal auditors must innovate to stay relevant. Internal Audit has to align with the strategic objectives of the organization, collaborate with other assurance providers, take advantage of technology to make internal audit more efficient and effective, and ensure that the risk management process and internal controls support or encourage innovation.

To ensure that internal auditors are equipped with the required auditing skills during the conduct of their reviews, the company provides continuing training and development programs from specific job skills to long-term professional development to its internal auditors.

Compliance Officer

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
- Issues an Annual Corporate Governance Report (ACGR) that is duly signed by the Chairman and Chief Executive Officer, the President and Chief Operating Officer, and two Independent Directors of the company every five years
- Issues a Consolidated Changes in the ACGR that is duly approved by the Board of Directors yearly
- 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

In 2014, Mr. Hermosura participated as a panelist on key topics in governance, including the FINEX forum on "Proposed Amendments to the Corporation Code of the Philippines" in September, the World Law Group Fall Conference on the subject of ASEAN integration in October, and ADB-Accountability Mechanism's "Strengthening Partnerships" forum in November.

We strengthen the disclosure and transparency processes for corporate resources and operations

DISCLOSURE AND TRANSPARENCY

Ownership Structure

Ayala's outstanding common shares as of December 31, 2014 were held by:

	Outstanding Common Shares	% Ownership
Mermac, Inc.	303.7 million	49.03
PCD Nominee Corporation (Non-Filipino)*	160.0 million	25.84
Mitsubishi Corporation	63.08 million	10.18
PCD Nominee Corporation (Filipino)*	56.60 million	9.14
Others	36.06 million	5.81
Total	**619.44 million**	**100.00**

* Out of the 216.60 million shares registered under the name of PCD Nominee Corporation, 69.16 million (11.17 percent) and 54.41 million (8.78 percent) are for the accounts of Deutsche Bank Manila and HongKong and Shanghai Banking Corporation, respectively

	Outstanding Shares	% Foreign-Owned
Common Shares	619 million	
Voting Preferred Shares	200 million	
Total Voting Shares	**819 million**	**31.62**
Preferred B Series 1 Shares	20 million	
Preferred B Series 2 Shares	27 million	
Total Outstanding Shares	**866 million**	**29.92**

There were no cross or pyramid shareholdings.

Content and Timing of Disclosures

Ayala updates the investing public with operating and financial information through adequate and timely disclosures filed with the SEC, Philippine Stock Exchange, and Philippine Dealing and Exchange Corporation. 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 2013 were submitted to the SEC on April 15, 2014, within 120 days after yearend.

In 2014, the Notice of the Annual Stockholders' Meeting and the audited financial statements as contained in the Definitive Information Statement were submitted to the SEC and PSE on March 20, 2014, or 21 days before the annual stockholders' meeting held on April 11, 2014.

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 noncontrolling 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 Notes on Business Segments, pages 228 to 233: 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 concluded at normal commercial terms. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements on pages 235 to 238.

Information on Ayala's financial instruments is guided by the company's risk management objectives and policies to allow 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.

2014 DISCLOSURES

In 2014 the company filed, among others, unstructured disclosures involving the following:

UNSTRUCTURED DISCLOSURES

- Sale by LiveIt Investments Ltd. of its 29% ownership in Stream Global Services Inc. to Convergys Corporation
- Closing of the acquisition of Stream Global Services Inc. by Convergys Corporation
- Record of attendance of directors in meetings of the Board of Directors in 2013 and 2014
- Notice and agenda of the 2014 Annual Stockholders' Meeting
- Results of the Annual Stockholders' Meeting and organizational Board of Directors' meeting and the capital expenditures in 2014
- Notices of Analysts' Briefing
- Copy of the certificate of attendance of the Board of Directors and officers in the Corporate Governance Summit
- Updates and changes made in the Annual Corporate Governance Report (ACGR)
- Board approval of the amendment of the Third Article of the Articles of Incorporation and Section 2, Article III of the By-Laws
- Approval of the final terms of the $300,000,000 exchangeable bonds to be issued by AYC Finance Limited
- Completion of the issuance of $300 million 0.5% guaranteed exchangeable bonds of AYC Finance Limited and its listing with the Singapore Exchange
- Certifications of the Independent Directors
- 2014 ESOWN grants
- Board approval of the creation of a Risk Management Committee
- Submission of the Revised Corporate Governance Manual
- Re-issuance and Offering of up to 30 millon Preferred B Shares
- SEC Approval of the amended Articles of Incorporation and By-Laws of the Company
- Appointment of members of the Risk Management Committee
- Appointment of new Head of the Corporate Strategy and Development Group
- Appointment of new Chief Finance Officer and Finance Group Head
- New IR Officer
- SEC approval of the Preferred B Series 2 (ACPB2) Shares Re-issuance
- ACPB2 dividend rate
- ACPB2 Terms and Conditions and Implementing Guidelines
- Preferred B trading symbols
- Results of the ACPB2 offer
- Change in the Issued and Outstanding Shares of Company due to ACPB2 Issuance and Top-up Placement Transaction
- Use of proceeds generated from ACPB2 Offer
- Placement of and subscription to 18,779,100 AC Common Shares by Mermac Inc.
- Press statement on the top-up placement transaction
- Setting of 2015 Annual Stockholders' Meeting
- Board approval on the Amendments to By-Laws
- 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

- Acquisition by a wholly owned subsidiary of approximately 17% ownership stake in GN Power Mariveles Coal Plant Ltd. Co.
- Signing by GN Power Kauswagan Ltd. Co., the joint venture company between AC Energy Holdings, Inc. and Power Partners Ltd. Co., of the engineering, procurement and construction contract for 552 MW thermal plant in Mindanao

AC INFRASTRUCTURE HOLDINGS

- Receipt of AF Consortium of the Notice of Award to design and construct the ₱1.72 billion Automated Fare Collection System Project
- Signing by AF Consortium of a 10-year concession agreement to build and implement the new AFCS project
- Submission of bid for the LRT 1 Cavite Extension Project by Light Rail Manila Consortium, consisting of AC Infrastructure Holdings Corporation, Metro Pacific Light Rail Corporation, and Macquarie Infrastructure Holdings (Philippines) Pte. Limited
- Submission of bid documents by AC Infrastructure Holdings Corporation to the Department of Public Works and Highways for the bidding of the Cavite-Laguna Expressway (CALAX) Project
- Submission by Team Orion Consortium of a Motion to Intervene to the Office of the President of the Republic of the Philippines
- Public announcement of Team Orion Consortium on the filing with the Office of the President of a comment on the Memorandum of Appeal put forward by Optimal Infrastructure Development Inc. for the bidding of CALAX Project
- Copy of Team Orion's comment on Optimal's Memorandum of Appeal filed with the Office of the President in relation to Optimal's disqualification from the bidding of the CALAX Project
- Filing by Team Orion of a Motion to Urge the President to Settle CALAX Stalemate
- Awarding by DOTC of the LRT1 Project to Light Rail Manila Consortium
- Signing of concession agreement for LRT 1 Cavite Extension Project

NEWS CLARIFICATIONS

- Ayala targets transpo hub south of metro
- Likely Naga complex bidders named
- Metro Pacific-led consortium picked for ₱65 billion Cavex Project
- Submission of bids for ₱2.5 billion Integrated Transport System Southwest Terminal
- Ayala and Metro Pacific's interest in the operation and maintenance contract of LRT 2
- Ayala's allocation of ₱4 billion to debt-servicing funds
- 25% to 30% growth in 2014 profit

Reporting of Transactions

The directors and principal officers of the company report their acquisition or disposal, or change in their shareholdings in the company within three trading days from the transaction date. It is two days earlier than the five-day disclosure requirement of the PSE.

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

Trading Blackouts

The policy on insider trading covers directors, officers, consultants, and 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 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.

CHANGES IN SHAREHOLDINGS

Summarized below are the reported trades in Ayala securities by our directors and officers in 2014:

	SECURITY	NUMBER OF SHARES			
		As of Dec. 31, 2013	Acquired	Disposed of	As of Dec. 31, 2014
DIRECTORS					
Jaime Augusto Zobel de Ayala	Common	82,470	180,253	84,827	177,896
	Preferred B Series 1	20,000	0	0	20,000
	Voting Preferred	543,802	0	0	543,802
Fernando Zobel de Ayala	Common	79,462	180,253	81,819	177,896
	Voting Preferred	554,983	0	0	554,983
Yoshio Amano	Common	1	0	0	1
Delfin L. Lazaro	Common	159,869	21,250	0	181,119
	Voting Preferred	258,297	0	0	258,297
Xavier P. Loinaz	Common	126,614	0	0	126,614
Antonio Jose U. Periquet	Common	1,200	0	0	1,200
	Preferred B Series 2	0	400,000	0	400,000
Ramon R. del Rosario Jr.	Common	1	0	0	1
OFFICERS					
Gerardo C. Ablaza Jr.	Common	464,807	67,026	0	531,833
	Preferred B Series 2	0	10,000	0	10,000
Cezar P. Consing	Common	0	18,594	0	18,594
Arthur R. Tan	Common	247,454	38,006	9,000	276,460
Alfredo I. Ayala	Common	111,500	29,525	0	141,025
Maria Lourdes Heras-de Leon	Common	7,609	0	0	7,609
John Eric T. Francia	Common	46,587	46,939	0	93,526
Delfin C. Gonzalez Jr.*	Common	60,369	75,522	0	135,891
	Preferred B Series 2	0	10,000	0	10,000
Solomon M. Hermosura	Common	77,877	25,515	10,000	93,392
	Voting Preferred	53,583	0	0	53,583
Jose Teodoro K. Limcaoco*	Common	0	0	0	137,007
John Philip S. Orbeta	Common	376,914	59,233	0	436,147
Ma. Cecilia T. Cruzabra	Common	240	5,104	0	5,344
Josephine G. De Asis	Common	0	1,000	0	1,000
June Vee M. Navarro	Common	0	0	0	0
Total		**3,273,639**	**1,168,220**	**185,646**	**4,393,220**

*Mr. Limcaoco was appointed CFO and Finance Group Head replacing Mr. Delfin C. Gonzalez Jr. effective April 10, 2015

We set benchmarks for long-term beneficial relationships with stakeholders

STAKEHOLDER RELATIONS

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

Shareholder Meeting and Voting Procedures

Stockholders are informed at least 21 days before the scheduled date of 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.

In 2014, Ayala provided an electronic voting platform to enable stockholders to execute their voting rights during the annual stockholders' meeting. The company also provides non-controlling or minority shareholders a right to nominate candidates for board of directors.

Shareholder and Investor Relations

It is the policy of the company to encourage active participation and have dialogues with shareholders including institutional investors. Through Investor Relations, a 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, roadshows and investor conferences, website and e-mails or telephone calls with individual and institutional investors.

The company holds regular briefings and meetings with investment and financial analysts where they are given access to senior management. In 2014, four briefings were held to discuss the 2013 yearend results and 2014 first quarter, first half, and third quarter results.

Ayala regularly updates its website to ensure that 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 and overseas shareholders. Briefings cover corporate objectives including long-term goals and financial targets.

Dividend Policy

As a holding company, Ayala's policy is to provide a fixed-rate, semi-annual cash dividend of ₱2.40 per share for common shares. For voting preferred shares, the dividend rate is 1.875 percent per annum. For non-voting Preferred B Series 1 and 2 shares, the dividends are given at 5.25 percent and 5.575 percent per annum.

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 an annual executive check-up or physical examination. The company pays for memberships in gym, sports clubs, and interest clubs. A chapel is maintained in the office vicinity for employees' spiritual growth.

Employee-Related Programs

Gym Membership	46% of the population availed of the free membership
Sports Clubs & Interest Clubs	Golf, badminton, volleyball, bowling tournaments are in place as well as Yoga sessions
Annual Physical Exams/Executive Check-ups	Majority of the employees and their dependents avail of the services
Vaccination Program	48% availed of the free vaccination

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

Various training and development programs are made available to Ayala employees. From the beginning of their career in Ayala, employees are provided with core programs to assist them in their on-boarding and to allow them to become fully integrated into the organization. Employees have continuous access to both technical training programs and soft skills programs and are encouraged to actively participate in training that will be helpful in growing their functional expertise and in making them more effective in their day-to-day work.

A major focus is on leadership development not only within Ayala but across its group of companies. The aim is to develop a deeper leadership bench across the conglomerate by strengthening the general management skills at the executive and middle management levels.

We champion the observance of ethical behavior and recognize the exemplary leadership of our employees and partners

CODE OF CONDUCT AND ETHICS

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 Conduct and Ethics, which sets the general expectations and standards for employee behavior and ethical conduct. The Board ensures that all directors, executives, and employees of the company adhere to the code.

Employees are required to disclose annually any business and family-related transactions to ensure that potential conflicts of interest are brought to management attention.

WHISTLEBLOWER POLICY

The policy provides a formal mechanism and an avenue for directors, officers, employees, suppliers, business partners, contractors and sub-contractors, and other third parties to raise serious concerns about a perceived wrongdoing, malpractice, or a risk involving the company. The policy likewise provides an assurance that a whistleblower will be protected from reprisals, harassment, or disciplinary action or victimization for whistleblowing.

The whistleblower may submit his or her report in writing to the Office of the Compliance Officer, or by email to whistleblower@ayala.com.ph, or through a face-to-face meeting with any member of the Disclosure Committee composed of one representative each from the Office of the General Counsel, Strategic Human Resources, Internal Audit, and Enterprise Risk Management.

In 2014, no report of this kind was received.

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

Information on the company's corporate governance initiatives is available at www.ayala.com.ph. As part of our stakeholder engagement, Ayala also maintains social media accounts at Facebook.com/AyalaCorporation and Twitter @Ayala_1834. On the occasion of Ayala's 180th anniversary, iPad apps were developed: the 2012 and 2013 Annual Reports and the special publication *Inside Ayala*.

RECOGNITIONS

In 2014, the Institute of Corporate Directors recognized Ayala as Governance Ambassador for its role in raising the standard of governance in the private sector through continuing education. With Ayala's support, ICD's Distinguished Corporate Governance Speaker Series brought the world's thought leaders and practitioners of good governance to the Philippines to share their insight and experience with board directors, compliance officers, and the public.

Ayala continued to figure prominently in polls of regional publications in the areas of company management, corporate governance, corporate social responsibility, and investor relations. Ayala's $300 million bond exchangeable into Ayala Land shares was also named by *FinanceAsia* as the Best Philippines Deal for 2014.

Jaime Augusto Zobel de Ayala received the Ramon V. del Rosario Sr. Award for Nation Building. Ayala's Delfin C. Gonzalez Jr. and Ayala Land's Jaime E. Ysmael were among the country's Best CFOs, according to *CorporateGovernanceAsia* and *FinanceAsia,* respectively. Solomon M. Hermosura was one of the recipients of the 2nd Asian Company Secretary of the Year Award, also given by *CorporateGovernanceAsia*.

On its 180th year, Ayala won the 19th IMD-Lombard Odier Global Family Business Award, regarded as the most prestigious international recognition for successful family businesses. The award recognizes firms that unite family interests with those of the business, and combine tradition and innovation while demonstrating a clear commitment to their local community.

We continuously strive to uphold and strengthen the trust that our stakeholders place in us

Ayala and its subsidiaries continued to receive awards and citations for management excellence and good governance in 2014: *FinanceAsia* names Ayala as Best Managed Company in the Philippines as well as Best Corporate Governance and Best Corporate Social Responsibility; Jaime Augusto Zobel receives the Ramon V. del Rosario Sr Award for Nation Building; Ayala and Mitsubishi Corporation celebrate 40 years of partnership; Opposite page: Ayala wins the prestigious IMD-Lombard Odier Global Family Business Award; *Alpha Southeast Asia* cites Ayala for Strongest Adherence to Corporate Governance and Best Strategic Corporate Social Responsibility; The PSE Bell Awards include Manila Water in its Hall of Fame as Ayala Land and Cebu Holdings also win in 2014


Ayala Corporation

Board of Directors

Jaime Augusto Zobel de Ayala CHAIRMAN
Filipino, 55, Director of Ayala Corporation since May 1987. He is the Chairman and CEO of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Globe Telecom Inc., Integrated Micro-Electronics Inc. and Bank of the Philippine Islands; and Vice Chairman of Ayala Land Inc. and Manila Water Company Inc. He is also the Co-Chairman of Ayala Foundation Inc.; Vice Chairman of AC Energy Holdings Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board; Vice Chairman of the Makati Business Club; and Member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, National Competitiveness Council, and Endeavor Philippines; and a Philippine Representative for the APEC Business Advisory Council. He graduated with B.A. in Economics (Cum Laude) from Harvard College in 1981 and took his MBA at the Harvard Graduate School of Business Administration in 1987.

Fernando Zobel de Ayala VICE CHAIRMAN
Filipino, 54, Director of Ayala Corporation since May 1994. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Ayala Land Inc. and Manila Water Company Inc.; and Director of Bank of the Philippine Islands, Globe Telecom Inc. and Integrated Micro-Electronics Inc. He is the Chairman of AC International Finance Ltd., AC Energy Holdings Inc., and Hero Foundation Inc.; Co-Chairman of Ayala Foundation Inc.; Director of LiveIt 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 INSEAD East Asia Council, World Presidents' Organization and Habitat for Humanity International; 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, National Museum, and the foundation of the Roman Catholic Church. He graduated with B.A. Liberal Arts from Harvard College in 1982.

Yoshio Amano NON-EXECUTIVE DIRECTOR
Japanese, 56, Director of Ayala Corporation since April 2012. He is a Senior Vice President of Mitsubishi Corporation and 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., MC Oranbo Investment Inc. and Japanese Chamber of Commerce & Industry of the Philippines (JCCIPI); Director of Isuzu Philippines Corporation, Imasen Philippines Manufacturing Corp., Kepco Ilijan Corporation, UniCharm Philippines Inc., Trans World Agro-Products Corp., Philippine Resins Industries Inc., Portico Land Corporation, and The Japanese Association Manila Inc. He is not a director of any publicly listed company. Mr. Amano graduated from the University of Tokyo with a degree on Faculty Engineering in 1982. He has been with Mitsubishi Corporation for more than 30 years in various leadership positions.

Delfin L. Lazaro NON-EXECUTIVE DIRECTOR
Filipino, 68, Director of Ayala Corporation since January 2007. He holds the following positions in publicly listed companies: Director of Ayala Land Inc., Integrated Micro-Electronics Inc., Manila Water Company Inc., and Globe Telecom Inc.; and Independent Director of Lafarge Republic Inc. His other significant positions include: Chairman of Philwater Holdings Company Inc. and Atlas Fertilizer & Chemicals Inc.; Chairman and President of A.C.S.T. Business Holdings Inc.; Vice Chairman and President of Asiacom Philippines Inc.; Director of AC Energy Holdings Inc., AC Infrastructure Holdings Corporation, Ayala International Holdings, Ltd., Bestfull Holdings Limited, Probe Productions Inc. and Empire Insurance Company; and Trustee of Insular Life Assurance Co., Ltd. He graduated with a BS Metallurgical Engineering degree from the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

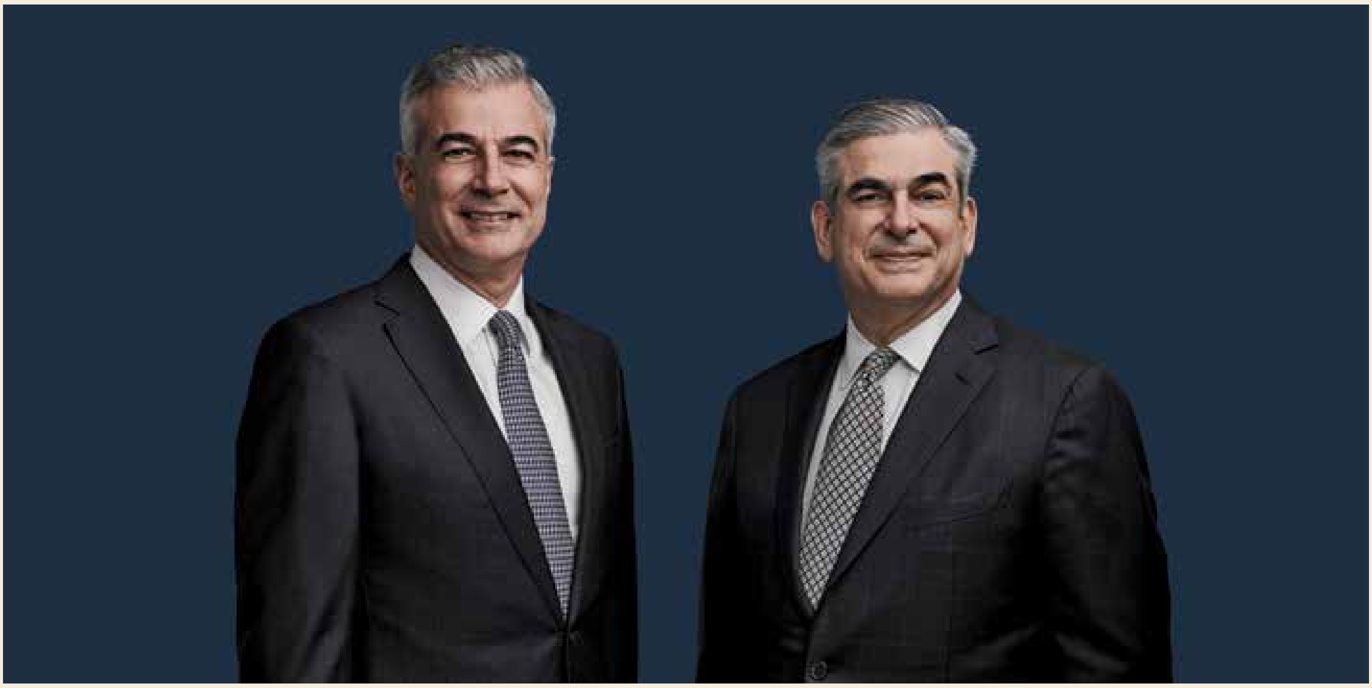
Xavier P. Loinaz INDEPENDENT DIRECTOR
Filipino, 71, Independent Director of Ayala Corporation since April 2009. He is also an Independent Director of Bank of the Philippine Islands, a publicly listed company. He holds the following positions: Independent Director of BPI Family Savings Bank Inc., BPI Direct Savings Bank, and BPI/MS Insurance Corporation; Trustee of E. Zobel Foundation, BPI Foundation Inc. and PETA; and Chairman of Alay Kapwa Kilusan Pangkalusugan and XPL Manitou Properties Inc,; and Vice Chairman of XPL MTJL Properties Inc. He was formerly the President of the Bank of the Philippine Islands from 1982 to 2004. He was also the President of the Bankers Association of the Philippines from 1989 to 1991. He graduated with an AB Economics degree from Ateneo de Manila University in 1963 and took his MBA-Finance at Wharton School, University of Pennsylvania, in 1965.

Antonio Jose U. Periquet INDEPENDENT DIRECTOR
Filipino, 53, Independent Director of Ayala Corporation since September 2010. He is also an Independent Director of other listed companies namely ABS-CBN Corporation, ABS-CBN Holdings Corporation, Bank of the Philippine Islands, DMCI Holdings Inc., Philippine Seven Corporation, and Max's Group Inc. His other significant positions are: Chairman of Pacific Main Holdings Inc., Campden Hill Group Inc., and Campden Hill Advisor Inc.; Director of The Straits Wine Company; Independent Director of BPI Capital Corporation and BPI Family Savings Bank Inc.; and Trustee of Lyceum of the Philippines University. He obtained an AB Economics degree from Ateneo de Manila University in 1982 and took his Master of Science in Economics at Oxford University, UK, in 1988 and Master in Business Administration at University of Virginia, USA, in 1990.

Ramon R. del Rosario Jr. INDEPENDENT DIRECTOR
Filipino, 70, Independent Director of Ayala Corporation since April 2010. He holds the following positions in publicly listed companies: President and CEO of Phinma Corporation; Chairman of Trans-Asia Petroleum Corporation; and Vice Chairman of Trans-Asia Oil and Energy Development Corporation. He is the President and Chief Executive Officer of Philippine Investment Management Inc.; 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 Gold and Minerals Development Corp., CIP II Power Corp., Fuld & Co. Inc., Fuld & Co (Philippines) Inc. and Paramount Building Management & Services Corp.; Vice-Chairman of Phinma Foundation; Director of Phinma Property Holdings Corp., 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-US Business Council, and the Integrity Initiative; Vice-Chairman of Caritas Manila; and Trustee of De La Salle University. Mr. del Rosario graduated from De La Salle College in 1967 with a degree in BSC-Accounting and AB Social Sciences (Magna cum Laude) and from Harvard Business School in 1969 for his Master's degree in Business Administration. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Delfin L. Lazaro, Antonio Jose U. Periquet, Xavier P. Loinaz, Yoshio Amano, Ramon R. del Rosario Jr.





Management Committee

Empowering leadership remains one of the core values of Ayala. It is a principle that is strengthened within the framework of a shared vision and a shared corporate culture of innovation, responsibility, and accountability.

Our management committee comprises key executives who meet regularly to discuss business performance and issues critical to the growth of the company, facilitating the flow of strategic and operational information among decision makers.

Top to bottom, left to right
Arthur R. Tan, Gerardo C. Ablaza Jr., John Philip S. Orbeta
Cezar P. Consing, Bernard Vincent O. Dy, Solomon M. Hermosura
Fernando Zobel de Ayala, Jaime Augusto Zobel de Ayala
John Eric T. Francia, Ernest L. Cu, Alfredo I. Ayala
Paolo Maximo F. Borromeo, Delfin C. Gonzalez Jr., Maria Lourdes Heras-de Leon

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[1]
President and Chief Executive Officer
Ayala Land Inc.

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

PAOLO MAXIMO F. BORROMEO[2]
Group Head, Corporate Strategy and Development

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

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

BERNARD VINCENT O. DY[3]
President and Chief Executive Officer
Ayala Land Inc.

JOHN ERIC T. FRANCIA
President and Chief Executive Officer,
AC Energy Holdings, Inc. and
AC Infrastructure Holdings Corporation
Group Head, Corporate Strategy and Development[4]

DELFIN C. GONZALEZ JR.[5]
Chief Finance Officer, Chief Risk Officer
Group Head, Finance

MARIA LOURDES HERAS-DE LEON[6]
President, Ayala Foundation Inc.

SOLOMON M. HERMOSURA
General Counsel, Corporate Secretary,
Group Head, Corporate Governance

JOSE TEODORO K. LIMCAOCO[7]
Chief Finance Officer, Chief Risk Officer
Group Head, Finance

RUEL T. MARANAN[8]
President, Ayala Foundation Inc.

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
Ramon G. Opulencia
Luis Juan B. Oreta
Ginaflor C. Oris
Virgilio C. Rivera, Jr.
Jaime E. Ysmael

Executive Directors
Josephine G. de Asis
Ruby P. Chiong
Ma. Cecilia T. Cruzabra
Rosallie A. Dimaano
Noel Eli B. Kintanar
Jenara Rosanna F. Ong
Monina C. Macavinta
Maria Angelica B. Rapadas
Alfonso Javier D. Reyes
Ma. Victoria P. Sugapong
Sheila Marie U. Tan

Associate Directors
Josette Adrienne A. Abarca
Fatima P. Agbayani
Catherine H. Ang
Alexander T. Cordero
Felipe Antonio P. Estrella III
Romualdo L. Katigbak
Emily C. de Lara
Erwin P. Locsin
Guillermo M. Luz
Rafael Nestor V. Mantaring
Gabino Ramon G. Mejia
Michael C. Montelibano
Ma. Teresa S. Palma
Rene D. Paningbatan
Ma. Victoria A. Tan
Norma P. Torres
Ma. Margarita G. Villanueva

Consultants/Advisers
Patrice R. Clausse
Victoria P. Garchitorena
Marciano A. Paynor Jr.
Jaime P. Villegas

1 Until April 7, 2014 • **2** Effective September 1, 2014
3 Effective April 7, 2014 • **4** Until September 1, 2014
5 Until April 10, 2015 • **6** Until February 28, 2015
7 Effective April 10, 2015 • **8** Effective March 1, 2015

Management's Discussion and Analysis of Operations

For the Year Ended 31 December 2014

Ayala Corporation's consolidated net income attributable to equity holders expanded 46 percent in 2014 to ₱18.6 billion, primarily driven by the solid performance of its real estate, telecommunications, and electronics manufacturing units and boosted by a net gain from the divestment of Stream.

On a core net income basis, or without the impact of accelerated depreciation from its telecommunications unit's network transformation initiative in the previous year, Ayala grew 25 percent in 2014. This is the third consecutive year of above-20 percent growth for the conglomerate as its diversified portfolio of investments benefited from the country's economic gains over the past three years.

Consolidated Sale of Goods and Services

Growth was achieved on the back of a 16 percent increase in consolidated revenues which reached ₱184.3 billion. Sale of goods rose 13 percent to ₱105.1 billion, while rendering of services grew 16 percent to ₱51.3 billion. This was driven by improved residential sales at Ayala Land Inc. coupled with higher revenues generated by Integrated Micro-Electronics Inc. and increased billed volume recorded by Manila Water Company Inc.

Real Estate

As positive momentum in the real estate sector continued, Ayala Land's net income grew by 26 percent to ₱14.8 billion year on year. The robust performance of its property development and commercial leasing operations, which rose 21 percent and 18 percent, respectively, fuelled the 18 percent growth in Ayala Land's real estate revenues to ₱93.04 billion*. Residential revenues reached ₱55.9 billion*, up by 26 percent from a year ago on new bookings and completion of existing residential projects. Residential sales takeup remained strong, hitting an all-time high of ₱102 billion, 11 percent higher year on year. Sales from overseas Filipinos likewise improved as it now comprises 24 percent of Ayala Land's residential bookings, which grew 13 percent to ₱76.7 billion. The sale of office spaces in Bonifacio Global City and Cebu likewise fuelled Ayala Land's real estate revenues in 2014.

Electronics

In electronics manufacturing, IMI recorded solid growth in 2014 with net income soaring nearly threefold to $29.1 million from its year-ago level. Revenue growth was robust, up by 13 percent, to $844.5 million, outpacing the global electronics manufacturing services, which posted around 6 percent growth. Strong demand from the telecommunications, automotive, and storage device markets helped lift IMI's revenues in 2014.

IMI successfully completed its follow-on offering in December 2014. It listed 215 million common shares, raising ₱1.6 billion in proceeds and increasing its public float level to 19 percent.

Water

Manila Water ended 2014 at a steady pace, registering a one percent growth in consolidated net income to ₱5.8 billion primarily driven by improved billed volume and higher contribution from new businesses.

Notwithstanding the absence of a tariff adjustment, the East Zone concession posted profits of ₱5.1 billion on the back of 4 percent growth in billed volume owing to an increase in service connections. Manila Water maintained its nonrevenue water in the East Zone at 11.3 percent.

* Includes accretion income

Manila Water's operating units outside the East Zone concession all sustained solid growth in billed volume. Laguna Water registered a 52 percent jump in profits to ₱164 million following the acquisition of the water reticulation system of Laguna Technopark Inc in January 2014 and new service connections. Boracay Water and Clark Water both posted double-digit growth, expanding 32 percent and 17 percent, respectively. Manila Water's Vietnam-based associates, Thu Duc Water, Kenh Dong Water and Saigon Water Infrastructure Corporation, contributed a total of ₱357 million in earnings. Manila Water's new businesses accounted for 11 percent of its net income in 2014.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures amounted to ₱13.2 billion in 2014, reflecting a 31 percent increase mainly driven by higher earnings from Globe which counterbalanced the relatively flat contribution from BPI. The increase in AC's ownership interest in BPI in November 2013 was offset by the impact of the slight decline in its net income year on year.

Telecommunications

Globe Telecom posted another record net income, which more than doubled to ₱13.4 billion year on year, buoyed by robust revenue growth from sustained demand for data connectivity across the mobile, broadband and fixed line businesses and the tapering of depreciation charges from its network transformation initiative. The solid revenue growth, which balanced out the subsidy and operating expenses, drove the 8 percent increase in Globe's earnings before interest taxes depreciation and amortization (EBITDA) to ₱39.3 billion.

Mobile revenues, which account for 79 percent of consolidated revenues, grew 7 percent to ₱78.1 billion, propelled by growth in the postpaid and mass market TM brands. Globe's postpaid revenues continued to improve at ₱29.9 billion, up 11 percent from the previous year. Despite yield pressures on multi-SIM incidence and value-based bucket offers, its prepaid revenues improved 5 percent to ₱48.2 billion. Total mobile subscriber base stood at 44 million in 2014, a 14 percent growth from its year-ago level.

Globe's broadband business registered a 22 percent growth to ₱12.7 billion as it continued to launch affordable products and competitive tablet bundles. Similarly, Globe's fixed line revenues reported improvement with data and voice segments reporting a 17 percent and 7 percent, respectively.

Financial Services

BPI reported a net income of ₱18 billion in 2014, a 4 percent decline from the previous year. This was largely due to a 5 percent decline in non-interest income as a result of a sharp contraction in trading gains compared to the previous year as the bank reduced its reliance on securities trading.

The bank's core lending business, however, continued to drive growth with net interest income growing 15 percent to ₱34.8 billion. Net loans expanded 27 percent to ₱800 billion year on year. Deposits jumped 19 percent from a year ago to ₱1.2 trillion. The bank registered a current and savings account ratio of 69 percent.

BPI's operating expenses rose 12 percent attributed to the bank's investment in infrastructure and technology as it positions itself for future growth. Cost-to-income ratio stood at 53.7 percent in 2014.

Interest Income

Interest income expanded 79 percent to ₱5.5 billion on the back of higher investible funds following the fund raising activities of the parent company and Ayala Land. This accounts for 3.5 percent of total income in 2014.

Other Income

Other income ended flat, down 1 percent to ₱9.2 billion mainly driven by the lower rehabilitation works of Manila Water. This was partially counterbalanced by the net gain of ₱1.8 billion from LiveIt's sale of Stream Global Services.

Costs and Expenses

Consolidated cost of sales rose 17 percent to ₱77.8 billion attributed to higher sales of Ayala Land, IMI and Ayala Automotive Holdings Corporation, accounting for 54 percent and 52 percent of total costs and expenses in 2014 and 2013, respectively. Cost of rendering services rose 10 percent to ₱34.5 billion resulting from higher revenues from IMI, Manila Water, and Ayala Land.

General and administrative expenses increased by 8 percent to ₱15.8 billion. The increase was mainly on account of higher manpower expenses, taxes, and advertising costs related to Ayala Land, certain provisions at IMI, and start-up costs of AC Energy, AC Infra, and Ayala Education.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges increased by 13.5 percent to ₱11.9 billion mainly due to higher borrowings in the latter part of 2013 to 2014. As of end-December 2014, total debt increased by 26 percent from yearend 2013 as a result of new borrowings at the parent level to fund its investments in various power and transport infrastructure projects and increased investment in BPI through subscription in the bank's stock rights offering. In addition, Ayala Land and Manila Water for new expansion projects and investments in operational improvements.

Total debt as of end December 2014 stood at ₱259 billion. Notwithstanding the higher debt levels, gearing ratios remain comfortable and well within limits. Ayala's consolidated debt to equity ratio was at 1.39 times while parent debt to equity ratio was at 0.54 to 1 with net debt to equity at 0.24 to 1.

Balance Sheet Highlights

Consolidated cash and cash equivalents expanded by 38 percent to ₱90.7 billion largely attributed to the proceeds from Ayala parent's offering of preferred shares, issuance of new common shares, loan availments and sale of exchangeable bonds. Ayala Land's higher sales and loan availments as well as IMI's higher collections and proceeds from its follow-on offering and sale of property also contributed to the increase.

Accounts and notes receivables (current) grew by 29 percent to ₱72.7 billion as a result of higher sales across all of Ayala Land's residential brands. Significant growth in revenues from IMI and Ayala Automotive also pushed up accounts receivables.

Total noncurrent assets rose by 22 percent to ₱471.3 billion from ₱384.8 billion at the beginning of the year. This was primarily due to the increased investment of Ayala in BPI through the stock rights, investments in various power projects, Ayala Land's increased investment in land acquisitions as well as additional investments in real properties.

On the liabilities side, long-term debt (noncurrent) reached ₱227 billion, up 28 percent mainly due to new borrowings made through AYC Finance's issuance of exchangeable bonds to fund Ayala parent's investments in power and transport infrastructure as well as its acquisition of additional stake in BPI. In addition, Ayala Land's new loans to bankroll its expansion projects contributed to the increase.

Total stockholders' equity reached ₱286.9 billion, ₱51.4 billion higher than the start of the year primarily resulting from higher earnings during the period, the re-issuance of 27 million AC's Preferred B shares which generated ₱13.4 billion proceeds, and the top-up placement of AC's 18.8 million common shares which generated ₱12.2 billion proceeds, in 4Q 2014.

Consolidated current ratio and debt to equity ratio remained healthy at 1.50x and 1.39x, respectively as of the end of December 2014. Consolidated net debt to equity ratio was at 0.85x.

In 2015, the Ayala group has earmarked ₱185 billion in combined capital expenditures to support the massive expansion plans of its real estate and telecom units.

Ayala

Report of the Audit Committee to the Board of Directors
For the Year Ended 31 December 2014

The Board-approved Audit Committee Charter defines the duties and responsibilities of the Audit Committee. In accordance with this Charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to:

- Systems of internal controls, risk management and governance process of the Company
- Integrity of the Company's financial statements and the financial reporting process
- Performance of the internal audit function and the external auditor
- Compliance with company policies, applicable laws, rules and regulatory requirements

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

- The Chairman and another member of the Committee are independent directors;

- We had five (5) regular meetings;

- 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 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. Based on the assurance provided by the internal audit as well as SGV & Co. as a result of their audit activities, the Committee assessed that the Company's systems of internal controls, risk management, and governance processes are adequate.

- 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 discussed and reviewed the initiatives in support of good corporate governance including the a) creation of a Risk Management Committee and reconstitution of the Audit &

Ayala

Risk Committee to an Audit Committee; b) adoption of a Whistleblower Policy; c) updating of the Code of Conduct & Ethics; and d) assignment of the review of related party transactions to the Risk Management Committee;

- We have reviewed, approved and endorsed the revised Audit Committee Charter to the Board which was ratified last 4 December; and

- We have received and discussed the final report on the results of the External Quality Assessment Review (QAR) of the Internal Audit Department (IAD) by PricewaterhouseCoopers. IAD received the "General Conformance" rating, the highest rating awarded in connection with a QAR. This signifies that all the activities performed by Internal Audit were conducted in accordance with the Standards for the Professional Practice of Internal Auditing.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit 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, 2014 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 2015 based on their performance and qualifications.

March 05, 2015

XAVIER P. LOINAZ
Chairman

RAMON R. DEL ROSARIO JR.
Member

YOSHIO AMANO
Member

Ayala

Report of the Risk Management Committee to the Board of Directors

For the Year Ended 31 December 2014

The Risk Management Committee was established by the Board at its June 2014 meeting to provide assistance in fulfilling the Board's oversight responsibilities in relation with risk governance. The assistance also includes ensuring that Management maintains a sound risk management framework and internal control system and identifies material risk exposures and their impact to the Company's objectives. The Committee also determines the advisability of, and reviews and evaluates the terms and conditions of any material or significant related party transactions and their required reporting disclosures.

Though the Committee had only one meeting in 2014, we would like to report that:

- The Chief Risk Officer, as supported by the Group Risk Management Unit, led the overall review of the Company's risk management framework which resulted to the adoption of the ISO 31000 Risk Management Framework, introduction of the Black Swans workshop as a tool in improving its risk-sensing capability, redefinition of the risk tolerance matrix, and updating of key risks register to promote and support the active management of important risks. The key risk register provides further clarity around ownership, accountability, and mitigation strategies.
- The Management showed a great deal of support with all Managing Directors making themselves available to discuss their respective risk management plans and to answer any question raised by the Committee.
- The Chief Finance Officer, through the Controllership Unit, monitored, reported and disclosed any related party transactions and ensured that they are at arm's length, the terms are fair, and they inure to the best interest of the Corporation and its shareholders.

The Committee also noted the other programs by the Group Risk Management Unit designed to create a risk-aware culture and to promote good risk management processes achieving appropriate risk and reward in the Company's businesses.

Interface between the Board Risk Management Committee and Audit Committee

Both Committees revisited their respective charters and as a result, the Committee has responsibility for assurance and oversight of enterprise risk management, while the Audit Committee has responsibility for assurance and oversight of the integrity of the Corporation's financial statements, the financial reporting process, the system of internal controls and compliance with legal and regulatory. The output of the enterprise risk management process is an input to the annual risk-based planning of the Internal Audit Unit.

Committee's Effectiveness

Although no assessment was made regarding the Committee's effectiveness as the Committee was established in June 2014 only and its first meeting happened in November of the same year, continuous improvement is on-going to effectively carry out the Committee's responsibilities under its Charter.

ANTONIO JOSE U. PERIQUET
Chairman

RAMON R. DEL ROSARIO, JR.
Member

YOSHIO AMANO
Member

Financial statements

We endeavor to create shared value for all our stakeholders

From a strategic perspective, we are confident about our overall performance and growth path as a group. We have progressed very well against our long-term strategic goals for 2016.

From a financial perspective, we are confident about our overall position. We have financial flexibility and capacity to support portfolio movements and potential sizeable investments. We made a commitment to strive for higher returns.

We are confident the Ayala group is poised to capture the growth opportunities the Philippines is experiencing today.

Fernando Zobel de Ayala

Goldman Sachs Investors Dinner, January 29, 2015

Ayala

Ayala Corporation
34F Tower One Ayala Triangle
Ayala Avenue Makati City 1226
Philippines

Tel +632 908 3000
Fax +632 848 5846
www.ayala.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR 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, 2014 and 2013, 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

SUBSCRIBED AND SWORN to before me this MAR 10 2015 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	EB1548914	13 December 2010 – Manila
Fernando Zobel de Ayala	EB5445983	May 22, 2012 – Manila
Delfin C. Gonzalez, Jr.	[illegible]	April 18, 2012 – Manila

Doc. No. 165 ;
Page No. 34 ;
Book No. IV ;
Series of 2015.

VERA M. DE GUZMAN-OCFEMIA
NOTARY PUBLIC
ROLL NO. 55764
MAKATI CITY, PHILS.

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy.

VERA M. DE GUZMAN-OCFEMIA
Notary Public - Makati City
Appt. No. M285 until December 31, 2016
Attorney's Roll No. 55764
PTR No. 4748072MC; 01-05-2015; Makati City
IBP Lifetime Roll No. 0012406
MCLE Compliance No. V-0004769; 12/03/2014
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

Ayala Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2014 and 2013
And Years Ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

SGV

Building a better working world

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Ayala Corporation

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, 2014 and 2013, 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, 2014, 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, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 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. 4751262, January 5, 2015, Makati City

March 10, 2015

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 31, 32 and 33)	**₱90,769,525**	₱65,655,049
Short-term investments (Notes 6, 31, 32 and 33)	**1,102,703**	119,345
Accounts and notes receivable (Notes 7, 31, 32 and 33)	**72,710,512**	56,341,044
Inventories (Note 8)	**54,962,164**	50,178,486
Other current assets (Notes 9 and 32)	**35,156,558**	39,194,020
Total Current Assets	**254,701,462**	211,487,944
Noncurrent asset held for sale (Notes 12 and 33)	**–**	3,328,712
	254,701,462	214,816,656
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7, 32 and 33)	**32,006,450**	18,282,941
Investments in bonds and other securities (Notes 10, 31, 32 and 33)	**3,432,215**	2,784,807
Land and improvements (Note 11)	**79,959,887**	62,474,802
Investments in associates and joint ventures (Note 12)	**152,764,854**	119,804,086
Investment properties (Note 13)	**71,324,245**	63,157,223
Property, plant and equipment (Note 14)	**27,953,145**	25,883,469
Service concession assets (Note 15)	**74,836,633**	73,754,407
Intangible assets (Note 16)	**4,183,464**	4,175,846
Deferred tax assets - net (Note 25)	**8,055,020**	6,513,585
Pension and other noncurrent assets (Note 17)	**16,830,401**	8,016,478
Total Noncurrent Assets	**471,346,314**	384,847,644
Total Assets	**₱726,047,776**	₱599,664,300

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 18, 31, 32 and 33)	**₱126,101,836**	₱103,604,247
Short-term debt (Notes 20, 31, 32 and 33)	**21,084,269**	15,811,285
Income tax payable	**1,340,269**	1,667,543
Current portion of:		
Long-term debt (Notes 20, 31, 32 and 33)	**10,761,443**	11,842,519
Service concession obligation (Notes 15, 32 and 33)	**1,019,515**	1,290,406
Other current liabilities (Notes 19, 32 and 33)	**9,452,281**	10,991,693
Total Current Liabilities	**169,759,613**	145,207,693

(Forward)

	December 31	
	2014	2013
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 31, 32 and 33)	**₱226,999,015**	₱178,027,343
Service concession obligation - net of current portion (Notes 15, 32 and 33)	**7,859,153**	7,868,295
Deferred tax liabilities - net (Note 25)	**6,742,633**	6,347,400
Pension liabilities (Note 27)	**2,179,966**	1,915,040
Other noncurrent liabilities (Notes 21, 32 and 33)	**25,640,911**	24,827,938
Total Noncurrent Liabilities	**269,421,678**	218,986,016
Total Liabilities	**439,181,291**	364,193,709
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 22)	**73,571,505**	50,166,129
Share-based payments (Note 28)	**377,376**	485,187
Remeasurement gains/(losses) on defined benefit plans (Note 27)	**(1,005,572)**	(1,317,954)
Net unrealized gain (loss) on available-for-sale financial assets (Note 10)	**(7,211)**	277,848
Cumulative translation adjustments	**(603,765)**	(1,256,831)
Equity reserve (Note 2)	**7,478,259**	7,482,121
Equity conversion option (Note 20)	**1,113,745**	–
Retained earnings (Note 22)	**107,039,814**	92,639,781
Treasury stock (Note 22)	**(2,300,000)**	(5,000,000)
	185,664,151	143,476,281
Non-controlling interests	**101,202,334**	91,994,310
Total Equity	**286,866,485**	235,470,591
Total Liabilities and Equity	**₱726,047,776**	₱599,664,300

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		
	2014	2013	2012
INCOME			
Sale of goods (Note 31)	**₱105,140,825**	₱92,725,460	₱69,335,195
Rendering of services (Notes 13 and 31)	**51,275,623**	44,216,018	40,553,713
Share of profit of associates and joint ventures	**13,185,147**	10,091,140	7,681,899
Interest income (Note 31)	**5,493,715**	3,072,071	4,353,984
Other income (Note 23)	**9,180,254**	9,306,855	8,645,733
	184,275,564	159,411,544	130,570,524
COSTS AND EXPENSES			
Costs of sales (Notes 8 and 31)	**77,773,560**	66,539,860	55,285,281
Costs of rendering services (Notes 23 and 31)	**34,495,682**	31,486,686	22,989,804
General and administrative (Notes 23, 27 and 31)	**15,831,000**	14,613,841	12,852,062
Interest and other financing charges (Notes 20, 23 and 31)	**11,933,781**	10,511,432	8,155,330
Other charges (Note 23)	**3,829,020**	5,480,816	6,812,352
	143,863,043	128,632,635	106,094,829
INCOME BEFORE INCOME TAX	**40,412,521**	30,778,909	24,475,695
PROVISION FOR INCOME TAX (Note 25)			
Current	**7,964,375**	8,036,780	5,838,415
Deferred	**173,543**	(1,382,570)	(861,978)
	8,137,918	6,654,210	4,976,437
NET INCOME	**₱32,274,603**	₱24,124,699	₱19,499,258
Net Income Attributable to:			
Owners of the parent (Note 26)	**₱18,609,229**	₱12,777,932	₱10,504,385
Non-controlling interests	**13,665,374**	11,346,767	8,994,873
	₱32,274,603	₱24,124,699	₱19,499,258
EARNINGS PER SHARE (Note 26)			
Basic	**₱29.83**	₱20.53	₱17.03
Diluted	**₱29.35**	₱20.39	₱16.92

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2014	2013	2012
NET INCOME	**₱32,274,603**	₱24,124,699	₱19,499,258
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	**463,755**	2,223,630	(1,137,783)
Changes in fair values of available-for-sale financial assets	**(18,337)**	(79,486)	(360,318)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans (Note 27)	**304,334**	(566,140)	(104,709)
Tax effect relating to components of other comprehensive income	**(35,348)**	72,973	12,858
	714,404	1,650,977	(1,589,952)
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	**(19,454)**	112,230	(108,187)
Changes in fair values of available-for-sale financial assets	**(204,190)**	(1,346,297)	296,879
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans	**87,797**	(104,731)	(533,205)
	(135,847)	(1,338,798)	(344,513)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**578,557**	312,179	(1,934,465)
TOTAL COMPREHENSIVE INCOME	**₱32,853,160**	₱24,436,878	₱17,564,793
Total Comprehensive Income Attributable to:			
Owners of the parent	**₱19,289,618**	₱12,863,794	₱9,163,498
Non-controlling interests	**13,563,542**	11,573,084	8,401,295
	₱32,853,160	₱24,436,878	₱17,564,793

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)	Equity Coversion Option	Retained Earnings (Note 22)	Common Stock	Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2014												
As of January 1, 2014	₱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
Net income	–	–	–	–	–	–	–	18,609,229	–	–	18,609,229	13,665,374	32,274,603
Other comprehensive income (loss)	–	–	312,382	(285,059)	653,066	–	–	–	–	–	680,389	(101,833)	578,556
Total comprehensive income (loss)	–	–	312,382	(285,059)	653,066	–	–	18,609,229	–	–	19,289,618	13,563,541	32,853,159
Exercise of ESOP/ESOWN	444,044	(181,961)	–	–	–	–	–	–	–	–	262,083	–	262,083
Cost of share-based payments	–	74,150	–	–	–	–	–	–	–	–	74,150	–	74,150
Sale of treasury stock	10,724,121	–	–	–	–	–	–	–	–	2,700,000	13,424,121	–	13,424,121
Issuance of shares	12,237,211	–	–	–	–	–	–	–	–	–	12,237,211	–	12,237,211
Cash dividends	–	–	–	–	–	–	–	(4,209,196)	–	–	(4,209,196)	(4,522,813)	(8,732,009)
Equity-conversion option	–	–	–	–	–	–	1,113,745	–	–	–	1,113,745	–	1,113,745
Change in non-controlling interests	–	–	–	–	–	(3,862)	–	–	–	–	(3,862)	167,296	163,434
At December 31, 2014	**₱73,571,505**	**₱377,376**	**(₱1,005,572)**	**(₱7,211)**	**(₱603,765)**	**₱7,478,259**	**₱1,113,745**	**₱107,039,814**	**₱–**	**(₱2,300,000)**	**₱185,664,151**	**₱101,202,334**	**₱286,866,485**

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
			Other Comprehensive Income										
	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)	Treasury Stock (Note 22) Common Stock	Treasury Stock (Note 22) Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2013												
As of January 1, 2013	₱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										
	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)	Treasury Stock (Note 22) Common Stock	Treasury Stock (Note 22) Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2012												
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

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱40,412,521**	₱30,778,909	₱24,475,695
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 23)	**11,933,781**	10,511,432	8,155,330
Depreciation and amortization (Note 23)	**9,158,195**	8,643,905	7,195,902
Cost of share-based payments (Note 28)	**222,417**	199,301	217,333
Provision for impairment on (Note 23):			
Inventories	**149,077**	–	–
Available-for-sale financial assets	**66,834**	228,580	61,076
Property, plant and equipment	**–**	222	11,575
Investment properties	**–**	400	19,500
Intangible assets	**335,731**	31,830	–
Doubtful accounts	**182,383**	–	–
Gain on sale of (Note 23):			
Investments	**(2,633,329)**	(190,296)	(67,847)
Other assets	**(711,001)**	(19,382)	(26,588)
Other investment income (Note 23)	**(443,090)**	(879,951)	(531,714)
Interest income	**(5,493,715)**	(3,072,071)	(4,353,984)
Share of profit of associates and joint ventures	**(13,185,148)**	(10,091,139)	(7,681,899)
Remeasurement gain arising from business combinations - net (Notes 23 and 24)	**–**	–	(593,853)
Operating income before changes in working capital	**39,994,656**	36,141,740	26,880,526
Increase in:			
Accounts and notes receivable – trade	**(11,576,951)**	(8,361,297)	(9,005,266)
Inventories	**(1,534,405)**	(2,285,580)	(1,861,119)
Service concession asset	**(2,997,352)**	(5,368,835)	(5,497,422)
Other current assets	**(3,933,236)**	(2,895,043)	(10,253,547)
Increase in:			
Accounts payable and accrued expenses	**31,114,583**	19,236,450	13,058,649
Net pension liabilities	**479,604**	169,723	149,365
Other current liabilities	**3,814,709**	4,021,260	4,964,574
Net cash generated from operations	**55,361,608**	40,658,418	18,435,760
Interest received	**5,595,767**	2,863,872	3,929,058
Interest paid	**(11,966,127)**	(10,056,631)	(8,398,754)
Income tax paid	**(9,782,770)**	(7,849,804)	(4,983,373)
Net cash provided by operating activities	**39,208,478**	25,615,855	8,982,691

(Forward)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of available-for-sale financial assets	**₱717,072**	₱653,327	₱1,281,413
Sale/maturities of financial assets at fair value through profit or loss	**40,417,857**	1,046,783	449,557
Sale/redemptions of investments in associates and joint ventures	**7,300,597**	681,120	113,858
Disposals of:			
Property, plant and equipment (Note 14)	**1,657,058**	101,797	213,612
Investment propertieis (Note 13)	**1,538,984**	131,781	1,653
Land and improvements (Note 11)	**3,935**	–	1,613
Maturities of (additions to) short-term investments	**(983,358)**	177,159	1,316,555
Additions to:			
Service concession assets (Note 15)	**(666,569)**	(89,054)	(1,096,920)
Investments in associates and joint ventures	**(35,926,256)**	(18,574,892)	(18,776,599)
Property, plant and equipment (Note 14)	**(6,233,101)**	(6,838,751)	(6,768,129)
Investment properties (Note 13)	**(13,375,167)**	(12,086,027)	(9,232,788)
Land and improvements (Note 11)	**(28,841,363)**	(29,446,957)	(31,882,873)
Accounts and notes receivable - non trade	**(5,171,180)**	(2,607,547)	(7,580,428)
Financial assets at fair value through profit or loss	**(33,186,064)**	(13,823,514)	(797,175)
Available-for-sale financial assets	**(562,661)**	(1,119,885)	(647,266)
Intangible assets (Note 16)	**(172,452)**	(175,883)	(41,538)
Dividends received from associates, joint ventures and available-for-sale financial assets	**5,742,014**	6,131,475	6,648,576
Acquisitions through business combinations - net of cash acquired (Note 24)	**(274,932)**	2,766	(1,096,432)
Increase in other noncurrent assets	**(14,730,215)**	(4,906,765)	(2,127,413)
Net cash used in investing activities	**(82,745,801)**	(80,743,067)	(70,020,724)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term and long-term debt	**78,310,834**	76,845,127	83,427,558
Payments of short-term and long-term debt	**(25,018,135)**	(45,973,965)	(21,234,866)
Reissuance of treasury shares (Note 22)	**13,424,121**	13,256,203	6,382,820
Dividends paid	**(7,581,660)**	(6,640,418)	(5,777,400)
Redemption of preferred shares (Note 22)	**–**	(5,750,000)	–
Service concession obligation paid (Note 15)	**(698,927)**	(924,936)	(356,385)
Collections of subscriptions receivable	**113,817**	112,453	448,040
Issuance of common shares (Note 22)	**12,237,211**	–	–

(Forward)

	Years Ended December 31		
	2014	2013	2012
Increase (decrease) in:			
Other noncurrent liabilities	**₱812,972**	₱2,044,949	₱9,521,838
Non-controlling interests in consolidated subsidiaries	**(2,948,434)**	7,526,493	12,616,280
Net cash provided by financing activities	**68,651,799**	40,495,906	85,027,885
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**25,114,476**	(14,631,306)	23,989,852
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**65,655,049**	80,286,355	56,296,503
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱90,769,525**	₱65,655,049	₱80,286,355

See accompanying 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 49.03% owned by Mermac, Inc., 10.18% owned by Mitsubishi Corporation and the rest by the public.

The Company is the holding company of the Ayala Group of Companies (the Group), 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, transport infrastructure, power generation, international, education 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**	**2014**	2013
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	48.9
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)***	Investment Holding - International	100.0	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	100.0	100.0
Integrated Microelectronics, Inc. (IMI)	Electronics Manufacturing	50.9	57.8
LiveIt Global Services Management Institute, Inc. (LGSMI)	Education	100.0	100.0
Manila Water Company, Inc. (MWC)	Water Distribution and Wastewater Services	48.5	48.8
Michigan Holdings, Inc. (MHI)	Investment Holding	100.0	100.0
MPM Noodles Corporation (liquidated in 2014)	Investment Holding	−	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 Company's investments in subsidiaries, associates and joint ventures is the Philippines.

Except as discussed below, the voting rights held by the Company in its investments in subsidiaries, associates and joint ventures are in proportion to its ownership interest.

The following significant transactions affected the Company's investments in its subsidiaries:

Investment in ACIFL
In June 2014, ACIFL repurchased its 39,585,146 shares which were issued and registered in the name of the Company, ACIFL's sole shareholder. The repurchase price was at par of US$1.00 per share for a total amount of US$39.6 million. ACIFL remained a wholly-owned subsidiary of the Company after the transaction.

As of December 31, 2014 and 2013, ACIFL, through its wholly-owned subsidiary, AYC Holdings Inc., owns 50.9% and 57.8% of the common shares of IMI, respectively. The fair value of IMI shares held by the AYC Holdings amounted to ₱6.4 billion and ₱2.4 billion as of December 31, 2014 and 2013, respectively.

Investment in ACEHI
On various dates in 2014, the Company infused additional capital to ACEHI which amounted to ₱9.49 billion. The proceeds were used to finance the various renewable energy and coal projects of ACEHI to complete its planned 1,000 megawatt capacity.

In September 2013, the Company converted its subscription to ACEHI amounting to ₱3.4 million into additional equity for 34.6 million common shares.

Investment in ALI
In March 2013, the Company participated in the placement and subscription of ₱399.5 million common shares of stock in ALI, 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 this transaction, the Company's ownership in ALI's common stock was reduced from 50.4% to 48.9% as of March 2013. The Company maintained the same number of common shares it held in ALI prior to the transaction.

In 2014, there were no changes in the Company's investment in ALI.

ALI shares with carrying value of ₱301.2 million as of December 31, 2014 and 2013 were collateralized to secure the Company's loan facility. Fair value of ALI shares collateralized amounted to ₱13.3 billion and ₱9.8 billion as of December 31, 2014 and 2013, respectively (see Note 20).

The fair value of the ALI shares held by the Company amounted to ₱232.9 billion and ₱171.2 billion as of December 31, 2014 and 2013, respectively. The voting rights held by the Company in ALI is 70.1% in 2014 and 2013.

Investment in AIVPL
In June 2014, AIVPL repurchased its 140,865,770 shares which were issued and registered in the name of Company, AIVPL's sole shareholder. The repurchase price was at par of US$1.00 per share for a total amount of US$140.9 million. AIVPL remained a wholly-owned subsidiary of the Company after the transaction.

Investment in MWC
In August and December 2013, the Company acquired 0.05 million and 140.0 million common shares, respectively, for a total consideration of ₱2.8 billion. The latter represents 5.7% ownership interest in MWC which resulted to an increase of ownership interest from 26.5% to 32.3%.

In 2014, there were no significant changes in the Company's investment in MWC.

The fair value of the MWC shares held by the Company amounted to ₱22.8 billion and ₱17.3 billion as of December 31, 2014 and 2013, respectively. The voting rights held by the Group in MWC as of December 31, 2014 and 2013 is 79.7% and 79.3%, respectively.

Investment in BHL
On various dates in 2014, the Company sold to ACIFL 9,835,709 redeemable preferred shares of BHL amounting to ₱4.5 billion for a total consideration of ₱5.1 billion. BHL remained a wholly-owned subsidiary of the Company after the transaction.

Investment in AAHC
In 2014, the Company subscribed to redeemable preferred shares of AAHC amounting to ₱450 million.

The redeemable preferred shares have the following features: (a) voting; (b) participating; (c) preferred in distribution of assets in case of liquidation and in payment of dividend; (d) redeemable at the option of AAHC, provided that in no case shall the redemption price be less than the cost of shares as recorded in the books of AAHC at the time of redemption.

In July 2013, the Company infused additional capital to AAHC amounting to ₱300 million. The infusion was used to fund the start-up costs of Volkswagen business.

Investment in AAC
The Company infused additional capital to AAC amounting to ₱268.72 million and ₱40.6 million in 2014 and 2013, respectively. The additional capital was used to purchase new aircrafts.

Investment in AC Infra
On various dates in 2014, the Company infused additional capital to AC Infra amounting to ₱925.0 million. The additional capital was used for operating and capital expenditures of AC Infra and investment in Light Rail Manila Holdings, Inc (see Note 12).

In 2013, the Company partially paid the subscription amounting to ₱50.0 million.

Investment in IMI
As of December 31, 2014 and 2013, the Company's investment in IMI includes ₱1.1 billion investment in IMI Preferred Shares. The IMI Preferred Shares have the following features: (a) voting; (b) dividends payable quarterly, cumulative; (c) nonconvertible; (d) preferred in distribution of assets in case of liquidation and in payment of dividends; (e) nonparticipating; (f) no pre-emptive rights; and (g) redeemable at the option of IMI at issue value after the 5th year issue anniversary.

In 2013, the Company acquired 460.0 million IMI Preferred Shares from Asiacom for an aggregate amount of ₱460.0 million. In November 2013, the dividend rate of IMI preferred shares has been re-priced from 8.25% to 2.9% per annum.

In 2014, IMI has completed its public offering and listing of 215.0 million common shares at an offer price of ₱7.50 per share, with a par value of ₱1.00 per share, raising ₱1.61 billion ($35.92 million) cash to fund capital expenditure, support business expansion, refinance debt and fund working capital requirements. The follow-on offering resulted in the Group's ownership interest in IMI reduced from 57.8% to 50.9%.

The fair value of the IMI shares held by the Company amounted to ₱9.3 million and ₱3.5 million as of December 31, 2014 and 2013, respectively. The voting rights held by the Group in IMI as of December 31, 2014 and 2013 is 63.7% and 70.2%, respectively.

Investment in LGSMI
In 2014 and 2013, the Company infused additional capital to LGSMI amounting to ₱389.0 million and ₱57.1 million respectively. The capital infusion was used for LGSMI's investment in Affordable Private Education Center (APEC) and Learning through Industry Collaboration (LIC).

Investment in PFIL
In August 2014, PFIL redeemed from the Company 3,500,000 shares amounting to ₱153.4 million. PFIL remained a wholly-owned subsidiary of the Company after the transaction.

Investment in MPM
In 2014, MPM was dissolved. The Company derecognized its investment amounting to ₱81.6 million.

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	**2014**	2013	**2014**	2013	2012
	(In Thousands)		(In Thousands)		
ALI	**₱68,438,083**	₱62,779,490	**₱10,454,204**	₱8,150,756	₱6,368,764
MWC	**27,382,229**	25,631,434	**2,678,153**	2,917,444	2,815,231
IMI	**4,849,118**	3,100,466	**560,988**	155,840	(21,296)

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

2014	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	**₱165,634,445**	**₱9,094,065**	**₱18,603,911**
Noncurrent assets	**223,310,018**	**65,765,839**	**6,113,164**
Current liabilities	**135,446,156**	**7,858,162**	**10,761,152**
Noncurrent liabilities	**131,502,849**	**31,900,171**	**3,032,366**
Dividends paid to non-controlling interests	**1,342,623**	**–**	**–**
Statement of comprehensive income			
Revenue	**₱95,197,046**	**₱16,357,145**	**₱37,764,880**
Profit (loss) attributable to:			
Equity holders of the parent	**14,802,642**	**5,813,089**	**1,302,113**
Non-controlling interests	**2,911,816**	**16,860**	**(5,619)**
Total comprehensive income attributable to:			
Equity holders of the parent	**14,851,119**	**5,948,616**	**1,038,034**
Non-controlling interests	**2,913,188**	**16,972**	**(5,619)**
Statement of cash flows			
Operating activities	**₱37,027,858**	**₱5,031,823**	**1,822,661**
Investing activities	**(53,948,544)**	**(759,497)**	**(142,914)**
Financing activities	**17,631,830**	**(4,999,553)**	**1,412,333**
Effect of changes in foreign exchange on cash and cash equivalents	**–**	**–**	**(25,053)**
Net increase (decrease) in cash and cash equivalents	**₱711,144**	**(₱727,227)**	**₱3,067,027**

**Translated using the exchange rate at the reporting date (US$1:₱44.72 in December 31, 2014)*

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)

**Translated using the exchange rate at the reporting date (US$1:₱44.395 in December 31, 2013)*

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.

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, 2014 and 2013 and for each of the three years in the period ended December 31, 2014.

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. 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 and disclosures</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, 2014. 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, which are effective for annual periods beginning on or after January 1, 2014.

The nature and impact of each new standard and amendment is described below:

Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
These amendments 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. The amendments must be applied retrospectively, subject to certain transition relief. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Group, since none of its investee companies qualifies to be an investment entity under PFRS 10.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

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 and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has no material impact on the disclosure in the Group's consolidated financial statements.

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. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010-2012 cycle)
In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group.

Annual Improvements to PFRSs (2011-2013 cycle)
In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently

throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

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.

PFRS 9, *Financial Instruments* – Classification and Measurement (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. 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 FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in 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 into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 may have an effect on the classification and measurement of the Group's financial assets, but may potentially have no significant impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA). The Group will continue to monitor developments in this reporting standard and assess its impact on or need for adoption.

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 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 following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

Effective January 1, 2015

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 2, *Share-based Payment – Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a 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 PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

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 are applied retrospectively and clarify that:
- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (*or PFRS 9, as applicable*).

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any significant impact to the Group.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new

plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits – regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of 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 derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 may have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group will continue to monitor developments in this reporting standard and assess its impact on or need for adoption by the Group.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 may have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption may also have an effect on the Group's application of hedge accounting. The Group will continue to monitor developments in this reporting standard and assess its impact on or need for adoption.

The following new standard issued by the IASB has not yet been adopted by the FRSC

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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.

<u>Cash and Cash Equivalents</u>
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.

<u>Short-term Investments</u>
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.

<u>Financial Instruments</u>
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, 2014 and 2013, 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.

Exchangeable bonds
In 2014, AYCFL issued exchangeable bonds (see Note 20). On issuance of exchangeable bonds, the proceeds are allocated between the embedded exchange option and the liability component. The embedded exchange option is recognized at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the exchange option.

The exchange option is subsequently carried at its fair value with fair value changes recognized in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on exchange or redemption.

When the exchange option is exercsed, the carrying amounts of the liability component and the exchange option are derecognized. The related investment in equity security of the guarantor is likewise derecognized.

At the AC Consolidated level, the exchangeable bond is classified as a compound instrument and accounted for using split accounting. The value allocated to the equity component at initial recognition is the residual amount after deducting the fair value of the liability component from the issue proceeds of the exchangeable bonds. Any transaction costs incurred in relation to the issuance of the exchangeable bonds is to be apportioned between the liability and equity component based on their values at initial recognition.

Subsequently, the liability component is carried at amortized cost using the effective interest rate method while the equity component is not revalued. When the convertion option is exercised, the carrying amount of the liability and equity component is derecognized and their balances transferred to equity. No gain or loss is recognized upon exercise of the conversion option.

Deposits, retentions payable and customers' guaranty and other deposits
Deposits, retentions payable and customers' deposits and other deposits are initially measured at fair value. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. 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). Deposits are amortized using the straight-line method with the amortization included under the "Rendering of services" account in the consolidated statement of income while

customers' guaranty and other deposits are amortized over the remaining concession period with the amortization included under "Interest and other financing charges" in the consolidated statement of income.

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, club shares, 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 or 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 development and 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. The Group uses the cost model in measuring investment properties since this represents the historical value of the properties subsequent to initial recognition. 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 investment properties follow:

Land improvements	8-40 years
Buildings	20-40 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 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, 2014 and 2013, 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.

<u>Combinations of entities under common control</u>
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or

recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparatives are presented as if the entities had always been combined.

The Group opted not to restate the comparative financial information in the consolidated financial statements as allowed by the Philippines Interpretations Committee (PIC) Q&A 2012-01.

The effects of intercompany transactions on current assets, current liabilities, revenues, and cost of sales for the current period presented and on retained earnings at the beginning of the current period presented are eliminated to the extent possible.

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” (APIC) 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 the Group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. The 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.

Leases

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.

<u>Commissions</u>
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.

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

<u>Borrowing Costs</u>
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.

<u>Pension Cost</u>
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.

<u>Income Tax</u>
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 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.

<u>Earnings Per Share</u>
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.

<u>Assets Held in Trust</u>
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 38).

<u>Operating Segments</u>
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.

<u>Contingencies</u>
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.

<u>Events after the Reporting Period</u>
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 though 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 (SCA)*, 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.

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 37).

<u>Management's Use of Estimates</u>
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.

Further details on receivables are disclosed in 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.

Further details on inventories and land and improvements are disclosed in Notes 8 and 11, respectively.

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.

Further details on investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets are disclosed in Notes 12, 13, 14, 15 and 16, respectively.

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.

Further details on investment properties, property, plant and equipment, service concession assets and intangible assets are disclosed in Notes 13, 14, 15 and 16, respectively.

Determining the fair value of investment properties
The Group discloses the fair values of its investment properties. The Group engaged independent valuation specialist to assess fair value as at December 31, 2014 and 2013. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Further details on investment properties assets are disclosed in Note 13.

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

Further details on deferred FCDA of MWC and BIWC are disclosed in Note 17.

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.

Further details on deferred tax assets are disclosed in 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, 2014 and 2013 amounted to ₱1.3 billion and ₱1.7 billion, 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.

Further details on the share-based payments recognized by the Group are disclosed in 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.

Further details on net benefit liability are disclosed 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. Further details arefair value of financial instruments are disclosed in Note 33.

5. Cash and Cash Equivalents

This account consists of the following:

	2014	2013
	(In Thousands)	
Cash on hand and in banks (Note 31)	**₱22,963,793**	₱22,728,761
Cash equivalents (Note 31)	**67,805,732**	42,926,288
	₱90,769,525	₱65,655,049

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 up to than one year and earn interest ranging from 0.5% to 2.0% in 2014 and 1.3% to 1.6% in 2013.

7. Accounts and Notes Receivable – net

This account consists of the following:

	2014	2013
	(In Thousands)	
Trade:		
Real estate	**₱57,898,143**	₱39,832,997
Electronics manufacturing	**8,587,953**	7,286,792
Water distribution and wastewater services	**1,991,179**	1,645,476
Automotive	**1,496,794**	985,390
Information technology and BPO	**202,829**	194,584
International and others	**5,050**	3,618
Advances to other companies	**21,173,727**	10,912,046
Advances to contractors and suppliers	**10,389,240**	8,837,924
Receivable from related parties (Note 31)	**2,709,445**	3,145,472
Receivable from officers and employees (Note 31)	**731,336**	507,042
Receivable from BWC	**529,501**	544,374
Investment in bonds classified as loans and receivables	**450,000**	1,000,000
Dividend receivable (Note 31)	**104**	1,412,577
Others (Note 31)	**138,202**	92,093
	106,303,503	76,400,385
Less allowance for doubtful accounts	**1,586,541**	1,776,400
	104,716,962	74,623,985
Less noncurrent portion	**32,006,450**	18,282,941
	₱72,710,512	₱56,341,044

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 3.00% to 16.00% 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, IMI Bulgaria, a subsidiary of IMI, has pledged receivables with UniCredit Bulbank amounting to $7.0 million (₱310.8 million) (see Note 20):

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 from 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 generally non-interest bearing and are due and demandable. Certain advances are interest bearing and subject to terms as agreed between the parties. 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 or delivery.

Receivables from BWC
Receivables from BWC pertain to the assigned recievables from the share purchase agreement between MWC and Veolia Water Philippines, Inc. (VWPI) related to the acquisition of VWPI's interest in Clark Water Corporation (CWC) in 2011.

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:

- ₱200.0 million investment in 7.25% unsecured subordinated notes of Land Bank of the Philippines (LBP) due 2019, callable with step-up interest in 2014. The note was redeemed in full by LBP on June 10, 2014.
- ₱100.0 million investment in 5.88% unsecured subordinated notes of Land Bank of the Philippines due 2022, callable in 2017.
- ₱200.0 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. As of December 31, 2014, the Company's investment in the bond amounted to ₱150 million since the investment was partially redeemed on November 2014. No gain or loss was recognized on the redemption.

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 2015 to 2026.

Others
Other receivables include accrued interest receivable and other nontrade receivables which are non-interest bearing and are due and demandable.

Movements in the allowance for doubtful accounts follow (in thousands):

	2014						
	Real Estate	**Electronics**	**Water Distribution and Wastewater Services**	**Automotive**	**Information Technology and BPO Services**	**Parent Co. and Others**	**Total**
At January 1	**₱507,507**	**₱96,397**	**₱540,719**	**₱23,542**	**₱7,370**	**₱600,865**	**₱1,776,400**
Provisions during the year (Note 23)	**136,774**	**–**	**29,025**	**1,154**	**2,242**	**13,188**	**182,383**
Writeoffs/Reversals	**(33,113)**	**(13,357)**	**–**	**–**	**–**	**(275,965)**	**(322,435)**
Reversals (Note 23)	**–**	**(38,129)**	**–**	**–**	**(4,784)**	**(6,894)**	**(49,807)**
At December 31	**₱611,168**	**₱44,911**	**₱569,744**	**₱24,696**	**₱4,828**	**₱331,194**	**1,586,541**
Individually impaired	**297,191**	**38,760**	**42,010**	**13,346**	**2,358**	**271,897**	**665,562**
Collectively impaired	**313,977**	**6,151**	**527,734**	**11,350**	**2,470**	**59,297**	**920,979**
Total	**₱611,168**	**44,911**	**₱569,744**	**₱24,696**	**₱4,828**	**₱331,194**	**₱1,586,541**
Gross amount of loans and receivables individually determined to be impaired	**₱297,191**	**₱38,760**	**₱42,010**	**₱13,346**	**₱2,358**	**₱271,897**	**₱665,562**

	2013						
	Real Estate	Electronics	Water Distribution and Wastewater Services	Automotive	Information Technology and BPO Services	Parent Co. and Others	Total
At January 1	₱324,197	₱100,949	₱493,646	₱23,542	₱17,333	₱586,262	₱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 (Note 23)	(1,258)	812	–	–	(12,113)	(392,036)	(404,595)
At December 31	₱507,507	₱96,397	₱540,719	₱23,542	₱7,370	₱600,865	₱1,776,400
Individually impaired	203,828	96,397	33,829	1,688	7,370	264,526	607,638
Collectively impaired	303,679	–	506,890	21,854	–	336,339	1,168,762
Total	₱507,507	₱96,397	₱540,719	₱23,542	₱7,370	₱600,865	₱1,776,400
Gross amount of loans and receivables individually determined to be impaired	₱203,828	₱96,397	₱33,829	₱1,688	₱7,370	₱264,526	₱607,638

On March 20, 2014, the long-outstanding receivables of IMI from a customer with an aggregate nominal amount of US$1.8 million (₱80.5 million) were converted to common shares of the customer. The corresponding allowance for doubtful accounts on these receivables were reversed accordingly.

As of December 31, 2014 and 2013, certain real estate receivables and receivables from officers and employees with a nominal amount of ₱66.4 billion and ₱46.7 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, 2014 and 2013 follow:

	2014	2013
	(In Thousands)	
Balance at beginning of the year	**₱4,387,807**	₱2,524,764
Additions during the year	**773,302**	3,575,225
Accretion for the year	**(1,678,252)**	(1,712,182)
Balance at end of the year	**₱3,482,857**	₱4,387,807

In 2014, the ALI Group entered into an agreement with Bank of the Philippine Islands (BPI) for the sale of interest bearing employee receivables amounting to ₱105.4 million at 6% interest rate. The transaction was without recourse and did not result to any gain or loss.

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).

On April 29, 2011, LIL granted promissory notes to two IQ Backoffice officers. The notes have an aggregate amount of ₱27.3 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 IQ Backoffice (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:

	2014	2013
	(In Thousands)	
At cost:		
Subdivision land for sale	**₱25,948,283**	₱16,854,931
Condominium, residential and commercial units	**21,937,355**	26,920,259
Vehicles	**1,704,711**	1,171,478
Finished goods	**769,085**	354,134
Work-in-process	**594,980**	432,008
Materials, supplies and others	**2,369,019**	1,544,821
	53,323,433	47,277,631

(Forward)

	2014	2013
	(In Thousands)	
At NRV:		
Subdivision land for sale	**₱524,158**	₱524,158
Finished goods	**16,237**	316,576
Work-in-process	**–**	176,749
Parts and accessories	**199,164**	168,451
Materials, supplies and others	**899,172**	1,714,921
	1,638,731	2,900,855
	₱54,962,164	₱50,178,486

A summary of the movement of real estate inventories is set out below.

2014

	Subdivision land for sale	**Condominium, residential and commercial units**	**Total**
		(In Thousands)	
Opening balances at January 1	**₱17,379,089**	**₱26,920,259**	**₱44,299,348**
Land acquired during the year	**7,223,854**	**1,165,866**	**8,389,720**
Land cost transferred from land and improvements	**4,528,267**	**6,108,313**	**10,636,580**
Construction/development costs incurred	**3,581,001**	**13,612,708**	**17,193,709**
Disposals (recognized as cost of sales)	**(6,617,596)**	**(26,108,603)**	**(32,726,199)**
Transfers from / to investment properties and other assets	**301,247**	**387,164**	**688,411**
Other adjustments/reclassifications	**76,579**	**(157,021)**	**(80,442)**
Exchange differences	**–**	**8,669**	**8,669**
	₱26,472,441	**₱21,937,355**	**₱48,409,796**

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)
Exchange differences	–	(21,304)	(21,304)
Other adjustments/reclassifications	(1,623)	–	(1,623)
	₱17,379,089	₱26,920,259	₱44,299,348

Inventories recognized as cost of sales amounted to ₱77.8 billion, ₱66.5 billion and ₱55.3 billion in 2014, 2013 and 2012, respectively, and were included under “Costs of sales” in the consolidated statement of income.

The Group recorded provision for inventory obsolescensce amounting to ₱149.1 million, ₱105.7 million and ₱330.8 million in 2014, 2013 and 2012, respectively. The provision is included under “General and administrative expenses” in the consolidated statement of income (see Note 23).

The Group recognized gain from sale of scrapped packaging supplies amounting to US$0.6 million (₱26.6 million), US$0.9 million (₱39.0 million) and loss amounting to US$1.8 million (₱72.8 million) in 2014, 2013 and 2012, respectively. These gains and losses are included under “Other income” in the consolidated statement of income (see Note 23).

As of December 31, 2013, IMI BG's pledged inventories with UniCredit Bulbank amounted to $11.04 million (₱490.1 million).

9. Other Current Assets

This account consists of the following:

	2014	2013
	(In Thousands)	
Prepaid expenses	**₱10,882,300**	₱7,708,414
Financial assets at FVPL	**10,374,780**	17,916,513
Input VAT	**5,768,622**	3,660,057
Deposits in escrow	**5,332,733**	6,743,298
Creditable withholding tax	**2,231,651**	2,068,934
Concession financial receivable	**76,914**	77,459
Derivative assets (Notes 32 and 33)	**8,835**	456,768
Others	**480,723**	562,577
	₱35,156,558	₱39,194,020

Prepaid expenses

Prepaid expenses mainly include prepayments for commissions, marketing fees and promotion, taxes and licenses, rentals and insurance.

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$37.7 million (₱1.7 billion) and US$36.2 (₱1.6 billion) as of December 31, 2014 and 2013, 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. There were no mark-to-market gains recognized from the TRG investments in 2014, 2013 and 2012.

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 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.

In 2014 and 2013, the Group made additional investment in TRG investments amounting to US$1.6 million and US$2.8 million, respectively, representing capital call for the year.

As of December 31, 2014 and 2013, the Group's remaining capital commitment with the TRG Investments amounted to US$5.7 million and US$7.3 million, respectively.

Unit Investment Trust Fund (UITF) investments
The Group started investing in the BPI Short Term Fund (the BPI Fund) in July 2013. The BPI 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 BPI Fund. As of December 31, 2014 and 2013, the fair value of the Group's total investment in the BPI Fund amounted to ₱5.6 billion and ₱12.8 billion, respectively.

ARCH Fund
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. As of December 31, 2014 and 2013, the carrying amount of the Fund amounted to US$13.0 million (₱581.4 million) and US$27.4 million (₱1,214.8 million), respectively.

On various dates in 2014 and 2013, the Fund made capital calls where the Group's share amounted to US$2.0 million and US$0.1 million, respectively. In 2014 and 2013, the Fund returned capital amounting to US$17.4 million (₱778.1 million) and US$19.2 million (₱858.6 million), respectively.

As of December 31, 2014 and 2013, the Group's remaining capital commitment with the Fund amounted to US$7.0 million and US$9.0 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. (the Fund II), which had its first closing on June 30, 2011. As of December 31, 2014 and 2013, the carrying amount of the Fund II amounted to US$36.0 million (₱1,609.9 million) and US$37.8 million (₱1,676.8 million), respectively.

On various dates in 2014 and 2013, the Fund II made capital calls where the Group's share amounted to US$48.5 million and US$36.6 million, respectively. In 2014 and 2013, the Fund returned capital amounting to US$20.0 million (₱894.4million) and US$0.4 million (₱17.8 million), respectively.

As of December 31, 2014 and 2013, the Group's remaining capital commitment with the Fund II amounted to US$1.5 million and US$13.4 million, respectively.

On July 1, 2014, the Company, through one of its subsidiaries, committed to invest 10% of capital raised, capped at US$50.0 million in ARCH Capital's third real estate fund, ARCH Capital-TRG Asian Partners III, L.P. (the Fund III). As of December 31, 2014, the carrying amount of the investment in the Fund III amounted to US$5.1 million (₱228.1 million).

As of December 31, 2014, the Group's remaining capital commitment with the Fund III amounted to US$12.2 million.

As of December 31, 2014, ARCH Fund I has existing real estate project in Macau called The Concordia, has successfully sold 100% across Phases 1 to 3. Phase 1 units have been handed over to buyers and expect to be fully transferred in 1st quarter of 2015. The decrease in the amount in ARCH Fund 1 was mainly due to the return of capital amounting to US$14.5million in 2014, that arose due to the Phase 1 transfer proceeds. Assuming timely release of government permits, Phase 2 units will commence handover of units to buyers within 1st quarter of 2015 and Phase 3 units unit 2nd half of 2015.

At BHL level, the Group has a direct interest of 2.975% in The Concordia through Glory High (see Note 12). There is a shareholder advance to Glory High amounting to US$4.7 million in 2013 which was fully paid in 2014 via distributions from Glory High. Income from investment amounting to US$9.5 million was recorded in 2014 arising from distributions from Glory High after settling the shareholder advances. Similarly, these funds were from Phase 1 transfer proceeds. Assuming timely release of government permits, Phase 2 units will commence handover of units to buyers within 1st quarter of 2015 and Phase 3 units unit 2nd half of 2015.

Net changes in fair value of financial assets at FVPL is included under “Other income” in the consolidated statement of income (see Note 23).

<u>Input VAT</u>
Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

<u>Deposits in escrow</u>
Deposits in escrow pertain to the proceeds from the sales of ALI Group generated from new projects without the permanent License To Sell (LTS) but are provided with a temporary LTS by the Housing and Land Use Regulatory Board (HLURB). For projects with temporary LTS, 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.

<u>Creditable withholding tax</u>
The Group will be able to apply the creditable withholding taxes against income tax payable.

<u>Concession financial receivable</u>
Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between CMWD and Metropolitan Cebu Water District (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 in the first year.

The breakdown of the concesion financial receivable is as follows:

	2014	2013
	(In Thousands)	
Current	**₱76,914**	₱77,459
Noncurrent	**899,070**	603,905
	₱975,984	₱681,364

10. Investments in Bonds and Other Securities

This account consists of investments in:

	2014	2013
	(In Thousands)	
AFS financial assets		
Quoted equity investments	**₱1,916,799**	₱1,241,869
Unquoted equity investments	**1,275,497**	1,439,637
	3,192,296	2,681,506
Quoted debt investments	**239,919**	103,301
	₱3,432,215	₱2,784,807

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)
The Group, through BHL, has acquired a 10% ownership interest in CII for US$15.9 million in 2012. CII is listed on the Ho Chi Minh City Stock Exchange (HOSE) and 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.

BHL has an indirect holding in CII via its investment in joint venture, VinaPhil Technical Infrastructure Investment Stock Company (VinaPhil) (see Note 12). As of December 31, 2013, Vinaphil has 16,920,000 shares amounting to VND 415 billion (US$19.9 million). In 2014, Vinaphil has disposed 14,928,890 shares, acquired additional shares of 114,530 shares and has gained 30,194,707 shares from the conversion of convertible bonds. As of December 31, 2014, Vinaphil has 32,300,347 shares in CII amounting to VND 516 billion (US$24.68 million).

The carrying amount of the investment in CII amounted to US$10.9 million (₱487.0 million) and US$10.3 million (₱459.2 million) as of December 31, 2014 and 2013, 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).

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 (₱182.0 million). In 2014, the Group received a return on capital from TRG SOF and GOF amounting to US$5.5 million (₱246.0 million) (see Note 23).

Red River Holdings (Red River)
Red River 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 to US$10.0 million. The carrying amount of the investment in Red River amounted to US$8.5 million (₱380.1 million) and US$10.4 million (₱460.4 million) as of December 31, 2014 and 2013, respectively. In 2014, Red River returned capital amounting to US$4.7 million (₱210.2 million).

In 2012, the Group recorded a provision for impairment loss on its investment in Red River amounting to ₱61.1 million (see Note 23).

Victoria 1522 Investments, LP (Victoria)
Victoria is an investment management firm exclusively focused on the emerging markets of Asia, Latin America, Europe, Middle East and Africa. The Group committed to invest US$1.0 million in Preferred C units of Victoria. The carrying amount of the investment on Victoria amounted to nil and US$0.9 million as of December 31, 2014 and 2013, respectively. In 2014, the Group fully impaired the investment in Victoria.

Glory High
Glory High is a property development company with projects in Macau. The carrying amount of the investment in Glory High amounted to US$0.6 million as of December 31, 2014 and 2013.

Quoted Debt Investments
Quoted debt investments in 2013 consist mainly of government securities such as retail treasury bonds. These bonds earn interest ranging from 6.25% to 8.25% in 2013 with maturity dates up to five years. All the quoted debt investments matured in 2014

Quoted debt investments in 2014 includes investments in CII convertible bonds amounting to US$5.4 million (₱239.9 million). The bonds bear interest rate of 12% per annum and will mature 5 years from issue date. The bonds are convertible at the option of the bond holder.

The net unrealized gain (loss) on AFS financial assets as reflected in the equity section is broken down as follows:

	2014	2013
	(In Thousands)	
Net unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries	**₱834,185**	(₱421,595)
Share in the net unrealized gain on AFS financial assets of associates and jointly-controlled entities	**(841,396)**	699,443
	(₱7,211)	₱277,848

The rollforward of unrealized gain (loss) on AFS financial assets of the Company and its consolidated subsidiaries is as follows:

	2014	2013
	(In Thousands)	
At January 1	**(₱421,595)**	₱469,519
Changes in fair value recognized in equity	**1,926,410**	(873,047)
Recognized in profit and loss	**(670,630)**	(18,067)
At December 31	**₱834,185**	(₱421,595)

11. **Land and Improvements**

The rollforward analysis of this account follows:

	2014	2013
	(In Thousands)	
Cost		
At January	**₱62,984,927**	₱49,728,125
Additions	**28,604,686**	29,446,957
Transfers*	**(11,119,540)**	(16,190,155)
Disposals	**(61)**	–
At December 31	**80,470,012**	62,984,927
Allowance for decline in value		
At January 1 and December 31	**(510,125)**	(510,125)
	₱79,959,887	₱62,474,802

**Transfers pertain to land to be developed for sale and included under "Real estate inventories" account.*

On November 26, 2014, Alveo Land Corporation (Alveo), a wholly owned subsidiary of ALI, acquired a 6,986 sq. m. property located along Valero St., Salcedo Village, Makati City for ₱1.6 billion.

On September 15, 2014, Alveo acquired on installment a 2,400 square meters. property located along Ayala Avenue, Makati for ₱1.2 billion payable until 2015.

In 2012, ALI won the public bidding for the purchase of the 74-hectare Food Terminal, Inc. (FTI) property in Taguig City. 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:

	2014	2013
	(In Thousands)	
Acquisition cost	**₱127,252,199**	₱98,667,066
Accumulated equity in earnings	**27,186,995**	24,403,130
Other comprehensive loss	**(1,674,340)**	(3,266,110)
	₱152,764,854	₱119,804,086

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	
	2014	2013	**2014**	2013
Domestic:			(In Millions)	
Bank of the Philippine Islands (BPI)	**32.6%**	32.6%	**₱65,811**	₱52,635
Ayala DBS Holdings, Inc. (ADHI)*	**73.8**	73.8	**35,943**	29,072
Globe Telecom, Inc. (Globe)*	**30.4**	30.4	**16,321**	15,371
GNPower Mariveles Coal Plant Ltd. Co (GNPower)	**17.0**	–	**7,164**	–
Philippine Wind Holdings Corporation (PWHC)*	**75.0**	75.0	**4,218**	2,180
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**4,113**	3,993
South Luzon Thermal Energy Corp. (SLTEC)*	**50.0**	50.0	**3,513**	3,070
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,815**	1,955
Cebu District Property Enterprise, Inc. (CDPEI)*	**42.0**	–	**1,492**	–
Bonifacio Land Corporation (BLC)	**10.0**	10.0	**1,356**	1,395
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**1,142**	1,097
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	**49.0**	49.0	**697**	501
Light Rail Manila Holdings, Inc. (LRMHI)	**50.0**	–	**563**	–
Mercado General Hospital, Inc. (MGHI)	**33.0**	33.0	**422**	360
SIAL Specialty Retailers, Inc.*	**50.0**	50.0	**332**	209
Northwind Power Development Corp.* (Note 24)	**50.0**	50.0	**324**	466
SIAL CVS Retailers, Inc.*	**50.0**	50.0	**153**	162
Automated Fare Collections Services, Inc. (AFCSI)	**10.0**	–	**144**	–
Foreign:				
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	**49.0**	49.0	**2,258**	2,200
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	**47.4**	47.4	**2,018**	1,863
Integreon, Inc. (Integreon) (British Virgin Islands Company)*	**58.7**	58.7	**961**	1,449
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	**49.0**	49.0	**723**	590
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	**31.5**	31.5	**686**	645
Tianjin Eco-City Ayala Land Development Co., Ltd. (incorporated in China)	**40.0**	40.0	**484**	543
Stream Global Services, Inc. (Stream) (U.S. Company)	**–**	28.9	**–**	3,329
Others	**Various**	Various	**112**	48
			152,765	123,133
Reclassification to noncurrent asset held for sale			**–**	(3,329)
			₱152,765	₱119,804

** 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 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 follows:

BPI	**2014**	2013
	(In Millions, except earnings per share)	
Total resources	**₱1,450,197**	₱1,195,364
Total liabilities	**1,303,518**	1,089,557
Net interest income and other income	**55,787**	52,498
Total expenses	**37,725**	33,504
Net income	**18,062**	18,994
Other comprehensive income	**(45)**	(4,638)
Total comprehensive income	**18,017**	14,356
Net income attributable to:		
Equity holders of the bank	**18,039**	18,811
Non-controlling interests	**23**	183
Earnings per share:		
Basic and diluted	**4.62**	5.19
Dividends received from BPI	**1,153**	2,086

TDW	**2014**	2013
	(In Thousands)	
Current assets	**₱102,233**	₱104,451
Noncurrent assets	**2,558,962**	2,712,849
Current liabilities	**399,688**	352,739
Noncurrent liabilities	**260,590**	800,602
Revenue	**770,317**	655,427
Net income	**444,296**	441,449
Dividends received from TDW	**–**	87,749

The conversion rate used was ₱0.0021 to VND1 as of December 31, 2014 and 2013.

KDW	**2014**	2013
	(In Thousands)	
Current assets	**₱654,567**	₱126,091
Noncurrent assets	**2,594,523**	2,383,454
Current liabilities	**346,204**	522,501
Noncurrent liabilities	**1,510,063**	1,115,527
Revenue	**464,796**	150,829
Net income	**236,114**	161,880

The conversion rate used was ₱0.0021 to VND1 as of December 31, 2014 and 2013.

BLC	**2014**	2013
	(In Thousands)	
Current assets	**₱24,747,739**	₱23,612,217
Non-current assets	**20,183,121**	21,013,477
Current liabilities	**4,785,573**	4,895,150
Non-current liabilities	**4,903,468**	3,693,719
Revenue	**9,186,619**	8,067,041
Cost and expenses	**(5,819,431)**	(5,511,372)
Net income	**3,367,188**	2,555,669

Financial information on significant joint ventures (amounts in millions, except earnings per share figures) follows:

Globe	2014	2013
Current assets, including cash and cash equivalents amounting to ₱16.8 billion in 2014 and ₱7.4 billion in 2013	**₱46,742**	₱35,631
Noncurrent assets	**132,765**	123,448
Current liabilities including financial liabilities* amounting to ₱6.1 billion in 2014 and ₱11.2 billion in 2013	**60,350**	54,989
Noncurrent liabilities, including financial liabilities* amounting to ₱59.1 billion in 2014 and ₱58.1 billion in 2013	**64,619**	62,450
Revenue	**103,236**	95,141
Interest income	**683**	688
Costs and expenses		
Depreciation and amortization	**18,123**	27,477
Interest expense	**2,566**	2,912
Provision for income tax	**6,011**	1,905
Net income	**13,372**	4,960
Other comprehensive loss	**(238)**	(213)
Total comprehensive income	**13,134**	4,747
Earnings per share:		
Basic	**100.60**	37.25
Diluted	**100.36**	37.22
Dividends received from Globe	**3,025**	2,701

**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:

	2014	2013
	(In Millions)	
Carrying amount	**₱21,894.0**	₱17,268.0
Equity in net earnings	**399.6**	(181.1)
Share in other comprehensive income	**187.6**	828.9

As of December 31, 2014 and 2013, the Group had total commitments relating to the Group's interests in its associates and joint ventures amounting to ₱11,050.0 million and ₱3,787.5 million, respectively (see Note 36).

As of December 31, 2014 and 2013, the Group has not incurred any contingent liabilities 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

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, 2014 and 2013, outstanding payable to DBS in relation to the transaction amounted to ₱3.3 billion and ₱14.2 billion, respectively.

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. On January 20, 2014, the offer period for the stock rights offering of BPI started at an offer price of ₱67.5 per rights share. The Company, MHI and ADHI participated in the stock rights offering by subscribing to 114.4 million, 7.7 million and 79.8 million common shares, respectively, amounting to ₱7.7 billion, ₱0.5 billion and ₱5.4 billion, respectively. The Company's share in the subscription of ADHI was ₱3.98 billion representing 58.9 million common shares.

The fair value of the BPI shares held by the Group amounted to ₱112.8 billion and ₱92.3 billion as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the notional goodwill resulting from the difference between the share in the net assets in BPI and its carrying value amounted to ₱19.1 billion.

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., an entity managed and controlled by GIC Special Investments Pte. Ltd. (GICSI) 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 January 2014, the Company infused additional capital to ADHI in the form of subscriptions which amounted to ₱4.0 billion. The proceeds was used for ADHI's participation in the stock rights offering of BPI by subscribing to 79.8 million common shares amounting to ₱5.4 billion.

As of December 31, 2014 and 2013, ADHI owns 837.6 million and 757.8 million common shares of BPI, respectively, representing a direct ownership interest in BPI of 21.3%. The fair value of BPI shares held by ADHI amounted to ₱78.7 billion and ₱64.4 billion as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the notional goodwill resulting from the difference between the share in the net assets in ADHI and its carrying value amounted to ₱6.1 billion.

The Company 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 Globe

On August 8, 2014, the SEC approved Globe's offering of 20.0 million non-voting perpetual preferred shares with an aggregate issue size of ₱7.0 billion with an oversubscription option of up to ₱3.0 billion. On August 15, 2014, the 20.0 billion shares were fully subscribed and issued. Dividends on this preferred shares is at fixed 5.2006% per annum calculated in respect to each preferred share in relation to the offer price of ₱500 per share, redeemable by Globe on the 7th year.

The fair value of the Globe shares held by the Company amounted to ₱69.4 billion and ₱65.5 billion as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the notional goodwill resulting from the difference of the share in the net assets in Globe and its carrying value amounted to ₱2.9 billion.

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, 2014 and 2013. The Company does not exercise control over Asiacom since it is a joint venture with Singapore Telecommunications Limited (SingTel).

Investment in GNPower
On May 30, 2014 AC Energy Holdings,Inc. through its wholly owned subsidiary, ACE Mariveles Power Ltd. Co (AMPLC), signed a sale and purchase agreement with Arlington Mariveles Netherlands Holding B.V. (AMNHB) to purchase the 17.02% limited partnership interest and 0.08% General Partnership interest in GN Power Mariveles Coal Plant Ltd. Co. (GMCP) for a consideration amounting to US$163.9 million (₱7.2 billion).

On June 17, 2014, AMPLC and AMNHB closed the acquisition of the GMCP interests and entered into Deeds of Assignment to assign the GMCP Interests to the AMPLC, subject to fulfillment of certain post-closing conditions as required by the GMCP financing agreements.

Investment in ECHI, BHI and BLC
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.

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 Neo Oracle Holdings, Inc. ([formerly Metro Pacific Corporation (MPC)] as amended:

(a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC 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 interests in BLC representing 50.38% of BLC's outstanding capital stock. The assignment was effected by MPC 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 MPC 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 MPC, 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.

Investment in PWHC
On July 12, 2013, ACEHI signed an Investment Framework Agreement and Shareholders' Agreement with UPC Philippines Wind Holdco I B.V. (UPC), a wholly-owned company of UPC Renewable Partners and the Philippine Investment Alliance for Infrastructure fund (PINAI), 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 81 Megawatt (MW) 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 (DOE). 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, 2014 and 2013, ACEHI's total capital commitment on its investments in PWHC amounted to ₱2.1 billion and ₱2.5 billion, respectively.

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 MW power plant in Calaca, Batangas. The power plant will employ the environment-friendly Circulating Fluidized Bed boiler technology. The construction officially commenced in December 2011for its first of two units, Units 1 and 2, coal power plant both with a generating capacity of 135MW each. SLTEC will operate as a base load plant to serve the anticipated demand for power in the Luzon grid. As of December 31, 2014, Unit 1 and 2 is 100% completed and 88.4% complete, respectively. Unit 1 is currently under testing and commissioning phase and is expected to be operational by the 1st quarter of 2015. Unit 2 is currently under construction and is expected to be completed by the 4th Quarter of 2015.

In various dates in 2013, ACEHI infused additional capital to SLTEC amounting to ₱1,184.0 million.

On January 15, 2014 and February 14, 2014, ACEHI paid the subscribed shares of stock amounting to ₱316.00 million and ₱175.00 million, respectively.

As of December 31, 2014 and 2013, ACEHI's total capital commitment on its investment in SLTEC amounted to ₱105.0 million and ₱231.0 million, respectively.

Investment in CDPEI
CDPEI was incorporated on February 20, 2014 and is a 50-50 joint venture between ALI and Aboitiz Land, Inc. CDPEI's main purpose is to create a mixed-use commercial and residential district with the 15.4 hectare property in Subangdaku, Mandaue. On April 11, 2014, ALI assigned 10% and 5% of its equity interest in CDPEI to Cebu Holdings, Inc. and Cebu Property Ventures Development Corporation, respectively.

Investment in Light Rail Manila Holdings, Inc. (LRMHI)
LRMHI was incorporated on June 23, 2014, as a holding company for the LRT 1 Cavite extension project. LRMHI holds 70% of the total equity of Light Rail Manila Corporation (LRMC), the project company established for the construction, operation and maintenance of the LRT 1 Cavite extension project. AC Infra owns 50% of the shares of LRMHI that ultimately resulted to a 35% interest in LRMC.

As of December 31, 2014, AC Infra's total equity investment commitment for the LRT 1 project amounts to ₱8.5 billion.

Investment in Stream
On January 7, 2014, LiveIt and its two private equity partners, Ares Management and Providence Equity Partners, entered into an agreement with Convergys Corporation to sell their 100% combined interest in Stream subject to satisfaction of customary closing conditions, including receipt of applicable regulatory approvals. The investment in Stream amounting to ₱3.4 billion is shown as Noncurrent Asset Held for Sale as of December 31, 2013 in the consolidated statement of financial position.

On March 4, 2014, the transaction achieved financial close with LiveIt realizing a gain amounting to ₱1.8 billion (see Note 23).

Thu Duc Water B.O.O. Corporation (TDW)
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 ₱1.8 billion (VND858 billion). The investment in TDW include notional goodwill amounting to ₱1.4 billion as of December 31, 2014 and 2013.

Kenh Dong Water Supply Joint Stock Company (KDW)
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 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.

The 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 notional goodwill amounting to ₱1.4 billion. MWC also received ₱62.9 million from KDWH as indemnification for the damages resulting from the delay in operations.

Saigon Water Infrastructure Joint Stock Company (SWI)
On October 8, 2013, MWC thru its subsidiary Manila Water South Asia Holdings Pte. Ltd (MWSAH) entered into a Investment Agreement with SWI to acquire a 31.47% interest. The acquisition cost of the investment amounted to ₱627.9 million (VND310.5 billion). The share purchase transaction was completed on October 8, 2013.

The investment in SWI includes notional goodwill amounting to ₱288.8 million as of December 31, 2014 and 2013.

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 Vietnamese 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 VND132.3 billiion (US$6.35 million). The redemption of the shares did not alter the ownership structure of VinaPhil.

In 2014, the Group, together with CII and other Vietnamese investors, proportionately acquired additional shares in VinaPhil wherein the Group's shares amounted to VND15.4 billion (US$0.7 million). The additional investment did not alter the ownership structure of VinaPhil. VinaPhil holds 9% interest in CII as of December 31, 2014.

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.

Investment in AFCSI
AFCSI was incorporated on February 10, 2014 and is engaged in the design, construction, installation and operation and maintenance of a contactless automated fare collection system for public utility transport facilities. AC Infra owns 10% of the total shares and voting interest of AFCSI.

AFCSI is the project company that will develop and operate the ₱1.72 billion contactless Automated Fare Collection Systems (AFCS) project awarded by the Department of Transportation and Communications to the AF consortium last January 30, 2014. On March 31, 2014, the Concession and Accession Agreements were signed and executed.

As of December 31, 2014, AC Infra's total equity investment commitment for the project amounts to ₱500.0 million.

13. **Investment Properties**

The movements in investment properties follow:

2014

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱10,775,471**	**₱63,591,094**	**₱4,118,138**	**₱78,484,703**
Additions	**1,752,477**	**3,862,165**	**7,470,659**	**13,085,301**
Transfers	**(880,194)**	**5,224,265**	**(5,139,747)**	**(795,676)**
Disposals	**(4,921)**	**(744,842)**	**(512,272)**	**(1,262,035)**
Balance at end of the year	**11,642,833**	**71,932,682**	**5,936,778**	**89,512,293**
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	**26,616**	**15,300,864**	**–**	**15,327,480**
Depreciation and amortization (Note 23)	**–**	**2,878,035**	**–**	**2,878,035**
Transfer	**–**	**9,336**	**–**	**9,336**
Disposals	**–**	**(26,803)**	**–**	**(26,803)**
Balance at end of the year	**26,616**	**18,161,432**	**–**	**18,188,048**
Net book value	**₱11,616,217**	**₱53,771,250**	**₱5,936,778**	**₱71,324,245**

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
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

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.

The aggregate fair value of the Group's investment properties amounted to ₱234.5 billion in 2014 and ₱232.9 billion in 2013. 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, and were determined by independent professionally qualified appraisers.

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 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.

Interest capitalized amounted to ₱76.1 million, ₱113.5 million and ₱189.9 million and in 2014, 2013 and 2012, respectively.

Consolidated rental income from investment properties amounted to ₱16.4 billion in 2014, ₱13.3 billion in 2013 and ₱13.2 billion in 2012. Consolidated direct operating expenses arising from the investment properties amounted to ₱5.5 billion in 2014, ₱4.1 billion in 2013 and ₱3.1 billion, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱2.9 billion, ₱2.5 billion and ₱1.5 billion in 2014, 2013 and 2012, respectively (see Note 23).

14. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2014						
	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	**₱9,601,612**	**₱12,151,848**	**₱13,695,918**	**₱5,873,788**	**₱2,727,877**	**₱683,782**	**₱44,734,825**
Additions	**1,275,250**	**2,668,427**	**818,371**	**945,498**	**585,989**	**474,606**	**6,768,141**
Additions through business combination (Note 24)	**22,357**	**–**	**–**	**–**	**–**	**–**	**22,357**
Disposals	**(428,545)**	**(1,729,153)**	**(8)**	**(560,045)**	**(410,411)**	**(6,561)**	**(3,134,723)**
Transfers	**(56,464)**	**70,767**	**(15)**	**(45,696)**	**(50,963)**	**(228,408)**	**(310,779)**
Exchange differences	**(41,481)**	**(244,663)**	**–**	**30,911**	**(2,785)**	**(13,410)**	**(271,428)**
At December 31	**10,372,729**	**12,917,226**	**14,514,266**	**6,244,456**	**2,849,707**	**910,009**	**47,808,393**
Accumulated depreciation and amortization and impairment loss							
At January 1	**3,573,075**	**6,503,803**	**2,749,520**	**4,536,675**	**1,488,283**	**–**	**18,851,356**
Depreciation and amortization for the year (Note 23)	**616,999**	**980,800**	**504,217**	**724,776**	**248,050**	**–**	**3,074,842**
Disposals	**(308,118)**	**(861,284)**	**–**	**(403,387)**	**(346,797)**	**–**	**(1,919,586)**
Exchange differences	**13,799**	**(175,545)**	**–**	**10,783**	**(401)**	**–**	**(151,364)**
At December 31	**3,895,755**	**6,447,774**	**3,253,737**	**4,868,847**	**1,389,135**	**–**	**19,855,248**
Net book value	**₱6,476,974**	**₱6,469,452**	**₱11,260,529**	**₱1,375,609**	**₱1,460,572**	**₱910,009**	**₱27,953,145**

	2013						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Trwsansportation 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

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱3.1 billion in 2014, ₱3.0 billion in 2013 and ₱2.9 billion in 2012 (see Note 23).

The carrying values of the Group's equipment under finance lease amounted to US$4.5 million (₱199.4 million) and US$5.9 million (₱264.1 million) as of December 31, 2014 and 2013, respectively (see Note 30).

The cost of fully depreciated property, plant and equipment amounted to ₱11.5 billion and ₱8.8 billion as of December 31, 2014 and 2013, respectively.

On August 27, 2014, IMI Group entered into an agreement with DBS Trustee Limited (in its capacity as trustee of Soilbuild Business Space REIT) for a purchase consideration of SGD22.4 million (US$ 17.2 million), subject to the fulfillment of certain conditions precedent. The cost of the property amounted to US$4.7 million with accumulated depreciation of US$2.05 million.

On December 23, 2014, the transaction was completed and the Group recognized a gain on sale of the property amounting to US$14.3 million (₱651.2 million) (see Note 23). Expenses related to the sale amounted to US$0.2 million (₱8.9 million).

As of December 31, 2014, the carrying value of IMI Group's pledged equipment with BNP Paribas amounted to US$1.55 million (₱69.3 million).

On May 15, 2014, GNPower Kauswagan Ltd. Co. ("GNPK") entered into an Engineering, Design and Procurement Agreement, Construction and Supply Agreement and Coordination Agreement with Shanghai Electric Power Construction Co. Ltd., the effectivity of which was conditioned on the happening of certain conditions precedent, such as the closing of project financing for GNPK. GNPK is the project company for the 4 x 135MW Coal Fired Power Generation Facility in Kauswagan, Lanao Del Norte (the "Kauswagan Power Plant Project").

15. **Service Concession Assets and Obligations**

<u>Service Concession Assets</u>
The movements in this account follow:

	2014	2013
	(In Thousands)	
Cost		
At January 1	**₱92,222,739**	₱86,728,953
Additions during the year	**4,114,659**	5,457,889
Transfers (Note 23)	**–**	35,897
At December 31	**96,337,398**	92,222,739
Accumulated amortization		
At January 1	**18,468,332**	15,433,554
Amortization (Note 23)	**3,032,433**	3,034,778
At December 31	**21,500,765**	18,468,332
Net book value	**₱74,836,633**	₱73,754,407

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 ₱377.7 million and ₱299.5 million in 2014 and 2013, respectively. The capitalization rates used range from 7.01% to 8.78% in 2014 and 4.16% to 7.06% in 2013.

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 ₱253.9 million in 2013.

The Company has a concession agreement with the DPWH while the MWC Group has concession agrewsements with MWSS, POL, TIEZA and CDC. These concession agreements set forth the rights and obligations of the Company and MWC Group throughout the concession period (see Note 36).

<u>Service Concession Obligation</u>

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. Advances as of December 31, 2014 and 2013 amounted to ₱102.8 million and ₱124.2 million, respectively.

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 BIWC.

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 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. The remaining balance of the advances amounted to ₱4.2 million and ₱27.7 million as of December 31, 2014 and 2013, respectively.

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:

Year	In Original Currency Foreign Currency Denominated Loans (Translated to US Dollars)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2015	$7,871,129	₱395,714,907	₱747,711,806
2016	8,682,118	395,714,907	783,979,212
2017	6,927,835	395,714,907	705,527,673
2018	7,107,025	395,714,907	713,541,071
2019 onwards	51,784,480	7,518,583,229	9,834,385,161
	$82,372,587	₱9,101,442,857	₱12,785,144,923

**Peso equivalent is translated using the PDEx closing rate as of December 31, 2014 amounting to ₱44.72 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:

2014

	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Total
					(In Thousands)					
Cost										
At January 1	₱5,243,079	₱1,211,713	₱4,128	₱4,105	₱240,607	₱295,999	₱84,733	₱66,604	₱180,953	₱7,331,921
Additions during the year	–	–	–	–	57,436	3,054	–	–	12,730	73,220
Additions through business combination (Note 24)	10,983	–	–	–	–	–	–	–	365,243	376,226
Exchange differences	49,331	9,839	–	–	32,963	–	–	–	–	92,133
At December 31	5,303,393	1,221,552	4,128	4,105	331,006	299,053	84,733	66,604	558,926	7,873,500
Accumulated amortization and impairment loss										
At January 1	1,689,549	991,204	4,128	4,105	67,146	253,772	84,733	41,952	19,486	3,156,075
Amortization (Note 23)	–	64,695	–	–	89,196	–	–	12,394	–	166,285
Impairment (Note 23)	335,731	–	–	–	–	–	–	–	–	335,731
Exchange differences	(1,271)	9,417	–	–	23,799	–	–	–	–	31,945
At December 31	2,024,009	1,065,316	4,128	4,105	180,141	253,772	84,733	54,346	19,486	3,690,036
Net book value	₱3,279,384	₱156,236	₱–	₱–	₱150,865	₱45,281	₱–	₱12,258	₱539,440	₱4,183,464

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

Goodwill pertains to 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):

	2014		2013	
	In US$	**In Php***	In US$	In Php*
Speedy Tech Electronics, Ltd. (STEL)	**US$45,128**	**₱2,018,124**	US$45,128	₱2,003,458
IMI USA	**657**	**29,381**	657	29,168
IMI CZ	**650**	**29,068**	650	28,857
IMI Philippines	**441**	**19,722**	441	19,578
Psi	**–**	–	7,479	332,030
	US$46,876	**₱2,096,295**	US$54,355	₱2,413,091

**Translated using the PDEx closing exchange rate at the statement of financial position date (US$1:₱44.72 in 2014 and US$1:₱44.395 in 2013).*

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 post-tax discount rates applied to cash flow are as follows:

	2014	2013
STEL Group	**10.18%**	13.07%
Psi	**11.07%**	14.11%
IMI USA	**8.47%**	13.69%
IMI CZ	**10.50%**	12.73%

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:

- Forecasted 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 2014, 2013 and 2012.

For PSi, the assessment resulted in an impairment loss for the remaining balance of goodwill amounting to US$7.5 million (₱335.7 million) in 2014 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 in 2013 and 2012.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of STEL Group, 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 with IMI Philippines as testing and development department.

The recoverable amount was based on the market price of the IMI'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 2014, 2013 and 2012.

MWC and Philwater
Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million. The recoverable amount in 2014 and 2013 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 2014 used a discounted cash flow model. The cash flows are derived from the budget for the next 36 years and assumes a steady growth rate. MWC used the remaining concession life of CWC, which is a period longer than the maximum of five years. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model. The post-tax discount rate applied to cash flows projections is 10.45% for 2014.

The carrying value of goodwill amounted to ₱130.3 million as of December 31, 2014 and 2013. 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:

	2014	2013
	(In Thousands)	
Wind Power	**₱411,031**	₱411,031
Hydro Power	**55,424**	55,424
	₱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 post-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 2014 and 2013.

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 post-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 2014 and 2013.

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$12.9 million (₱576.9 million) is fully amortized as of December 31, 2014 and 2013.

Developed software
Developed software pertains to IQ BackOffice's (IQB), a subsidiary of AIVPL, 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

17. Pension and Other Noncurrent Assets

This account consists of the following:

	2014	2013
	(In Thousands)	
Deposits	**₱6,654,046**	₱6,611,799
Concession financial receivable (Note 9)	**899,070**	603,905
Deferred charges	**474,470**	271,048
Deferred FCDA	**141,189**	55,407
Leasehold rights	**100,100**	106,819
Pension assets (Note 27)	**19,064**	9,156
Others	**8,542,462**	358,344
	₱16,830,401	₱8,016,478

<u>Deposits</u>
Deposits and advances for projects 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). Management decided not to reverse the FiT contingent consideration on the grounds that the previous owners of NorthWind may still decide to pursue the transaction. In February 2014, the previous owners of Northwind signed the arbitration procedures. Interest income earned on the escrow account amounted to ₱2.9 million and ₱3.0 million in 2014 and 2013, respectively.

As of December 31, 2014, the arbitration proceedings between the previous owners of Northwind and ACEHI has not started.

Deferred charges
Deferred charges mainly consist of deposits made for implementation of marketing strategies for acquisition and development of real estate projects.

Deferred FCDA
Deferred FCDA refers to the unrecovered amounts from (amounts for refund to) customers of MWC for realized losses (gains) from payments of foreign loans on 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.

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, 2014 and 2013 amounted to ₱27.3 million and ₱20.6 million, respectively. Amortization expense amounted to ₱6.7 million in 2014, 2013 and 2012.

Others
Others include restricted cash that are not available for use by the Group and therefore are not highly liquid. These pertain to AYCFL's money market placements amounting to US$185.0 million (₱8.3 billion) (see Note 31) in BPI that were used as collateral for the Company's ₱8.0 billion long term-debt (see Note 20).

18. Accounts Payable and Accrued Expenses

This account consists of the following:

	2014	2013
	(In Thousands)	
Accounts payable	**₱73,540,123**	₱63,198,549
Accrued expenses		
Project costs	**17,321,785**	11,983,222
Personnel costs	**3,772,205**	2,694,816
Rental and utilities	**3,497,019**	2,330,388
Professional and management fees	**2,703,201**	1,801,971
Advertising and promotions	**2,371,634**	1,115,532
Repairs and maintenance	**1,694,872**	1,516,026
Various operating expenses	**1,328,853**	3,230,745
Taxes payable	**11,292,425**	6,067,957
Dividends payable	**2,845,013**	2,093,323
Related parties (Note 31)	**2,458,817**	4,107,009
Interest payable (Note 31)	**2,261,525**	2,272,458
Retentions payable	**1,014,364**	1,192,251
	₱126,101,836	₱103,604,247

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 2014 and 2013, 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 ₱3.3 billion and ₱14.2 billion, respectively (see Note 12).

Accrued expenses consist mainly of accruals already incurred but not yet billed for film share, postal and communication, supplies, 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.

Taxes payable consists of net output VAT, withholding taxes, business taxes, and other statutory payables, which are due within one year.

19. Other Current Liabilities

This account consists of:

	2014	2013
	(In Thousands)	
Customers' deposits	**₱9,161,743**	₱5,362,355
Nontrade payables	**278,407**	5,614,201
Installment payable	**7,376**	11,667
Derivative liability (Note 33)	**4,755**	3,470
	₱9,452,281	₱10,991,693

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 to the Group.

Nontrade payables pertain mainly to non-interest bearing real estate-related payables to contractors 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.

20. Short-term and Long-term Debt

Short-term debt consists of:

	2014	2013
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 2.0% to 8.0% per annum in 2014 and 1.21% to 8.0% per annum in 2013	**₱16,919,900**	₱12,114,451
Foreign currency debt - with interest rates ranging from 1.1% to 2.55% in 2014, 1.05% to 3.0% over 1 month EURIBOR in 2013	**4,164,369**	3,696,834
	₱21,084,269	₱15,811,285

ALI Group
The short-term debt of ALI Group amounted to ₱16.3 billion and ₱12.4 billion as of December 31, 2014 and 2013, respectively, represent unsecured peso-denominated bank loans and dollar-denominated bank loans with various interest rates.

AAHC Group
The Philippine peso debt of AAHC Group pertains to short-term loans with various banks amounting to ₱2.0 billion and ₱1.1 billion as of December 31, 2014 and 2013, respectively. These loans are unsecured and bear interest rate of 2.7% to 2.9% per annum in 2014 and 3.0% to 4.3% per annum in 2013.

AIVPL Group
The Philippine peso debt of AIVPL Group pertains to short-term loans with various banks amounting to ₱275.0 million and ₱254.0 million as of December 31, 2014 and 2013, respectively. These loans are unsecured and bear interest rates ranging from 6.0% to 8.0% in 2014 and 7.0% to 8.0% in 2013.

BHL Group
BHL's loans are unsecured dollar-denominated bank loans amounting to US$3.9 million (₱173.2 million) as of December 31, 2014 and bear interest rate of 5.0%.

IMI Group

IMI Philippines

As of December 31, 2014 and 2013, IMI Philippines has short-term loans aggregating to US$29.0 million (₱1,296.9 million) and US$24.0 million (₱1,065.5 million), respectively. The loans have maturities ranging from 30-180 days and fixed interest rates ranging from 1.75% to 2.20% in 2014 and 1.9% to 2.4% in 2013.

PSi

PSi has short-term loans and trust receipts payable to a local bank amounting to US$9.2 million (₱411.4 million) and US$9.4 million (₱418.2 million) as of December 31, 2014 and 2013, 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 2.23% to 2.53% in 2014 and 2.16% to 2.57% in 2013. This credit facility is renewable annually, and the current term is until May 30, 2015.

As of December 31, 2014 and 2013, the outstanding trust receipts payable amounted to US$0.4 million (₱17.4 million) and US$0.2 million (₱9.8 million), respectively.

The undrawn credit facility amounted to US$0.4 million (₱17.9 million) and US$0.6 million (₱25.7 million) as of December 31, 2014 and 2013, respectively.

IMI BG

In 2013, IMI BG has short-term loans from the following banks (in thousands):

	In US$	In Php*
UniCredit Bulbank	US$5,167	₱229,389
BNP Paribas	1,380	61,265
	US$6,547	₱290,654

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

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, IMI BG’s pledged inventories and receivables with UniCredit Bulbank amounted to $18.05 million (₱801.3 million).

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.

IMI BG's loan with UniCredit Bulbank as of December 31, 2013 amounting to $5.17 million was fully settled in the first quarter of 2014. The short-term loan with BNP Paribas was refinanced as long-term in 2014.

STEL

The loans of STEL amounting to $13.5 million (₱603.72 million) are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 1.73% to 2.55% in 2014 and 2.30% to 2.39% in 2013, 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 (₱98.4 million) as of December 31, 2013, resepectively, with term not exceeding twelve (12) months and bears interest on LIBOR plus 2%.

Long-term debt consists of:

	2014	2013
	(In Thousands)	
The Company:		
Bank loans - with interest rates ranging from 2.7% to 4.3% per annum in 2014 and 0.7% to 3.8% per annum in 2013 and varying maturity dates up to 2020	**₱21,171,095**	₱13,193,780
Bonds due 2017	**9,957,982**	9,941,761
Bonds due 2019	**9,925,168**	9,912,239
Bonds due 2021	**9,930,244**	9,921,802
Bonds due 2027	**9,920,501**	9,914,072
Syndicated term loans	**–**	2,938,575
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
	60,904,990	58,638,672
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 0.50% to 6-month LIBOR plus 1.5% spread per annum in 2014 and 3 months LIBOR to 3% in 2013	**45,284,334**	32,392,171
Philippine peso - with interest rates ranging from 2.02% to 10.21% in 2014 and 1.06% to 12% in 2013 (Note 23)	**42,443,993**	32,189,740
Bonds:		
Exchangeable bonds due 2019	**12,247,531**	–
Due 2014	**–**	620,195
Due 2015	**986,710**	992,460
Due 2016	**1,982,700**	1,999,650
Due 2019	**9,292,190**	9,281,120
Due 2020	**3,969,010**	3,964,465
Due 2022	**5,615,067**	5,608,377
Due 2024	**14,875,092**	14,864,568
Due 2025	**7,922,131**	–
Due 2033	**1,982,330**	1,981,840
	146,601,088	103,894,586

(Forward)

	2014	2013
	(In Thousands)	
Floating Rate Corporate Notes (FRCNs)	**₱1,000,000**	₱1,000,000
FXCNs	**29,254,380**	26,336,604
	30,254,380	27,336,604
	237,760,458	189,869,862
Less current portion	**10,761,443**	11,842,519
	₱226,999,015	₱178,027,343

Reconciliation of carrying amount against nominal amount follows:

	2014	2013
	(In Thousands)	
Nominal amount	**₱238,851,638**	₱190,742,889
Unamortized discount	**(1,091,180)**	(873,027)
	₱237,760,458	₱189,869,862

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 ₱13.3 billion and ₱9.8 billion as of December 31, 2014 and 2013, respectively, in accordance with Bangko Sentral ng Pilipinas (BSP) regulations. All credit facilities of the Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

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 Company in December 2013.

Bonds due on 2017

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 PhilRatings.

Bonds due on 2021

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 (5th) 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 (8th) 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.

Bonds due on 2027

In May 2012, the Company issued 6.875% Fixed Rate Bonds with an aggregate principal amount of ₱10.0 billion to mature in May 2027. On the tenth (10th) anniversary from the Issue Date and every year thereafter until the fourteenth (14th) 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 outstanding bonds. The Bonds have been rated "PRS Aaa" by PhilRatings.

Bonds due on 2019
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 (4th) anniversary from the Issue date and every year thereafter until the sixth (6th) 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 outstanding bonds. The Bonds have been rated "PRS Aaa" by PhilRatings.

Bank loans - with interest rates ranging from 1.4% to 3.8% per annum in 2012 and 1.7% to 3.8% per annum in 2011 and varying maturity dates up to 2019
In October and November 2012, the Company availed ₱2.0 billion and ₱5.0 billion loan from various banks to mature in 2017 and 2019, respectively. The ₱2.0 billion loans shall have 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 reverse repurchase (RRP) rate, whichever is higher. The ₱5.0 billion loans shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) or the BSP 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 ₱4.3 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 ₱4.3 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.

On January 24, 2014, the Company issued promissory note to BPI amounting to ₱8.0 billion with principal repayment of 5%, 5% and 90% on end of third year, fourth year and fifth year, respectively. The loan under this note (including interest, charges, and those taxes for which the Company is liable under the terms of Loan Agreement) was secured by an assignment of deposits belonging to AYCFL (see Note 17).

Syndicated term loans
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 6.725% and 6.70% per annum, respectively. In June 2011, the Company prepaid in full the ₱2.0 billion 5-year FXCN with a fixed interest rate of 6.725% per annum. In October 2014, the Company paid in full the ₱1.5 billion FXCNs.

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. The loan was prepaid in full by the Company in December 2014.

Fixed rate corporate noted (FXCNs)
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 August 2014, the Company paid in full the ₱3.0 billion FXCNs.

Subsidiaries
On December 16, 2010, AYCFL entered into a 6-year syndicated term loan facility with a foreign bank with the Company as guarantor for US$229.2 million. On November 16, 2011 and December 12, 2012, AYCFL drewdown US$100.0 million and US$129.2 million on the syndicated term loan facility at a rate of 1.46 basis points over the 1-, 3- or 6-month US$ LIBOR at the Company's option.

On March 28, 2011, AYCFL entered into a US$150.0 million 6.5-year transferrable term loan facility with a foreign bank. The transferrable term loan facility was subsequently amended on September 28, 2012 and on August 30, 2013. On September 5, 2013 and January 7, 2014, AYCFL drewdown US$50.0 million and US$100.0 million on the transferrable term loan facility at a rate of 139.4 basis points over the 1-, 3- or 6-month LIBOR at the Company's option.

On September 28, 2012, AYCFL entered into a 3-year revolving credit facility with a foreign bank, with the Company as guarantor for US$20.0 million. On January 7, 2014, AYCFL drewdown the full amount of the revolving credit facility with interest rate of 86.67 basis points over the 1-, 3- or 6-month LIBOR at the Company's option.

On November 28, 2013, AYCFL, entered into a 5-year syndicated term loan with a foreign bank, with the Company as guarantor, for US$ 225.0 million. On January 14, 2014, AYCFL drewdown the full amount of the term loan at a rate of 135 basis points over the 1-, 3- or 6-month LIBOR at the Company's option.

AYCFL Exchangeable Bonds
On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The exchange option entitles the bondholders to exchange the Bonds for ALI's common shares at any time on or after June 11, 2014 up to the close of business on the 10th day prior to maturity date, or if such bonds shall have been called for redemption by AYCFL before the maturity date, then up to the close of business on a date no later than 10 days prior to the date fixed for redemption. The exchange price per principal amount to be exchanged, translated into at the fixed exchange rate of ₱44.31/US$1.00, is equal to 36.48, subject to anti-dilutive adjustments contingent on certain events. The exchange option was assessed to be an equity component of the Bonds at the consolidated financial statements as the Bonds are denominated in the functional currency of AYCFL and to be settled by the Group through issuance of a fixed number of ALI's common shares.

The put option entitles the bondholders to require AYCFL to redeem, in whole or in part, the Bonds on May 2, 2017 (put option date) at 100% of the principal amount together with accrued and unpaid interest. Moreover, if a change of control event occurs (the change of control put) or in the event that the common shares of ALI are delisted or suspended from trading for a period of more than 20 consecutive trading days (the delisting put), the bondholders may require AYCFL to redeem the Bonds, in whole but not in part, at 100% of the principal amount together with accrued and unpaid interest.

The early redemption option gives the right to AYCFL to redeem the Bonds, in whole but not in part, at any time after May 2, 2017 at 100% of the principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the closing price of the common shares of ALI (translated into US$ at the prevailing average to US$ exchange rate as published by BSP) for any 30 consecutive trading days was at least 130% of the exchange price then in effect (translated into US$ at the fixed exchange rate of ₱44.31/US$1.00). In addition, if at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued or if a tax event occurs, AYCFL may redeem the Bonds, in whole but not in part, at 100% of principal amount together with accrued and unpaid interest.

The put and early redemption options were assessed to be embedded derivatives that are clearly and closely related to the host contract, therefore, not required to be bifurcated. As the Bonds were determined to be a compound instrument at the consolidated level, (i.e., it has liability and an equity component which pertains to the exchange option), the Group applied split accounting. The value allocated to the equity component at issue date amounted ₱1.1 billion, being the residual amount after deducting the fair value of the liability component amounting to ₱11.9 billion from the issue proceeds of the Bonds.

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%.

As of December 31, 2014, Cooperatief had already paid €4.00 million ($5.3 million).

Below is the amortization schedule:

Due Dates	In EUR	In USD
2015	€2,000,000	$2,679,600
2016	2,000,000	2,679,600
2017	2,000,000	2,679,600
2018	4,248,743	5,692,466
	€10,248,743	$13,731,266

IMI BG

IMI BG has a long-term debt from BNP Paribas that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013 and no borrowing costs were capitalized in 2014.

The credit facility with BNP Paribas is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with the carrying value of $1.55 million.

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.

MWC Group

MWC 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, 2014 and 2013, the carrying value of the loan amounted to JPY992.1 million and JPY1,271.4 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, 2014 and 2013, the outstanding balance amounted to US$5.9 million and US$9.8 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. This loan facility has neither been activated nor disbursed and was consequently cancelled in November 2014.

Land Bank of the Philippines (LBP) Loan
On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with LBP 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, 2014 and 2013, outstanding balance of the LBP loan amounted to JPY2,527.9 million and JPY2,862.1 million, respectively.

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, 2014, MWC has not made any drawdown from the facility.

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 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 JPY1,755.1 million and US$9.3 million as of December 31, 2014 and JPY2,433.6 million and US$13.0 million as of December 31, 2013. MWC decided to prepay the EIB Loan effective February 20, 2015.

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, 2014 and 2013 amounted to US$108.8 million and US$125.3 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.

Philippine Peso Debt

MWC Group
MWC
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, 2014 and 2013 amounted to ₱9.83 billion and ₱9.9 billion, 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, 2014 and 2013 amounted to ₱5.00 billion.

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.

Prior to the execution of the Omnibus Amendment Agreement, the obligation of MWC to pay amounts due and owing committed to be repaid to the lenders under the existing facilty agreements were secured by Assignemnet of Interest by Way of Security executed by the Company in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by MWC, the lenders and their appointed trustee.

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.

In November and December 2014, MWC signed the Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing MWC more operational and financial flexibility.

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 ₱396.6 million and ₱462.1 million as of December 31, 2014 and 2013, 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, 2014 and 2013 amounted to ₱498.7 million and ₱496.3 million, respectively.

On January 9, 2014, LAWC excercised its option to avail of the second tranche of its loan agreement with DBP to finance its water network and supply projects, including the development of a well-field network on the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, DBP provided additional loans to LAWC in the aggregate principal amount of ₱833.0 million. The first and second drawdowns were made in January 2014 and May 2014, respectively, amounting to ₱416.5 million each. The carrying value of the loans amounted to ₱830.8 million as of December 31, 2014.

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, 2014 and 2013 amounted to ₱487.6 million and ₱494.5 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 and the second loan drawdown on August 26, 2014 amounted to ₱200.0 million. The carrying value of the loan as of December 31, 2014 and 2013 amounted to ₱271.4 million and ₱72.8 million, respectively.

On October 9, 2014, BIWC signed a Third Omnibus Loan and Security Agreement in the amount of ₱650.0 million with SBC. The loan will be used to fund the capital expenditures which will be used to provide water and sewerage services in the concession area of BIWC.

CMWD
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.

The first drawdown made on December 20, 2013 amounted to ₱541.1 million, the second drawdown made on May 20, 2014 amounted to ₱195.6 million and the third drawdown made on November 14, 2014 amounted to ₱14.2 million. The carrying value of the loan as of December 31, 2014 and 2013 amounted to ₱741.0 million and ₱537.1 million, respectively.

ALI Group
The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2024 with floating interest rates at 60 to 80 basis points spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 3.26% 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 20to 75 basis points

<u>5-Year Bonds due 2013</u>
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 2014 and 2013. On August 14, 2013, ALI completed the final redemption of its bond issue with aggregate principal of ₱4.0 billion.

<u>Philippine Peso Homestarter Bond due 2014</u>
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, 2014 and 2013, outstanding bond issued amounted to nil and ₱620.2 million, respectively.

<u>Philippine Peso Homestarter Bond due 2015</u>
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.

<u>Philippine Peso Homestarter Bond due 2016</u>
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 ALI. As of December 31, 2014 and 2013, outstanding balance amounted to ₱100.0 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 ₱2.0 billion 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.

Philippine Peso 8.0 Billion Fixed Rate Bonds due 2025
In April 2014, ALI issued a total of ₱8.0 billion bonds due 2025 at a fixed rate equivalent to 5.625% p.a. The Bonds have been rated PRS Aaa by ("PhilRatings"), indicating that obligor's capacity to meet its financial commitment on the obligation is extremely strong.

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, 2014 and 2013.

Total interest paid amounted to ₱12.0 billion in 2014, ₱10.1 billion in 2013 and ₱8.4 billion in 2012.

Interest capitalized by subsidiaries amounted to ₱453.7 million in 2014, ₱580.2 million in 2013, and ₱533.8 million in 2012. The average capitalization rate is 7.01% to 8.78% in 2014, 4.16% to 7.06% in 2013, and 2.06% to 7.23% in 2012.

21. Other Noncurrent Liabilities

This account consists of the following:

	2014	2013
	(In Thousands)	
Deposits and deferred credits	**₱15,450,637**	₱12,676,476
Estimated liability on property developments	**3,999,529**	–
Retentions payable	**3,925,798**	3,654,350
Provisions (Note 37)	**1,013,825**	861,360
Liability for purchased land	**203,329**	7,260,101
Others	**1,047,793**	375,651
	₱25,640,911	₱24,827,938

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 and guaranty deposits from customers for the set-up of new connections which will be refunded to the customers upon termination of the customers' water service connection or at the end of the concession, whichever comes first.

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.

Estimated liability on property developments
Estimated liability on property development pertains to the estimate for additional project cost to be incurred for future development.

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.

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):

	2014		2013	
	(In US$)	**(In Php)**	(In US$)	(In Php)
Total outstanding advances from the local customers	**$1,742**	₱77,902	$2,030	₱90,166
Less: Current portion	**299**	13,371	288	12,786
Noncurrent portion	**$1,443**	₱64,531	$1,742	₱77,380

**Translated using the closing exchange rate at the reporting date (US$1:₱44.72 in 2014 and US$1:₱44.395 in 2013)*

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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	(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	**619,436**	599,438	**–**	–	**20,000**	20,000	**–**	–	**200,000**	200,000
Outstanding shares										
At beginning of year	**599,438**	593,689	**–**	12,000	**20,000**	–	**–**	–	**200,000**	200,000
Issued new common shares	**18,779**	–	–	–	–	–	–	–	–	–
Issued shares on exercise of share options	**451**	550	**–**	–	**–**	–	**–**	–	**–**	–
Subscribed shares	**768**	15	**–**	–	**–**	–	**–**	–	**–**	–
Treasury stock										
Reissuance	–	5,184	–	–	**27,000**	20,000	–	–	–	–
Acquisition/ Redemption	–	–	**–**	(12,000)	–	–	–	–	–	–
At end of year	**619,436**	599,438	**–**	–	**47,000**	20,000	–	–	**200,000**	200,000

Common Shares

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 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.

In November 2014, the Company issued 18,779,100 common shares at a price of ₱660 per share through top-up placement. The top-up placement entails issuance by the Company of equal number of shares at the same price, with Mermac Inc. as the seller in the placement tranche and subscriber in the subscription tranche. The top-up placement resulted to recognition of the Company of ₱939.0 million and ₱11.3 billion increase in common stock and APIC net of direct expenses, respectively.

All proceeds of the placement were remitted to the Company to support its investments in power and infrastructure projects.

Preferred Shares

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 Company 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 Company BOD approved and authorized the exercise of the 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 Company BOD approved and authorized the exercise of the 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 Company BOD approved and authorized the re-issuance and offering of the Preferred B shares for an aggregate amount of ₱10 billion. The Preferred B Series 1 shares were offered at a price of ₱500 per share with a fixed quarterly dividend rate of 5.25% per annum.

On August 22, 2014, the Company BOD approved and authorized the re-issuance and offering of the Preferred B Series 2 shares for an aggregate amount of ₱13.5 billion. The Preferred B Series 2 shares were offered at a price of ₱500 per share with a fixed quarterly dividend rate of 5.575%. The reissuance resulted to the Company recognizing ₱10.7 billion APIC net of direct expenses from re-issuance.

Preferred C shares
Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Company under such terms that the Company BOD may approve at the time of the issuance of the shares.

Voting Preferred shares
On March 15, 2010, the Company 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 Company 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 July 17, 2012, the Company 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 Company 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.

On November 6, 2014, the Company re-issued 2.7 million Preferred B shares held as treasury shares. The re-issuance increased total outstanding preferred B shares to 47.0 million.

The details of the Company's paid-in capital follow:

2014

	Preferred Stock - A	Preferred Stock – B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
At January 1, 2014	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱29,821,726**	**₱150,176**	**₱13,432,506**	**(₱438,279)**	**₱50,166,129**
Exercise/ cancellation of ESOP/ESOWN	–	–	–	**22,530**	**38,420**	**660,682**	**(277,588)**	**444,044**
Reclassification of ESOWN shares	–	–	–	**16,786**	**(16,786)**	–	–	–
Issuance of new common shares	–	–	–	**938,955**	–	**11,298,256**	–	**12,237,211**
Reissuance of treasury stocks	–	–	–	–	–	**10,724,121**	–	**10,724,121**
At December 31, 2014	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱30,799,997**	**₱171,810**	**₱36,115,565**	**(₱715,867)**	**₱73,571,505**

2013

	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, 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 Stock	–	–	–	–	–	9,558,859	–	9,558,859
Redemption of preferred shares	–	–	–	–	–	(4,800,000)	–	(4,800,000)
As of 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

The movements in the Company's outstanding number of common shares follow:

	2014	2013	2012
		(In Thousands)	
At January 1	**599,438**	593,689	577,257
Issuance of new common shares	**18,779**	–	–
Exercise of ESOP/ESOWN	**1,219**	565	1,432
Reissuance of Treasury stock	**–**	5,184	15,000
At December 31	**619,436**	599,438	593,689

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	**2014** Number of holders of securities as of December 31	2013 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	**6,891**	7,033
Preferred A shares	12,000,000	₱100 par value; ₱500 issue price	November 11, 2008	None***	None***
Preferred B shares-Series 1****	20,000,000	₱100 par value; ₱500 issue price	October 31, 2013	**16**	3
Preferred B shares-Series 2*****	20,000,000	₱100 par value; ₱500 issue price	October 17, 2014	**3**	–
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 15, 2010	**1,007**	994

**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-Series 1 shares were re-issued on November 15, 2013.*
******The Preferred B-Series 2 shares were re-issued on November 6, 2014.*

Retained Earnings

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates and joint ventures accounted for under the equity method amounting to ₱77,702.0 million, ₱64,307.3 million and ₱55,450.0 million as of December 31, 2014, 2013 and 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, 2014 and 2013 amounted to ₱27.0 billion and ₱23.3 billion, respectively.

Dividends consist of the following:

	2014	2013	2012
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱2,927,822**	₱2,877,477	₱2,344,246
Cash dividends per share	**4.80**	4.80	4.00
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred A shares	–	–	532,800
Cash dividends to Preferred B shares	**1,277,625**	525,000	–
Cash dividends to Voting Preferred shares	**3,750**	3,750	10,563

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, 2014, 2013 and 2012.

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, short-term investments and restricted cash. The Company considers as capital the equity attributable to equity holders of the Company.

	2014	2013
	(In Thousands)	
Short-term debt	**₱21,084,269**	₱15,811,285
Long-term debt	**237,760,458**	189,869,862
Total debt	**258,844,727**	205,681,147
Less:		
Cash and cash equivalents	**90,769,525**	65,655,049
Short-term investments	**1,102,703**	119,345
Restricted cash	**8,273,200**	–
Net debt	**₱158,699,299**	₱139,906,753
Equity attributable to owners of the parent	**₱185,664,151**	₱143,476,281
Debt to equity	**139.4%**	143.4%
Net debt to equity	**85.5%**	97.5%

The Company is not subject to externally imposed capital requirements.

23. Other Income and Costs and Expenses

Other income consists of:

	2014	2013	2012
		(In Thousands)	
Revenue from rehabilitation works (Note 14)	**₱3,285,900**	₱5,160,312	₱6,037,467
Gain on sale of investments (Notes 11 and 12)	**2,633,329**	190,296	67,847
Gain on sale of other assets	**711,001**	19,382	26,588
Revenue from management contracts	**645,087**	624,424	518,468
Connection fees	**496,377**	646,109	102,266
Mark to market gain on financial assets at FVPL and derivatives (Notes 9 and 31)	**392,002**	1,345,800	351,167
Dividend income	**224,767**	173,031	180,547
Recoveries of accounts written off (Note 7)	**49,807**	404,595	367,415
Insurance claim	**40,131**	23,891	25,458
Foreign exchange gain/(loss) (Note 31)	**(177,404)**	113,226	306,431
Remeasurement gain arising from business combination (Note 24)	**–**	–	593,853
Others	**879,257**	605,789	68,226
	₱9,180,254	₱9,306,855	₱8,645,733

"Others" 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:

	2014	2013	2012
		(In Thousands)	
Personnel costs (Notes 27 and 30)	**₱9,466,055**	₱8,657,801	₱6,440,028
Depreciation and amortization (Notes 13, 14, 15 and 16)	**7,981,039**	7,526,263	6,196,599
Rental, utilities and supplies	**6,223,666**	6,468,249	4,250,922
Professional and management fees	**5,980,762**	4,246,499	2,150,607
Taxes and licenses	**1,821,705**	2,028,640	1,001,047
Repairs and maintenance	**1,664,722**	888,370	950,238
Contract labor	**353,468**	508,047	347,081
Transportation and travel	**164,247**	658,799	206,954
Insurance	**230,036**	212,692	194,372
Others	**609,982**	291,326	1,251,956
	₱34,495,682	₱31,486,686	₱22,989,804

"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:

	2014	2013	2012
		(In Thousands)	
Personnel costs (Notes 27 and 30)	**₱8,451,329**	₱7,476,239	₱6,476,914
Taxes and licenses	**1,203,119**	938,430	525,786
Depreciation and amortization (Notes 13, 14, 15 and 16)	**1,177,156**	1,117,642	999,303
Professional fees	**1,171,376**	1,021,964	984,608
Advertising and promotions	**540,951**	375,341	246,935
Rental and utilities	**481,518**	453,620	287,917
Transportation and travel	**415,097**	325,861	279,509
Donations and contributions	**360,208**	358,441	499,680
Contract labor	**314,895**	153,342	278,140
Repairs and maintenance	**276,481**	236,864	238,192
Insurance	**203,413**	160,066	133,329
Postal and communication	**203,296**	207,042	164,424
Provision for doubtful accounts (Note 7)	**182,383**	686,094	719,398
Entertainment, amusement and recreation	**159,620**	76,551	120,279
Provision for inventory obsolescence (Note 8)	**149,077**	105,702	330,822
Supplies	**124,169**	159,782	106,999
Dues and fees	**93,359**	89,352	107,370
Research and development	**47,133**	94,431	90,164
Others	**276,420**	577,077	262,293
	₱15,831,000	₱14,613,841	₱12,852,062

"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:

	2014	2013	2012
		(In Thousands)	
Included in:			
Costs of sales and services	**₱7,981,039**	₱7,526,263	₱6,196,599
General and administrative expenses	**1,177,156**	1,117,642	999,303
	₱9,158,195	₱8,643,905	₱7,195,902

Personnel costs included in the consolidated statement of income follow:

	2014	2013	2012
		(In Thousands)	
Included in:			
Costs of sales and services	**₱9,466,055**	₱8,657,801	₱6,440,028
General and administrative expenses	**8,451,329**	7,476,239	6,476,914
	₱17,917,384	₱16,134,040	₱12,916,942

Interest and other financing charges consist of:

	2014	2012	2011
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱131,939**	₱914,214	₱259,734
Long-term debt	**10,439,736**	7,552,952	6,126,583
Amortization of service concession obligations and deposits	**576,757**	613,142	418,362
Amortization of discount on long-term debt	**313,730**	274,518	267,612
Others	**471,619**	1,156,606	1,083,039
	₱11,933,781	₱10,511,432	₱8,155,330

“Others” include, among others, various charges such as, pretermination costs, bond offering fees, and credit card charges.

Other charges consist of:

	2014	2013	2012
		(In Thousands)	
Cost of rehabilitation works (Note 15)	**₱3,285,900**	₱5,161,312	₱6,284,542
Provision for impairment losses on:			
Goodwill (Notes 16 and 24)	**335,731**	31,830	–
AFS financial assets (Note 10)	**66,834**	228,580	61,076
Property, plant and equipment (Note 14)	**–**	222	11,575
Investment properties (Note 13)	**–**	400	19,500
Write offs and other charges	**2,080**	–	150,392
Others	**138,476**	58,472	285,267
	₱3,829,021	₱5,480,816	₱6,812,352

“Others” include cost and expenses relating to income derived from ancillary services of subsidiaries as shown in the other income.

24. **Business Combinations and Transactions with Non-controlling Interests**

2014 Acquisitions

GN Power Kauswagan, Ltd. Co.
On July 30, 2013, ACEHI signed a Limited Partnership Agreement (LPA) with Power Partners Ltd. Co. (PPLC) to build and operate a 4x135 MW coal-fired power facility in Kauswagan, Lanao del Norte. Along with this, AC Energy GP Corporation, a wholly owned subsidiary of ACEHI was incorporated. AEGC and ACEHI will be the general partner and limited partner, respectively, for the development company related to the partnership. PPLC on the other hand incorporated GNPower Holdings Philippines GP Corp. (GPHP). GPHP and PPLC will be the general partner and limited partner, respectively, for the development company related to the partnership. Accordingly, ACEHI and PPLC each subscribed to 49.6% Class A Partnership Interest and AGPC and GPHP each subscribed to 0.40% Class A Partnership interest in KPHLC.

On November 12, 2013, KPHLC, together with Kauswagan Power GP Corp. (KPGPC), established GN Power Kausawagan, Ltd. Co. (GNPK) as the project company for the power facility. GNPK is 87.5% owned by KPGPC and the balance is owned by KPHLC.

As agreed among the partners of KPHLC, all equity required for the project shall be provided by ACEHI. Accordingly, ACEHI infused capital in various dates in 2014 in the form of Class B Limited Partnership interest. The capital infusion enabled ACEHI to obtain 98.74% economic interest in KPHLC thereby obtaining control over KPHLC. ACEHI management assessed that control over KPHLC was obtained in December 2014. The purchase price allocation have been prepared in a preliminary basis.

Below is a summary of the fair values of the assets acquired and liabilities assumed as of the date when control was obtained (amounts in thousands):

Assets	
Cash	₱149,949
Receivables	1,484
Loans receivable	1,399
Other current assets	3,014
Input value-added taxes	15,109
Property and equipment	22,357
Other noncurrent assets	365,243
	558,555
Liabilities	
Accounts payable and accrued expenses	69,978
Notes payable	74,678
	144,656
Net assets	413,899
Goodwill	10,982
Acquisition cost	₱424,881

The cost of the acquisition is determined as follows (amount in thousands):

Cash paid	₱424,881
Fair value of equity interest in KPHLC held before business combination	–
Fair value of non-controlling interest in KPHLC	–
	₱424,881

The fair value of the existing ownership interest in KPHLC was determined to be nil due to net liability position of KPHLC as of acquisition date.

Cash on acquisition is as follows (amounts in thousand):

Cash acquired from KPHLC	₱149,949
Cash paid	(424,881)
Net cash flow	(₱274,932)

From the date of acquisition, the Group's share in the revenue and net loss of KPHLC amounted to nil. If the combination had taken place at the beginning of the year, the Group's total revenue would have been 4.35 million and net loss would have been 21.21 million.

2013 Acquisitions

PRP Investors
In the latter part of December 2013, AY Fontana, LLC (AY Fontana), a subsidiary of BHL, bought the remaining 9.03% interest of the managing member in PRP Investors Fontana, LLC (PRP Investors) for a nominal amount of US$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 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 $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

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.

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 in 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 (see Note 23).

In 2013, ALI finalized its purchase price allocation. 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.

Transactions with Non-controlling Interest

ALI Group

North Triangle Depot Commercial Corporation (NTDCC)

On December 10, 2014, ALI purchased its proportionate share in Anglo Philippine Holdings Corporation's 15.79% interest in NTDCC for ₱738.0 million which consists of 539,249 common shares and 2,265,507 preferred shares. This brings ALI's ownership in NTDCC from 49.29% to 58.53% of the total outstanding capital stock of NTDCC which owns and operates the Trinoma Commercial Centre in North Triangle, Quezon City.

Subsequently, on December 22, 2014, ALI purchased the shares of Allante Realty and Development Corporation and DBH Incorporated in NTDCC for ₱211.0 million each comprises of 154,287 common shares and 648,196 preferred shares for each company. This results to an increase in ALI's ownership in NTDCC from 58.53% to 63.82% of the total outstanding capital stock of NTDCC.

Philippine Intergrated Energy Solutions, Inc. (PhilEnergy)
ALI acquired Mitsubishi Corporation's (MC) 40% equity stake in PhilEnergy which effectively made PhilEnergy a wholly owned subsidiary ALI. The transaction which was executed last March 13, 2014 through a Share Purchase Agreement involving 2,957,200 shares held by MC in PhilEnergy amounting to a total investment cost of ₱322.3 million which is equivalent to the par value of the shares plus 40% of PhilEnergy's audited retained earnings as of December 31, 2013.

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
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.

IMI Group
PSi
On September 26, 2012, amendments relating to the Investors' Agreement (the Agreement) entered into between IMI, Narra Venture Capital II, LP (Narra Venture) with PSi Technologies Holdings, Inc. and Merill Lynch Global Emerging Markets Partners, LLC were made to allow the parties to respectively exercise their option rights without the need for third party valuation. Accordingly, a fixed price was established amounting to $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%.

On January 5, 2015, Deeds of Assignment of Shares effective December 29, 2014 were executed between IMI and the minority shareholders of PSi namely Narra Venture and Narra Associate II Limited for the purchase of the remaining 16.75% interest in PSi for a total consideration of US$0.5 million. The purchase of the remaining minority shares resulted to the 100% ownership of IMI in PSi.

Microenergia
In October 2014, IMI BG acquired the remaining 30% ownership interest in Microenergia for a total consideration of US$138,622.

The details of the transaction are as follow (amounts in thousands):

Non-controlling interest acquired	US$200	₱8,973,680
Consideration paid to the non-controlling shareholder	(138)	(6,210,959)
Total amount recognized in "Additional paid-in capital" account within equity	US$62	₱2,762,721

25. **Income Tax**

The components of the Group's deferred taxes are as follows:

Net deferred tax assets

	2014	2013
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱4,054,553**	₱3,358,688
Retirement benefits	**1,593,628**	1,292,095
Allowance for probable losses	**1,051,452**	1,020,409
Service concession obligation	**855,050**	814,269
Advanced rental	**130,745**	10,285
Accrued expenses	**89,224**	37,407
Share-based payments	**62,794**	87,265
Unrealized foreign exchange loss	**47,028**	52,095
Allowance for doubtful accounts	**36,013**	17,489
NOLCO and MCIT	**35,002**	287,757
Remeasurement loss on pension	**30,588**	–
Allowance for inventory obsolescence	**18,339**	10,290
Revaluation of property, plant and equipment	**–**	19,722
Others	**610,728**	100,181
	8,615,144	7,107,952
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(557,149)**	(592,732)
Unrealized foreign exchange gain	**(2,305)**	(1,635)
Others	**(670)**	–
	(560,124)	(594,367)
Net deferred tax assets	**₱8,055,020**	₱6,513,585

Net deferred tax liabilities

	2014	2013
	(In Thousands)	
Deferred tax assets on:		
Fair value adjustments on:		
Long-term debt	**₱193,834**	₱167,492
AFS financial asset	**1,116**	1,116
Difference between tax and book basis of accounting for real estate transactions	**131,721**	320,464
Allowance for probable losses	**71,020**	–
NOLCO	**42,006**	11,303
Retirement benefits	**39,396**	
Advanced rental	**25,891**	–
Others	**27,369**	139,272
	532,353	639,647
Deferred tax liabilities on:		
Fair value adjustments on:		
Service concession assets	**(4,498,258)**	(4,742,672)
Land and improvements	**(625,490)**	(625,490)
Property and equipment	**(396,942)**	(531,986)
Service concession obligation	**(34,091)**	(34,091)
Customers' guaranty and other deposits	**(18,691)**	(18,691)
Investment properties	**–**	(12,108)
Difference between tax and book basis of accounting for real estate transactions	**(1,258,928)**	(476,166)
Prepaid expenses	**(134,665)**	(149,972)
Unrealized gain on AFS	**(84,375)**	(11,804)
Concession finance receivable	**(67,874)**	–
Capitalized interest and other expenses	**(63,801)**	(45,201)
Unrealized fair value gain less costs to sell of biological assets	**(7,142)**	(6,164)
Revaluation of property, plant and equipment	**–**	(73,086)
Unrealized foreign exchange gain	**(4,141)**	(19,007)
Service concession obligation	**(2,495)**	–
Retirement benefits	**–**	(72,756)
Others	**(78,093)**	(167,853)
	(7,274,986)	(6,987,047)
Net deferred tax liabilities	**(₱6,742,633)**	(₱6,347,400)

The Group has NOLCO amounting to ₱13.1 billion and ₱10.7 billion in 2014 and 2013, respectively, on which deferred tax have not been recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱83.1 million in 2014 and ₱76.7 million in 2013, 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, 2014, 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)	
2012	2015	₱3,274,417	₱22,264
2013	2016	4,076,216	32,167
2014	2017	5,767,695	28,670
		₱13,118,328	₱83,101

As of December 31, 2014 and 2013 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 ₱5.1 billion and ₱2.9 billion as of December 31, 2014 and 2013, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2014	2013	2012
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nontaxable share of profit of associates and jointly controlled entities	**(9.79)**	(9.84)	(11.03)
Nondeductible expenses	**1.44**	–	–
Interest income and capital gains subjected to lower rates	**(2.03)**	(1.61)	(2.47)
Income under income tax holiday	**(0.31)**	(0.48)	(0.44)
Others	**0.83**	3.55	4.27
Effective income tax rate	**20.14%**	21.62%	20.33%

The income tax on profits of overseas subsidiaires have been calculated at the rates of tax prevailing in the countries where such subsidiary operates, based on existing legislation, interpretations and practices in respect thereof.

Revenue Regulations (RR) No. 16-2008
RR No. 16-2008 provided the implementing guidelines for Section 34 of Republic Act 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, 2014, 2013, and 2012.

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.

Registration with the Philippine Export Zone Authority (PEZA) and Board of Investments (BOI) Incentives
Some activities of certain local subsidiaries are registered with the PEZA and BOI. 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.

26. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Company:

	2014	2013	2012
	(In Thousands, except EPS figures)		
Net income	**₱18,609,229**	₱12,777,932	₱10,504,385
Less dividends on preferred stock	**622,828**	528,750	543,363
	17,986,401	12,249,182	9,961,022
Less profit impact of assumed conversions of potential ordinary shares of investees	**205,014**	16,342	23,953
	₱17,781,387	₱12,232,840	₱9,937,069
Weighted average number of common shares	**603,060**	596,591	585,027
Dilutive shares arising from stock options	**2,751**	3,399	2,341
Adjusted weighted average number of common shares for diluted EPS	**605,811**	599,990	587,368
Basic EPS	**₱29.83**	₱20.53	₱17.03
Diluted EPS	**₱29.35**	₱20.39	₱16.92

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 ₱839.3 million, ₱651.5 million and ₱685.9 million in 2014, 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.

The Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Company, governed by a board of trustees appointed under a Trust Agreement between the Company and the initial trustees. It holds common and preferred shares of the Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose.

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.

The components of expense (included in personnel costs under “Cost of services” and “General and administrative expenses”) in the consolidated statements of income follow:

	2014	2013	2012
		(In Thousands)	
Current service cost	**₱768,166**	₱592,284	₱606,303
Past service cost	**6,903**	644	(6,861)
Net interest cost on benefit obligation	**64,070**	49,542	59,899
Loss on curtailment and settlements	**114**	9,009	26,535
Total pension expense	**₱839,253**	₱651,479	₱685,876

The remeasurement effects recognized in other comprehensive income (included in Equity under “Remeasurement gains/(losses) on defined benefit plans”) in the consolidated statements of financial position follow:

	2014	2013	2012
		(In Thousands)	
Return (loss) on plan assets (excluding amount included in net interest)	**(₱193,384)**	(₱172,247)	(₱434,971)
Actuarial loss due to liability assumption changes – demographic	**300,898**	315,393	(29,426)
Actuarial (gain)/loss due to liability assumption changes – financial assumptions	**196,820**	422,994	569,106
Remeasurements in other comprehensive income	**₱304,334**	₱566,140	₱104,709

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan as of December 31, 2014 and 2013, as follows:

	2014	2013
	(In Thousands)	
Benefit obligations	**₱9,167,101**	₱8,176,962
Plan assets	**(7,006,199)**	(6,271,078)
Net pension liability position	**₱2,160,902**	₱1,905,884

As of December 31, 2014 and 2013 pension assets (included under “other noncurrent assets”) amounted to ₱19.1 million, and ₱9.2 million (see Note 17), respectively, and pension liabilities amounted to ₱2.2 billion and ₱1.9 billion, respectively.

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱8,176,962**	₱6,834,086
Current Service Cost	**768,166**	592,284
Past service cost	**6,903**	644
Interest cost	**374,887**	341,299
Loss on curtailment and settlements	**114**	9,009
Benefits paid from plan assets	**(674,104)**	(397,507)
Remeasurements in other comprehensive income:		
Actuarial changes arising from changes in demographic	**300,668**	337,521
Actuarial changes arising from experience adjustments	**196,820**	422,994
Transfers	**8,595**	45,187
Foreign currency exchange difference	**8,090**	(8,555)
	₱9,167,101	₱8,176,962

Fair value of plan assets

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱6,271,078**	₱5,250,815
Contributions	**532,480**	906,590
Interest income on plan assets	**310,817**	291,757
Return on plan assets (excluding amount included in net interest)	**193,154**	194,375
Benefits paid	**(303,266)**	(397,507)
Transfers	**6,229**	26,528
Foreign currency exchange difference	**(4,293)**	(1,480)
	₱7,006,199	₱6,271,078

The fair value of plan assets by each classes as at the end of the reporting period are as follow:

	2014	2013
	(In Thousands)	
Assets		
Cash and Cash Equivalents	**₱334,639**	₱761,440
Debt investments	**3,474,513**	2,443,358
Equity Investments	**3,149,663**	2,775,264
Other Assets	**46,980**	78,937
	7,005,795	6,058,999
Liabilities		
Trust fee payable	**(9,798)**	(418)
Unamortized tax on premium	**(60,219)**	(1,211)
Provision for probable losses	**–**	(10)
Other liabilities	**(609)**	(572)
	(70,626)	(2,211)
Net Asset Value*	**₱6,935,169**	₱6,056,788

**The difference of ₱71.0 million and ₱200.0 million in the fair value of plan assets as of December 31, 2014 and December 31, 2013, respectively, 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:

	2014	2013
Discount rates:	**4.0% to 5.0%**	3.5% to 5.3%
Future salary increases:	**4.0% to 8.0%**	4.0% to 8.5%

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:

		2014	2013
	Increase(decrease)	Net Pension Liabilities (In Thousands)	
Discount rates	1%	**(₱602,308)**	(₱593,804)
	(1%)	**771,273**	745,298
Future salary increases	1%	**749,728**	721,656
	(1%)	**(596,164)**	(586,589)

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 50.1% of debt instruments, 45.4% of equity instruments and 4.5% other assets.

The Group expects to contribute ₱386.2 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 5.3 to 26.8 years in 2014 and 8.3 to 23.4 years in 2013.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2014 (amounts in thousands):

Less than 1 year	₱1,118,803
More than 1 year to 5 years	2,815,633
More than 5 years to 10 years	5,654,071
More than 10 years	6,932,797
	₱16,521,304

As of December 31, 2014 and 2013, the plan assets include shares of stock of the Company with total fair value of ₱862.2 million and ₱981.7 million.

The carrying value and fair value of the plan assets of the Group as of December 31, 2014 amounted to ₱6.4 billion and ₱7.0 billion, respectively.

The fund includes investment in securities of its related parties. Details of the investment per type of security are as follows (in thousands):

2014	**Carrying Value**	**Fair Value**	**Unrealized Gains**
		(In Thousands)	
Equity securities	**₱1,218,484**	**₱1,807,843**	**₱589,359**
Debt securities	**960,644**	**981,269**	**20,625**
Unit investment trust funds	**504,039**	**518,786**	**14,747**
	₱2,683,167	**₱3,307,898**	**₱624,731**

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
	₱1,692,753	₱2,137,340	₱444,587

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

Movements in the number of stock options outstanding under ESOP are as follows:

	2014		2013		2012	
	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	**2,893,368**	**₱249.13**	3,940,680	₱177.46	5,313,474	₱174.63
Exercised	**(666,299)**	**(231.63)**	(766,450)	(177.61)	(1,019,194)	(183.49)
Grants	**–**	**–**	445,064	500	–	–
Cancelled	**(605,463)**	**(127.32)**	(725,926)	(89.41)	(353,600)	–
Outstanding, at end of year	**1,621,606**	**₱301.80**	2,893,368	₱249.13	3,940,680	₱177.46

The options have a contractual term of 10 years. As of December 31, 2014 and 2013, the weighted average remaining contractual life of options outstanding is 7.3 years and 5 years, respectively, and the range of exercise prices amounted from ₱227.53 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 Parent 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 Parent Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, the 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 Parent 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 at the date of grant using the Binomial Tree Model. The Binomial Tree model requires six inputs to produce an option stock value namely; market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate.

Shares granted and subscribed under the ESOWN in 2014 follows:

Date of Grant	April 11, 2014
Number of shares subscribed	713,284
Exercise price	₱480

Subscriptions receivable from the stock option plans covering the Parent Company's shares are presented 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, 2014 and 2013 follow:

	2014		2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At January 1	**120,244**	**₱260.22**	143,256	₱247.93
Granted	**8,344**	**480.00**	–	–
Exercised/cancelled	**(67,434)**	**(275.77)**	(23,012)	183.73
At December 31	**61,154**	**₱273.06**	120,244	₱260.22

The fair value of stock options granted 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 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:

	April 11, 2014	April 30, 2012	April 30, 2009
Number of unsubscribed shares	8,344	50,229	17,788
Fair value of each option	₱619	₱259.97	₱112.87
Weighted average share price	₱673.96	₱434.47	₱263.38
Exercise price	₱480	₱322.00	₱180.13
Expected volatility	42.13%	41.78%	49.88%
Dividend yield	0.74%	0.74%	1.59%
Interest rate	4.38%	5.59%	7.49%

Total expense arising from share-based payments of the Company (included under “General and administrative expenses”) in the consolidated statements of income amounted to ₱222.4 million, ₱199.3 million and ₱217.3 milllion in 2014, 2013 and 2012, respectively.

ALI

ALI has stock option plans for key officers (ESOP) and employees (ESOWN) covering 2.5% of the ALI’s authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

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 ALI 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

Movements in the number of stock options outstanding under ESOP are as follows:

PFRS 2 Options

	2014	**Weighted average exercise price**	2013	Weighted average exercise price
At January 1	**10,377,981**	**₱4.58**	11,039,666	₱4.23
Exercised	**(5,624,981)**	**4.26**	(661,685)	3.74
Cancelled	**(1,894,640)**	**–**	–	–
At December 31	**2,858,360**	**₱5.63**	10,377,981	₱4.58

The options exercised had a weighted average exercise price of ₱4.26 per share or ₱23.94 million in 2014, and ₱3.74 per share or ₱12.02 million in 2013.

The average fair market value of the shares at the exercise date was ₱31.46 per share or about ₱177.0 million in 2014 and ₱30.00 per share or about ₱96.4 million in 2013.

The fair value of stock options granted are estimated as at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOP at June 30, 2005 grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.30%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.60%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

In November 2001, ALI offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, the ALI introduced a revised ESOWN Plan (the Plan) wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee of ALI as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of ALI or any of its subsidiaries during the ten (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 ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the Plan are subject to ALI'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. The Binomial Tree model requires six inputs to produce an option stock value namely: market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2014	**WAEP**	2013	WAEP
At January 1	**12,683,257**	**₱14.19**	19,149,441	₱10.31
Granted	**12,640,541**	**–**	15,385,695	–
Subscribed	**(12,330,426)**	**21.10**	(18,784,577)	18.74
Cancelled availment	**279,632**	**–**	792,824	–
Cancelled	**(993,724)**	**–**	(3,860,126)	–
At December 31	**12,279,280**	**₱15.61**	12,683,257	₱14.19

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and 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. Option maturity is 4 years from the date of grant.

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:

	Grant Date				
	March 20, 2014	March 18, 2013	March 13, 2012	March 31, 2011	March 31, 2010
Number of unsubscribed shares	1,369,887	1,713,868	3,967,302	3,843,057	2,298,247
Fair value of each option	₱28.40	₱12.07	₱6.23	₱7.27	₱8.88
Weighted average share price	₱31.46	₱30.00	₱21.98	₱15.5	₱13.00
Exercise price	₱22.55	₱21.45	₱14.69	₱13.2	₱9.74
Expected volatility	33.50%	36.25%	33.00%	36.25%	43.57%
Dividend yield	1.42%	1.93%	0.90%	1.01%	0.48%
Interest rate	3.13%	2.78%	5.70%	5.60%	5.95%

	Grant Date				
	April 30, 2009	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	5,418,619	15,057,840	494,400	5,270,333	3,036,933
Fair value of each option	₱4.05	₱6.77	₱6.93	₱7.33	₱5.58
Weighted average share price	₱6.40	₱10.50	₱15.00	₱13.00	₱9.30
Exercise price	₱4.96	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	37.45%	32.04%	34.67%	46.03%	46.32%
Dividend yield	0.85%	0.49%	0.41%	1.56%	0.77%
Interest rate	5.94%	8.53%	6.93%	10.55%	11.30%

Total expense (included under “General and administrative expenses”) recognized in 2014, 2013 and 2012 in the consolidated statements of income arising from share-based payments of ALI amounted to ₱196.1 million, ₱232.7 million and ₱248.4 million, respectively.

IMI

IMI has an ESOWN, which is a privilege extended to the Group’s eligible managers and staff whereby IMI allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN. Under the ESOWN, for as long as IMI remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, Earnings Before Income Tax and Depreciation and Amortization (EBITDA) and net income of ten comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once IMI becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of IMI at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the ESOWN. However, should the grantee cease to be employed by or connected with IMI before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety (90) days from separation subject to the Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. If sixty (60) days after the due date and account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.

On February 21, 2007, IMI's BOD approved the granting of 45,150,000 shares of IMI under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to IMI's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to IMI's top performers and key personnel subject to the same terms as the shares subscribed in 2007. All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of eight years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the above two grants was on October 15, 2007. The fair value, determined based on a private bank's valuation of IMI to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, management has approved a 2-year moratorium on the scheduled payments due in 2008 and 2009, which resulted in an extension of the payment period from eight to ten years. The outstanding shares under this grant have fully vested in September 2010.

On December 14, 2009, the Chairman of IMI's BOD approved the terms for granting 30,885,000 shares of the IMI under ESOWN at the subscription price of ₱5.54 per share to various employees of IMI. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is ₱9.30, which is the closing price of IMI's stock at the PSE at the date of grant.

On October 13, 2014, the Executive Committee of the BOD of IMI approved the grant of stock options to qualified executives covering up to 35.9 million shares at a subscription price of ₱5.91 per share. Out of the total shares granted, 31.8 million shares were subscribed by 38 executives of IMI, of which 7.8 million shares are from unissued shares and 23.9 million shares were issued from ESOWN Trust Account where all the previously cancelled ESOWN subscriptions were held. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value of stock options granted in 2014 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2014, 2013 and 2012 follow:

	2014		2013		2012	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balances at January 1	**107,380,812**	**₱6.95**	110,405,814	₱6.95	116,250,309	₱6.95
Forfeitures	**(3,276,342)**	**6.95**	(3,025,002)	6.95	(5,844,495)	6.95
Subscriptions	**31,797,958**	**5.91**	–	–	–	–
Balances at December 31	**135,902,428**	**₱6.71**	107,380,812	₱6.95	110,405,814	₱6.95

Total expense arising from share-based payments of IMI (included under "General and administrative expenses") in the consolidated statements of income amounted to US$0.17 million (₱7.5 million), US$0.01 million (₱0.4 million), and US$0.07 million (₱3.0 million) in 2014, 2013 and 2012, respectively.

MWC

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP and ESOWN

On February 26, 2004, MWC's BOD authorized the allocation of up to 20.00 million of the treasury shares for distribution from time to time as may be authorized by the Chairman of the Board (Chairman) of MWC as incentive and reward to deserving officers of MWC with rank of Manager 2 and above, including senior officers seconded from any parent company, under the Executive SOP.

On October 28, 2004, MWC's BOD approved the allocation of an additional 3.6 million shares for the Executive SOP, which will come from MWC's unissued shares or common shares held in treasury. Accordingly, total allocation for the Executive SOP increased to 23.6 million shares.

On the same date, MWC's BOD approved the allocation of 136.4 million common shares for the Expanded Executive SOP covering 96.4 million common shares and the ESOWN covering 40.0 million common shares. The common shares for the ESOWN and the Expanded Executive SOP will come from MWC's unissued common shares or common shares held in treasury. The common shares under the Expanded Executive SOP and ESOWN will be distributed from time to time as an incentive and reward to deserving MWC's executives (Expanded Executive SOP) and employees (ESOWN) of MWC as may be authorized by the Chairman.

In March 2005, MWC granted 23.6 million options under the Executive SOP with an exercise price of ₱2.71 per share. To enjoy the rights provided for in the plan, the option holder should be with the MWC at the time the options vest. The vesting schedule of the options is as follows:

Year	Vesting Percentage
2006	40%
2007	30%
2008	30%

On November 15, 2005, MWC's BOD approved the allocation of 25.00 million common shares, consisting of unissued shares and/or undisposed treasury shares, for distribution from time to time as may be authorized by the Chairman, as an incentive and reward to deserving executives of MWC with rank of Manager 1 and above, under the ESOWN.

On February 2, 2006, MWC's BOD authorized the migration of the Executive SOP covering 23.6 million common shares to ESOWN by giving Executive SOP grantees a one-time opportunity to convert their Executive SOP allocation into an ESOWN subscription using the Executive SOP subscription price of ₱2.71 per share. The ESOWN terms are described in the succeeding paragraphs.

The migration resulted in the recognition of the additional fair value of the replacement options amounting to ₱26.5 million. For the exercised options, the fair value was computed using the market price at the date of grant less the discounted strike price.

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 2013 grant, MWC assumed 24.90%, 3.47% and 2.99% as the volatility, dividend yield and risk-free interest rate, respectively.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and 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:

	Grant Dates						
	November 19, 2013	October 5, 2012	September 19, 2011	April 30, 2009	June 15, 2008	May 21, 2007	May 2, 2006
Number of shares granted	6,627,100	4,772,414	5,073,000	9,241,025	7,798,483	2,130,000	13,625,000
Number of unsubscribed Shares	351,680	460,000	992,000	1,442,000	1,580,000	520,000	2,265,000
Fair value of each option	₱10.58	₱11.76	₱8.68	₱5.90	₱10.65	₱9.85	₱4.59
Weighted average share Price	₱23.00	₱26.24	₱19.80	₱13.50	₱18.00	₱12.00	₱6.50
Exercise price	₱22.92	₱24.07	₱17.38	₱9.63	₱15.13	₱8.08	₱5.47
Expected volatility	24.90%	30.66%	33.68%	44.66%	25.64%	27.29%	24.65%
Dividend yield	3.47%	2.56%	2.68%	2.92%	1.96%	2.58%	3.40%
Risk-free interest rate	2.99%	4.57%	4.76%	8.53%	6.93%	10.55%	11.30%
Expected life of option	4 years	4 years	4 years	4 years	4 years	7 years	7 years

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. The expected volatility used for the 2007 and 2006 grants was based on the average historical price volatility of several water utility companies within the Asian region. For the grants beginning 2008, MWC's volatility was used as input in the valuation. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

To enjoy the rights provided for in the ESOWN, the grantee should be with MWC at the time the holding period expires. The Holding Period of the ESOWN shares follows:

Holding period	
After one year from subscription date	40%
After two years from subscription date	30%
After three years from subscription date	30%

The ESOWN grantees are allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another 3-year holding period.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2014	Weighted average exercise price	2013	Weighted average exercise price
At January 1	**6,745,880**	**₱22.92**	5,936,000	₱24.07
Granted	**–**	**–**	6,627,100	22.92
Exercised	**(2,528,708)**	**22.92**	(5,817,220)	22.92
At December 31	**4,217,172**	**₱22.92**	6,745,880	₱22.92

Total expense arising from equity-settled share-based payment transactions of MWC (included under "General and administrative expenses") in the consolidated statement of income amounted to ₱63.05 million, ₱50.83 million and ₱31.86 million in 2014, 2013 and 2012, respectively.

29. Operating Segment Information

For management purposes, the Group is organized into the following business units:

- Parent Company - represents operations of the Company including, among others, its financing entities such as ACIFL and AYCFL; plus results of operations of start-up companies in power generation, transport infrastructure and education.

- 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.

- 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.

- 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.

- Automotive – manufacturing, distribution and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others – air-chartered services, agri-business and other operating companies.

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, 2014 and 2013 and revenue and income information for each of the three years in the period ended December 31, 2014 (amounts in millions):

2014

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecommunications	Water Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱754	₱88,422	₱–	₱–	₱15,412	₱37,558	₱1,770	₱589	₱11,912	₱–	₱156,417
Intersegment	155	–	–	–	110	–	–	–	269	(534)	–
Share of profit of associates and joint ventures	(197)	647	8,593	4,017	357	–	(379)	95	52	–	13,185
Interest income	460	4,778	–	–	186	9	51	10	2	(2)	5,494
Other income	143	709	–	–	4,054	647	2,148	977	502	–	9,180
Total income	1,315	94,556	8,593	4,017	20,119	38,214	3,590	1,671	12,737	(536)	184,276
Operating expenses	3,557	65,092	–	–	11,755	36,527	2,037	915	12,585	(539)	131,929
Operating profit	(2,242)	29,464	8,593	4,017	8,364	1,687	1,553	756	152	3	52,347
Interest expense and other financing charges	4,562	5,602	–	–	1,548	125	25	4	68	–	11,934
Provision for (benefit from) income tax	44	6,092	–	–	1,621	272	31	(11)	89	–	8,138
Net income	(₱6,848)	₱17,770	₱8,593	₱4,017	₱5,195	₱1,290	₱1,497	₱763	(₱5)	₱3	₱32,275
Other information											
Segment assets	₱158,642	₱372,509	₱–	₱–	₱88,113	₱24,616	₱2,085	₱7,180	₱6,442	(₱97,791)	₱561,796
Investments in associates and joint ventures	133,826	11,735	–	–	4,959	23	3,292	1,914	447	–	156,196
Deferred tax assets	149	7,202	–	–	881	80	39	–	75	(371)	8,055
Total assets	₱292,617	391,446	–	–	₱93,953	₱24,719	₱5,416	₱9,094	₱6,964	(₱98,162)	₱726,047
Segment liabilities	₱125,145	₱264,761	₱–	₱–	₱39,823	₱13,724	₱745	₱300	₱3,865	(₱15,294)	₱433,069
Deferred tax liabilities	89	1,967	–	–	4,593	64	2	19	9	–	6,743
Total liabilities	₱125,234	₱266,728	₱–	₱–	₱44,416	₱13,788	₱747	₱319	₱3,874	(₱15,294)	₱439,812
Segment additions to property, plant and equipment and investment properties	₱1,230	₱15,782	₱–	₱–	₱376	₱1,091	₱121	₱163	₱657	₱211	₱19,631
Depreciation and amortization	₱126	₱4,363	₱–	₱–	₱3,312	₱1,021	₱125	₱26	₱178	₱7	₱9,158
Non-cash expenses other than depreciation and amortization	₱114	₱139	₱–	₱–	₱36	₱457	₱35	₱67	₱10	(₱28)	₱830
Cash flows provided by (used in):											
Operating activities	(₱1,518)	₱36,673	₱–	₱–	₱5,030	₱1,822	(₱404)	(₱1,742)	(₱653)	₱–	₱39,208
Investing activities	(₱28,627)	(₱53,594)	₱–	₱–	(₱759)	(₱142)	(₱778)	₱1,154	₱–	₱–	(₱82,746)
Financing activities	₱52,635	₱17,632	₱–	₱–	(₱5,000)	₱1,412	₱918	₱173	₱880	₱–	₱68,650

2013

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	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 (benefit from) 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	₱–	₱–	₱3,329	₱935	₱162	₱1	₱47	(₱100)	₱8,360
Non-cash expenses other than depreciation and amortization	₱275	₱4	₱–	₱–	₱55	₱956	₱3	₱1190	₱113	₱–	₱2,596
Cash flows provided by (used in):											
Operating activities	(₱5,334)	₱27,239	₱–	₱–	₱4,286	₱693	₱8	(₱859)	(₱417)	₱–	₱25,616
Investing activities	(₱10,090)	(₱69,952)	₱–	₱–	₱362	(₱777)	(₱170)	₱644	(₱760)	₱–	(₱80,743)
Financing activities	₱4,669	₱38,558	₱–	₱–	(₱3,567)	(₱233)	₱335	(₱15)	₱749	₱–	₱40,496

2012

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	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 (loss) 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 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	153	3,471	–	–	1,385	165	17	(264)	46	3	4,976
Net income (loss)	(₱3,482)	₱11,070	₱5,633	₱2,144	₱5,012	₱74	(₱700)	(₱37)	₱106	(₱321)	₱19,499
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)

Geographical Segments

	Revenue			Total Assets			Investment Properties and Property, Plant and Equipment Additions		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Philippines	**₱143,309**	₱128,554	₱111,122	**₱701,273**	₱577,433	₱500,806	**₱18,746**	₱16,473	₱22,223
Japan	**3,180**	2,944	241	**12**	9	37	**1**	–	–
USA	**12,027**	8,927	7,243	**2,356**	410	347	**362**	63	33
Europe	**18,680**	14,759	8,679	**4,878**	6,872	5,233	**291**	519	–
Others (mostly Asia)	**7,080**	4,228	3,286	**17,528**	14,940	4,481	**231**	267	32
	₱184,276	₱159,412	₱130,571	**₱726,047**	₱599,664	₱510,904	**₱19,631**	₱17,322	₱22,288

30. Leases

Finance leases - as lessee

The Group has finance leases for various items of property, plant and equipment. These leases have lease terms of 3 to 10 years. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2014		2013	
	Minimum Payments	**Present values of payments**	Minimum Payments	Present values of payments
	(In Thousands)			
Within one year	**₱51,377**	**₱45,727**	₱60,764	₱55,177
After one year but not more than five years	**114,284**	**108,690**	142,138	134,151
Total minimum lease payments	**165,661**	**154,417**	202,902	189,328
Less amounts	**10,313**	**–**	684	–
Present value of minimum lease payments	**₱155,348**	**₱154,417**	₱202,218	₱189,328

Operating lease commitments - as lessee

ALI 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.

Future minimum rentals payable under noncancellable operating leases of lessee subsidiaries are as follows:

	2014	2013
	(In Thousands)	
Within one year	**₱921,686**	₱848,509
After one year but not more than five years	**2,798,273**	2,514,219
More than five years	**11,942,690**	11,810,476
	₱15,662,649	₱15,173,204

ALI

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, 2014, Phase 1a (with gross leasable area of 5,000 sqm.) of the retail establishment has commenced operations on September 30, 2013.

On December 18, 2013, ALI donated the New UPIS facilities at a total cost of ₱224.7 million and the rehabilitated and upgraded UPIS "K-2" and "3-6" Buildings at a cost of ₱40.0 million to the University of the Philippines.

IMI Group
IMI Singapore and STEL Group, subsidiaries of IMI, 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.

On August 27, 2014, STEL entered into an agreement relating to the sale and purchase of the building with DBS Trustee Limited, in its capacity as trustee of Soilbuild Business Space REIT (see Note 14). The existing building is a part 3 / part 6-storey light industrial building sited on a land area of 3,992.70 square meters and is held under a lease issued by JTC Corporation ("JTC") for a term of 30 years commencing from May 1, 2000 with a covenant by JTC to grant a further term of 20 years subject to the terms and conditions of the lease.

Pursuant to a Lease Agreement, the Trustee will lease the Property to STEL and will take assignment of the existing tenancies. In addition, STEL will undertake to commit 100% occupancy of the property for a term of 10 years commencing from the date of completion of the agreement. On commencement of the lease term, STEL shall provide a security deposit equivalent to 6 months' rent and a joint Corporate Guarantee from the immediate and ultimate holding companies, IMI Singapore and IMI Philippines, respectively.

PSi
PSi has a cancellable 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.

PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The operating lease agreement will expire in March 2018.

In 2012, the operating lease agreement for the second facility was executed between CRI and PSi for office and warehouse use. The operating lease agreement commenced on October 13, 2012 and will expire on October 12, 2015.

The operating lease agreements with CRI provides for the increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

<u>Operating leases - as lessor</u>
ALI Group 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
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 US$1.26 million (₱55.9 million) in 2014, US$1.08 million (₱45.8 million) in 2013, and US$0.57 thousand (₱2.4 million)in 2012.

Future minimum rentals receivable under noncancellable operating leases of the Group are as follows:

	2014	2013
	(In Thousands)	
Within one year	**₱4,043,670**	₱3,240,947
After one year but not more than five years	**8,895,438**	7,494,768
More than five years	**8,719,812**	3,160,333
	₱21,658,920	₱13,896,048

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.

The Group, in its regular conduct of business, has entered into transactions with associates, joint ventures and other related parties principally consisting of advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services as well as other income and expense to and from related parties are made at normal commercial prices and terms.

There has not been any material transaction during the last two years, or proposed transaction, to which the Group was or is to be a party, in which any of its directors or executive officers, any nominee for election as a director or any security holder identified in this condensed financial information had or is to have a direct or indirect material interest.

The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

   i. As of December 31, 2014 and 2013, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2014	2013
Cash in bank	**₱14,878,169**	₱14,403,016
Cash equivalents	**36,759,229**	24,141,865
Financial assets at FVPL	**6,264,569**	12,794,654
Other non-current asset (Note 17)	**8,273,200**	–

   From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱79.4 million and ₱8.1 million as of December 31, 2014 and 2013, respectively. Interest income earned amounted to ₱586.5 million in 2014, ₱648.7 million in 2013 and ₱1,166.7 million in 2012.

   ii. The Group also has short-term and long-term debt payable to BPI amounting to ₱38.0 billion and ₱23.2 billion as of December 31, 2014 and 2013, respectively. These short-term and long-term debts are interest bearing with varying rates, have various maturities starting 2015 and varying schedules of payments for interest. The Group has accrued interest payable pertaining to the outstanding balance of the short-term and long-term debt amounting to ₱190.6 million and ₱32.2 million as of December 31, 2014 and 2013, respectively. Interest expense incurred from the debt amounted to ₱402.7 million in 2014, ₱145.2 million in 2013 and ₱131.1 million in 2012.

b. Outstanding balances of related party transaction follow (amounts in thousands):

	Receivables		Payables	
	2014	2013	**2014**	2013
Associates:				
BPI	**₱435,123**	₱276,659	**₱257,238**	₱104,911
First Gen Northern Energy (FGNEC)	**5,531**	5,531	**–**	–
Bonifacio Land Corp. (BLC)	**374**	–	**212,696**	212,696
Stream	**–**	246,488	**–**	–
Ayala System Technology (ASTI)	**–**	15,741	**–**	90
Naraya Development Co. Ltd.	**–**	4,877	**–**	–
	441,028	549,296	**469,934**	317,697
Joint ventures:				
Integreon	**543,836**	488,221	**–**	–
Globe	**165,419**	141,939	**2,409**	2,005
ADHI	**10,883**	–	**–**	–
Asiacom	**–**	–	**13,617**	13,581
	720,138	630,160	**16,026**	15,586
Other related parties:				
Columbus Holdings, Inc. (Columbus)	**888,953**	888,815	**1,156,308**	1,156,308
Fort Bonifacio Development Corporation (FBDC)	**394,026**	274,645	**403,297**	2,154,003
Honda Cars Philippines, Inc. (HCP)	**112,522**	72,650	**152,457**	170,298
myAyala.com, Inc.	**2,097**	2,098	**–**	–
Lagoon Development Corporation (Lagoon)	**828**	5,964	**–**	–
Isuzu Philippines Corporation (IPC)	**–**	25,452	**193,537**	48,695
GN Power Kauswagan (GNPK)	**–**	69,936	**–**	–
Fort Bonifacio Holdings Corp.	**–**	3,085	**–**	–
Sonoma Services Inc.	**–**	867	**33,617**	–
Others	**149,853**	622,504	**33,641**	244,422
	1,548,279	1,966,016	**1,972,857**	3,773,726
	₱2,709,445	₱3,145,472	**₱2,458,817**	₱4,107,009

i. Receivable from BPI includes trade receivables on vehicles sold by AAHC and accrued interest receivables on short-term placements by the Group.

ii. Receivable from Stream in 2013 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, AIVPL Group may elect at any time after the maturity date, upon delivery of conversion notice to Stream, to convert the note into a number of units of membership interests. On April 19, 2013, Stream and AIVPL Group amended the maturity date of the loan to April 29, 2014. Interest income earned in 2014 and 2013 amounted to nil and ₱21.7 million, respectively.

iii. Receivables from ASTI and FGNEC are advances made for working capital requirements which are non-interest bearing and demandable.

iv. Receivable from Integreon represents a convertible promissory note entered into on February 2010 with a principal of US$7.30 million and bear interest of 14% per annum. The lender has a conversion option for a period of 30 days beginning on the final maturity date at a stipulated price per share. Subsequent amendments were made to the convertible note on February 15, 2011, July 15, 2012 and on March 4, 2014 which include, among others, extension of the final maturity date and optional coversion period and change in interest rate. The latest amendment extended the final maturity date from February 15, 2014 to February 15, 2016 and the optional conversion period from February 15, 2014 to March 14, 2017. The convertible note bears interest of 12% per annum. Interest income earned amounted to ₱38.9 million, ₱37.2 million and ₱54.6 million in 2014, 2013 and 2012, respectively.

v. Receivable from GNPK by ACEHI in 2013 represents an advance for development costs, non-interest bearing and shall be paid in full within 30 days from financial closing of the project. GNPK 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
vi. Receivable from Columbus represents non-interest bearing advance for future acquisition of shares in BLC.
vii. Receivable from FBDC largely pertains to management fees which are included under “Other income.”
viii. 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.
ix. Payable to Columbus and BLC represent non-interest bearing advances for stock redemption.
x. 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.
xi. Payable to BPI includes interest payable on Group’s borrowings payable at various payments terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days.
xii. 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.
xiii. Allowance for doubtful accounts on amounts due from related parties amounted to ₱135.4 million and ₱145.6 million as of December 31, 2014 and 2013, respectively. Provision for doubtful accounts amounted to ₱0.3 million, ₱0.8 million and ₱15.9 million in 2014, 2013 and 2012, respectively.
xiv. On November 26, 2014, Alveo Land Corporation, a wholly owned subsidiary of ALI, acquired a 6,986 sq. m. property located along Valero St., Salcedo Vill., Makati City. The property was purchased from BPI for ₱1,590.0 million, resulting into a gain of ₱700.0 million.

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 2015 to 2026.

d. The fair value of the Group’s total investment in the BPI Fund amounted ₱5.6 billion and ₱12.8 billion, as of December 31, 2014 and 2013, respectively.

e. Revenue and expenses from related parties follow:

	Revenue			Expenses		
	2014	2013	2012	**2014**	2013	2012
			(In Thousands)			
Associates:						
BPI	**₱558,814**	₱702,699	₱1,166,696	**₱427,263**	₱143,582	₱131,004
PPI	**60**	417	339	**–**	–	–
Stream	**–**	21,715	11,859	**–**	–	–
ASTI	**–**	826	1,101	**–**	–	–
	558,874	725,657	1,179,995	**427,263**	143,582	131,004
Jointly controlled entities:						
Globe	**101,381**	71,913	16,642	**124,563**	115,809	32,071
Integreon	**38,973**	37,226	54,682	**–**	–	–
Asiacom	**613**	1,154	6,998	**–**	–	–
Northwind Power Development Corp.	**–**	–	4,410	**–**	–	–
BPI Globe Banko	**–**	–	222	**–**	–	–
	140,967	110,293	82,954	**124,563**	115,809	32,071

(Forward)

	Revenue			Expenses		
	2014	2013	2012	**2014**	2013	2012
			(In Thousands)			
Other related parties:						
FBDC	**₱176,194**	₱221,483	₱113,471	**₱155,099**	₱129,175	₱16,959
Lagoon	**49,135**	41,143	–	**1,315**	–	–
6750 Ayala Avenue	**17,697**	46,511	–	**–**	–	–
Others	**25,921**	27,405	9,258	**–**	28,351	3,575
	268,947	336,542	122,729	**156,414**	157,526	20,534
	₱968,788	₱1,172,492	₱1,385,678	**₱708,240**	₱416,917	₱183,609

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 mobile phone charges and internet connections with Globe.
iii. Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.

f. The Group's Compensation of key management personnel by benefit type follows:

	2014	2013	2012
		(In Thousands)	
Short-term employee benefits	**₱1,369,942**	₱1,242,543	₱1,401,840
Post-employment benefits (Note 27)	**69,079**	139,933	77,177
Share-based payments (Note 28)	**37,957**	63,571	158,131
	₱1,476,978	₱1,446,047	₱1,637,148

32. Financial Instruments

Financial Risk Management

General

Like any other risks, financial risks are inherent in the its business activities and are typical of any large holding company. The financial risk management of the Company seeks to effectively contribute to better decision making, enhance performance, and satisfy compliance demands.

The Company defines financial risks as risk that relates to the Company's ability to meet financial obligations and mitigate funding risk, credit risk and exposure to broad market risks, including volatility in foreign currency exchange rates and interest rates. Funding risk refers to the potential inability to meet contractual or contingent financial obligations as they arise and could potentially impact the Company's financial condition or overall financial position. Credit risk is the risk of financial loss arising from a counterparty's failure to meet its contractual obligations or non-payment of an investment. These exposures may result in unexpected losses and volatilities in the Company's profit and loss accounts.

The Company maintain a strong focus on its funding strategy to help provide access to sufficient funding to meet our business needs and financial obligations throughout business cycles. The Company's plans are established within the context of our annual strategic and financial planning processes. The Company also take into account capital allocations and growth objectives, including dividend pay-out. As a holding company, the Company generate cash primarily on dividend payments of its subsidiaries, associates and joint ventures and other sources of funding.

The Company also establish credit policies setting up limits for counterparties that are reviewed quarterly and monitoring of any changes in credit standing of counterparties.

In 2014, the Company formalized the foreign exchange and interest rate risk management policy. The Company actively monitor foreign exchange exposure and interest rate changes. And in addition, the Company ensure that all loan covenants and regulatory requirements are complied with.

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.

In November 2014, the charter of the Audit and Risk Committee was revised with the creation of a separate Risk Committee of the Board.

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, foreignexchange risk, price risk, liquidity risk, and credit risk.

The Group also uses hedging instruments, the purpose of which is to manage the currency and interest rate 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' obligations. The policy is to keep a certain level of the total obligations as fixed to minimize earnings volatility due to fluctuation in interest rates.

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, 2014 and 2013, 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

	Change in basis points	**2014**	2013
		(In Thousands)	
AFS financial assets	+100	**₱–**	(₱1,148)
	-100	**–**	1,150

Cash flow interest rate risk

		Effect on profit before tax	
	Change in basis points	**2014**	2013
		(In Thousands)	
Parent Company - Floating rate Borrowings	+100	**(₱58,542)**	(₱58,481)
	-100	**58,542**	57,841
Subsidiaries - Floating rate Borrowings	+100	**(420,388)**	(466,560)
	-100	**420,388**	466,560

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, 2014

	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	**₱90,761,860**	**₱90,761,860**	**₱–**	**₱–**	**₱90,761,860**
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	**1,102,703**	**1,102,703**	**–**	**–**	**1,102,703**
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	**15,136,805**	**7,781,795**	**7,231,704**	**93,150**	**15,106,649**
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	**239,919**	**239,919**	**–**	**–**	**239,919**
Other noncurrent asset	Fixed at the date of investment	Various	**8,273,200**	**–**	**–**	**8,273,200**	**8,273,200**
			₱115,514,487	**₱99,886,277**	**₱7,231,704**	**₱8,366,350**	**₱115,484,331**
Company							
Long-term debt							
Fixed							
	Fixed at 6.70% to 8.40%	7 years	**₱20,000,000**	**₱–**	**₱19,883,150**	**₱–**	**₱19,883,150**
	Fixed at 6.75% to 6.80%	10 years	**10,000,000**	**–**	**–**	**9,930,244**	**9,930,244**
	Fixed at 6.88%	15 years	**10,000,000**	**–**	**–**	**9,920,501**	**9,920,501**
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	**21,250,000**	**142,140**	**17,008,891**	**4,020,064**	**21,171,095**
Subsidiaries							
Short-term debt	Ranging from 2.00% to 8.00%	Monthly, quarterly	**4,164,369**	**4,164,639**	**–**	**–**	**4,164,639**
	Ranging from 1.10% to 2.55%	Monthly, quarterly	**16,919,900**	**16,919,900**	**–**	**–**	**16,919,900**
Long-term debt							
Fixed							
Peso and foreign currency	Fixed at 0.50% to 10.21%	3,4,5,7,10 and 15 years	**114,478,982**	**4,175,614**	**40,479,307**	**69,391,206**	**114,046,127**
Dollar							
Exchangeable bond	Fixed at 0.50%	5 years	**13,461,000**	**–**	**–**	**12,247,531**	**12,247,531**
Floating							
	Variable at Libor+1.50% to 3.50%	3 months, semi-annual	**53,001,484**	**6,463,131**	**39,957,883**	**4,140,796**	**50,561,810**
			₱263,275,735	**₱31,865,424**	**₱117,329,231**	**₱109,650,342**	**₱258,844,997**

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 investments	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 6.70% to 8.40%	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 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	13,250,000	39,649	4,242,785	8,907,223	13,189,657
Subsidiaries							
Short-term debt	Ranging from 1.21% to 8.0%	Monthly, quarterly	3,696,834	3,696,834	–	–	3,696,834
	Ranging from 1.05% to 4.13%%	Monthly, quarterly	12,114,451	12,114,451	–	–	12,114,451
Long-term debt							
Fixed							
Peso and foreign currency	Fixed at 2.4753% to 13.50%	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+0.50% to 3.50%	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

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the USD against other currencies. As a result of significant operating expenses in PHP, the Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2014 and 2013, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

<u>IMI Group</u>
The IMI Group's foreign exchange risk results primarily from movements of the USD against other currencies. As a result of significant operating expenses in PHP, the IMI Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2014 and 2013, the IMI Group entered into currency forward contracts 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 50% and 45% of the Group's sales for the years ended December 31, 2014 and 2013, respectively, and 49% and 37% of costs for the years ended December 31, 2014 and 2013, respectively, are denominated in currencies 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 hedging any material exposure where appropriate.

<u>MWC Group</u>
The MWC Group's foreign exchange risk results primarily from movements of the PHP against the USD and Japanese Yen (JPY). Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 34% and 40% of debt as of December 31, 2014 and 2013, 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.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Php equivalent follows:

	December 31, 2014		December 31, 2013	
	US$	**Php Equivalent***	US$	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**US$44,199**	**₱1,976,586**	**US$33,352**	**₱1,480,661**
Short-term investments	**1,247**	**55,766**	**–**	**–**
Accounts and notes receivables	**6,804**	**304,275**	**8,440**	**374,694**
Other current assets	**375**	**16,770**	**–**	**–**
Total assets	**52,625**	**2,353,397**	**41,792**	**1,855,355**
Liabilities				
Accounts payable and accrued expenses	**576**	**25,759**	233,917	10,384,727
Short-term debt	**37,154**	**1,661,527**	37,840	1,679,905
Long-term debt	**281,747**	**12,599,730**	208,085	9,237,920
Other noncurrent liabilities	**78,020**	**3,489,039**	86,729	3,850,326
Total liabilities	**397,497**	**17,776,055**	566,571	25,152,878
Net foreign currency denominated liabilities	**(US$344,872)**	**(₱15,422,658)**	(US$524,778)	(₱23,297,535)

**Translated using the exchange rate at the reporting date (US$1:₱44.720 in December 31, 2014 and US$1: ₱44.395 in December 31, 2013).*

	December 31, 2014		December 31, 2013	
	JPY	**Php Equivalent***	JPY	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY25,781**	**₱9,578**	JPY11,600	₱4,919
Accounts and notes receivable	**175,708**	**65,274**	224,306	95,106
Other noncurrent assets	**2,491**	**925**	2,449	1,038
Total assets	**203,980**	**75,777**	238,355	101,063
Liabilities				
Accounts payable and accrued expenses	**373,082**	**138,596**	709,951	301,019
Long-term debt	**5,274,985**	**1,954,909**	6,567,179	2,784,484
Service concession obligation	**1,288,651**	**477,574**	1,363,650	578,188
Total liabilities	**6,936,718**	**2,571,079**	8,640,780	3,663,691
Net foreign currency denominated liabilities	**(JPY6,732,738)**	**(₱2,495,302)**	(JPY8,402,425)	(₱3,562,628)

**Translated using the exchange rate at the reporting date (JPY1:₱0.37 in December 31, 2014 and JPY1:₱ 0.424 in December 31, 2013).*

	December 31, 2014		December 31, 2013	
	SGD	**Php Equivalent***	SGD	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**SGD24,377**	**₱824,059**	SGD3,334	₱116,630
Accounts and notes receivables	**400**	**13,501**	298	10,426
Other current assets	**16**	**522**	21	733
Total assets	**24,793**	**838,082**	3,653	127,789
Liabilities				
Accounts payable and accrued expenses	**4,891**	**165,314**	3,900	136,424
Net foreign currency denominated assets (liabilities)	**SGD19,902**	**₱672,768**	(SGD247)	(₱8,635)

**Translated using the exchange rate at the reporting date (SGD1:₱33.80 in December 31, 2014 and SGD1:₱ 34.98 in December 31, 2013).*

	December 31, 2014		December 31, 2013	
	HKD	**Php Equivalent***	HKD	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**HKD11,897**	**₱68,398**	HKD13,401	₱76,721
Accounts and notes receivables	**9,133**	**52,639**	45,153	258,503
Total assets	**21,030**	**121,037**	58,554	335,224
Liabilities				
Accounts payable and accrued expenses	**2,973**	**17,134**	2,853	16,336
Net foreign currency denominated assets	**HKD18,057**	**₱103,903**	HKD55,701	₱318,888

**Translated using the exchange rate at the reporting date (HKD1:₱5.75 in December 31, 2014 and HKD1:₱ 5.725 in December 31, 2013).*

	December 31, 2014		December 31, 2013	
	RMB	**Php Equivalent***	RMB	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	**RMB141,839**	**₱1,036,358**	RMB53,670	₱393,563
Accounts and notes receivables	**459,909**	**3,360,369**	402,731	2,953,229
Total assets	**601,748**	**4,396,727**	456,401	3,346,792
Liabilities				
Accounts payable and accrued expenses	**269,156**	**1,966,614**	275,434	2,019,759
Net foreign currency denominated assets	**RMB332,592**	**₱2,430,113**	RMB180,967	₱1,327,033

**Translated using the exchange rate at the reporting date (RMB1: ₱7.30 in December 31, 2014 and RMB1: ₱7.333 in December 31, 2013).*

	December 31, 2014		December 31, 2013	
	INR	**Php Equivalent***	INR	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	**INR34,068**	**₱23,970**	INR1,790	₱1,285
Receivables	**311,470**	**219,146**	12,167	8,736
Other current assets	**–**	**–**	7,136	5,124
Total assets	**345,538**	**243,116**	21,093	15,145
Liabilities				
Accounts payable and accrued expenses	**92,499**	**65,081**	16,921	12,150
Net foreign currency denominated assets (liabilities)	**INR253,039**	**₱178,035**	INR4,172	₱2,995

**Translated using the exchange rate at the reporting date (INR1: ₱0.70 in December 31, 2014 and INR1: ₱0.718 in December 31, 2013).*

	December 31, 2014		December 31, 2013	
	EUR	**Php Equivalent***	EUR	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	**EUR 8,651**	**₱471,336**	EUR2,445	₱148,603
Receivables	**37,540**	**2,045,274**	24,394	1,482,929
Total assets	**46,191**	**2,516,610**	26,839	1,631,532
Liabilities				
Accounts payable and accrued expenses	**13,733**	**748,200**	11,066	672,682
Other current liabilities	**–**	**–**	652	39,663
Short term debt	**2,299**	**125,245**	9,745	592,413
Long-term debt	**14,199**	**773,600**	–	–
Total liabilities	**30,231**	**1,647,045**	21,463	1,304,758
Net foreign currency denominated assets (liabilities)	**EUR15,960**	**₱869,565**	(EUR5,376)	(₱326,774)

**Translated using the exchange rate at the reporting date (EUR1: ₱54.48 in December 31, 2014 and EUR1: ₱60.79 in December 31, 2013)*

	December 31, 2014		December 31, 2013	
	CZK	**Php Equivalent***	CZK	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**CZK4,334**	**₱8,516**	CZK894	₱1,996
Receivables	**(782)**	**(1,536)**	263	587
Total assets	**3,552**	**6,980**	1,157	2,583
Liabilities				
Accounts payable and accrued expenses	**51,942**	**102,066**	25,794	57,573
Other current liabilities	**122**	**240**	–	–
Total liabilities	**52,064**	**102,306**	25,794	57,573
Net foreign currency denominated liabilities	**(CZK48,512)**	**(₱95,326)**	(CZK24,637)	(₱54,990)

**Translated using the exchange rate at the reporting date (CZK1:₱1.96 in December 31, 2014 and CZK1:₱2.232 in December 31, 2013).*

	December 31, 2014		December 31, 2013	
	VND	**Php Equivalent***	VND	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**VND35,133,686**	**₱75,055**	VND34,533,794	₱72,618
Liabilities				
Accounts payable and accrued expenses	**–**	**–**	640,458,604	1,348,732
Net foreign currency denominated assets (liabilities)	**VND35,133,686**	**₱75,055**	(VND605,924,810)	(₱1,276,114)

**Translated using the exchange rate at the reporting date (VND1:₱0.0021 in December 31, 2014 and VND1:₱ 0.0020 in December 31,2013).*

	December 31, 2014		December 31, 2013	
	MXN	**Php Equivalent***	MXN	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**MXN5,547**	**₱ 16,884**	MXN47,208	₱160,560
Receivables	**177,303**	**539,725**	123,735	420,834
Total assets	**182,850**	**556,609**	170,943	581,394
Liabilities				
Accounts payable and accrued expenses	**89,179**	**271,468**	179,946	612,014
Net foreign currency denominated assets (liabilities)	**MXN93,671**	**₱285,141**	(MXN9,003)	(₱30,620)

**Translated using the exchange rate at the reporting date (MXN1:₱3.04 in December 31, 2014 and MXN1:₱ 3.404 in December 31, 2013).*

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).

2014

Currency	**Increase (decrease) in Peso per foreign currency**	**Increase (decrease) in profit before tax**
US$	**₱1.00**	**(₱344,872)**
	(1.00)	**344,872**
JPY	**1.00**	**(6,732,738)**
	(1.00)	**6,732,738**
SGD	**1.00**	**19,902**
	(1.00)	**(19,902)**
HKD	**1.00**	**18,057**
	(1.00)	**(18,057)**
RMB	**1.00**	**332,592**
	(1.00)	**(332,592)**
INR	**1.00**	**253,039**
	(1.00)	**(253,039)**
EUR	**1.00**	**15,960**
	(1.00)	**(15,960)**
CZK	**1.00**	**(48,512)**
	(1.00)	**48,512**
VND	**1.00**	**35,133,686**
	(1.00)	**(35,133,686)**
MXN	**1.00**	**93,671**
	(1.00)	**(93,671)**

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)

(Forward)

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax
EUR	1.00	5,376
	(1.00)	(5,376)
CZK	1.00	(24,637)
	(1.00)	24,637
VND	1.00	(605,924,810)
	(1.00)	605,924,810
MXN	1.00	(9,003)
	(1.00)	9,003

<u>2012</u>

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)
MYR	1.00	5,041
	(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

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).

	Market Index	Change in Variables	Effect on Equity Increase (decrease)
			(In Thousands)
2014	PSEi	**5%**	**₱425,527**
		(5%)	**(425,527)**
2013	PSEi	5%	₱310,230
		(5%)	(310,230)

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.

<u>ALI Group</u>
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.

<u>MWC Group</u>
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, 2014 and 2013, based on contractual undiscounted payments.

	December 31, 2014				
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	**₱73,540,123**	**₱–**	**₱–**	**₱–**	**₱73,540,123**
Project costs	**17,321,785**	**–**	**–**	**–**	**17,321,785**
Accrued expenses	**11,595,579**	**–**	**–**	**–**	**11,595,579**
Related parties	**2,458,817**	**–**	**–**	**–**	**2,458,817**
Retentions payable	**1,014,364**	**–**	**–**	**–**	**1,014,364**
Dividends payable	**2,845,013**	**–**	**–**	**–**	**2,845,013**
Personnel costs	**3,772,205**	**–**	**–**	**–**	**3,772,205**
Derivative liability	**4,755**	**–**	**–**	**–**	**4,755**
Service concession obligation	**1,019,515**	**1,531,691**	**705,528**	**10,547,926**	**13,804,660**
Customers' deposit	**9,161,743**	**–**	**–**	**–**	**9,161,743**
Short-term debt	**21,084,269**	**–**	**–**	**–**	**21,084,269**
Long-term debt (LTD)	**10,761,443**	**11,573,756**	**60,051,210**	**156,465,229**	**238,851,638**
Other noncurrent liabilities	**–**	**17,178,307**	**353**	**6,197,304**	**23,375,964**
Interest payable	**10,142,902**	**13,141,805**	**12,721,097**	**24,947,802**	**60,953,606**
	₱164,722,513	**₱43,425,559**	**₱73,478,188**	**₱198,158,261**	**₱479,784,521**

	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 obligation	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	127,073,469	190,742,889
Other noncurrent liabilities	–	10,057,907	836,059	13,072,611	23,966,577
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	₱189,516,082	₱423,761,172

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.

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 and 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 make a deposit with the Group (e.g. 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.

	2014	2013
	(In Thousands)	
Financial assets at FVPL	**₱10,374,780**	₱17,916,513
Derivative assets	**8,835**	456,768
Accounts and notes receivables		
Trade		
Real estate	**57,898,143**	39,832,997
Investment in bonds classified as loans and receivables	**450,000**	1,000,000
Receivable from officers and employees	**731,336**	507,042
Receivable from BWC	**529,501**	544,374
Concession financial receivable	**975,984**	681,364
AFS financial assets		
Quoted equity investments	**1,916,799**	1,241,869
Unquoted equity investments	**1,275,497**	1,439,637
Quoted debt investments	**239,919**	103,301
Total credit risk exposure	**₱74,400,794**	₱63,723,865

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2014

	Neither Past Due nor Impaired	Past Due but not Impaired						Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	₱54,076,618	₱493,629	₱514,089	₱346,998	₱417,839	₱1,437,802	₱3,210,357	₱611,168	₱57,898,143
Electronics manufacturing	7,048,571	951,639	93,569	98,768	89,672	260,823	1,494,471	44,911	8,587,953
Water distribution and wastewater services	1,421,435	–	–	–	–	–	–	569,744	1,991,179
Automotive	1,462,348	20,612	–	–	–	–	20,612	13,834	1,496,794
Information technology and BPO	113,817	48,191	9,821	3,853	19,454	2,866	84,185	4,827	202,829
International and others	4,530	73	447	–	–	–	520	–	5,050
Advances to other companies	20,352,068	275,346	55,270	24,203	16,464	281,165	652,448	169,211	21,173,727
Advances to contractors and suppliers	10,214,501	1,391	–	–	5,966	1,266	8,623	166,116	10,389,240
Receivable from related parties	2,514,597	19,479	17,522	44,226	49	107,158	188,434	6,413	2,709,445
Dividend receivable	104	–	–	–	–	–	–	–	104
Receivable from BWC	529,501	–	–	–	–	–	–	–	529,501
Concession financial receivable	975,984	–	–	–	–	–	–	–	975,984
Receivable from officers and employees	651,812	63,163	1,505	2,047	879	11,865	79,459	65	731,336
Investment in bonds classified as loans and receivables	450,000	–	–	–	–	–	–	–	450,000
Others	113,817	2,283	4,821	3,853	6,026	7,151	24,134	252	138,203
Total	₱99,929,703	₱1,875,806	₱697,044	₱523,948	₱556,349	₱2,110,096	₱5,763,243	₱1,586,541	₱107,279,488

December 31, 2013

	Neither Past Due nor Impaired	Past Due but not Impaired						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	₱1,227,222	₱2,875,698	₱507,507	₱39,832,997
Electronics manufacturing	5,987,296	850,487	83,623	88,270	79,594	101,125	1,203,099	96,397	7,286,792
Water distribution and wastewater services	364,981	196,437	176,192	135,852	102,823	128,472	739,776	540,719	1,645,476
Automotive	528,171	233,620	86,221	61,346	26,533	25,957	433,677	23,542	985,390
Information technology and BPO	187,214	–	–	–	–	–	–	7,370	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	297,074	600,988	557,879	10,912,046
Receivable from 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
Concession financial receivable	681,364	–	–	–	–	–	–	–	681,364
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	₱59,972,977	₱2,434,750	₱799,252	₱670,672	₱569,107	₱2,020,667	₱6,494,448	₱1,776,400	₱68,243,825

The table below shows the credit quality of the Group's financial assets as of December 31, 2014 and 2013 (amounts in thousands):

December 31, 2014

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱90,761,860	₱–	₱–	₱90,761,860	₱–	₱–	₱90,761,860
Short-term investments	1,102,703	–	–	1,102,703	–	–	1,102,703
FVPL financial assets	10,374,780	–	–	10,374,780	–	–	10,374,780
Other noncurrent assets	8,273,200	–	–	8,273,200	–	–	8,273,200
Accounts and notes receivables							
Trade							
Real estate	47,413,704	3,974,333	2,688,581	54,076,618	3,210,357	611,168	57,898,143
Electronics manufacturing	522,677	6,525,188	706	7,048,571	1,494,471	44,911	8,587,953
Water distribution and wastewater services	1,406,532	14,903	–	1,421,435	–	569,744	1,991,179
Automotive	1,183,041	195,118	84,189	1,462,348	20,612	13,834	1,496,794
Information technology and BPO	–	113,817	–	113,817	84,185	4,827	202,829
International and others	–	4,530	–	4,530	520	–	5,050
Advances to other companies	15,245,423	3,525,796	1,580,849	20,352,068	652,448	169,211	21,173,727
Advances to contractors and suppliers	8,718,904	1,175,343	320,254	10,214,501	8,623	166,116	10,389,240
Receivable from related parties	1,767,865	334,792	411,941	2,514,598	188,434	6,413	2,709,445
Dividend receivable	104	–	–	104	–	–	104
Receivable from BWC	529,501	–	–	529,501	–	–	529,501
Concession financial receivable	975,984	–	–	975,984	–	–	975,984
Receivable from officers employees	631,444	15,747	4,621	651,812	79,459	65	731,336
Investments in bonds classified as loans and receivables	450,000	–	–	450,000	–	–	450,000
Other receivable	106,283	3,070	4,464	113,817	24,134	252	138,203
AFS Investments							
Quoted shares of stocks	1,916,799	–	–	1,916,799	–	–	1,916,799
Unquoted shares of stocks	1,275,497	–	–	1,275,497	–	–	1,275,497
Quoted debt investments	239,919	–	–	239,919	–	–	239,919
	₱192,896,220	₱15,882,637	₱5,095,605	₱213,874,462	₱5,763,243	₱1,586,541	₱221,224,246

December 31, 2013

	Neither past due nor impaired				Past due but		
	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	2,875,698	507,507	39,832,997
Electronics manufacturing	275,579	5,155,813	555,904	5,987,296	1,203,099	96,397	7,286,792
Water distribution and wastewater services	352,650	12,331	–	364,981	739,776	540,719	1,645,476
Automotive	528,171	–	–	528,171	433,677	23,542	985,390
Information technology and BPO	–	187,214	–	187,214	–	7,370	194,584
International and others	3,603	–	–	3,603	15	–	3,618
Advances to other companies	9,753,179	–	–	9,753,179	600,988	557,879	10,912,046
Receivable from 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
Concession financial receivable	681,364	–	–	681,364	–	–	681,364
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
	₱125,848,606	₱6,949,009	₱1,986,256	₱134,783,871	₱6,494,448	₱1,776,400	₱143,054,719

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, 2014 and 2013 (amounts in thousands):

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL				
Held for trading	**₱10,374,780**	**₱10,374,780**	₱17,916,513	₱17,916,513
Derivative assets				
Embedded	**8,835**	**8,835**	456,768	456,768
Total financial assets at FVPL	**10,383,615**	**10,383,615**	18,373,281	18,373,281
LOANS AND RECEIVABLES				
Accounts and notes receivables				
Trade receivables				
Real estate	**50,410,593**	**50,567,423**	39,325,490	39,362,376
Nontrade receivables				
Investment in bonds classified as loans and receivables	**450,000**	**463,407**	1,000,000	1,091,291
Receivable from officers and employees	**260,251**	**266,824**	274,900	274,972
Total loans and receivables	**51,120,844**	**51,297,654**	40,600,390	40,728,639
Total other financial assets	**61,504,459**	**61,681,269**	58,973,671	59,101,920
AFS FINANCIAL ASSETS				
Quoted equity investments	**1,916,799**	**1,916,799**	1,241,869	1,241,869
Unquoted equity investments	**1,275,497**	**1,275,497**	1,439,637	1,439,637
Quoted debt investments	**239,919**	**239,919**	103,301	103,301
Total AFS financial assets	**3,432,215**	**3,432,215**	2,784,807	2,784,807
Total financial assets	**₱64,936,674**	**₱65,113,484**	₱61,758,478	₱61,884,318
FINANCIAL LIABILITIES AT FVPL				
Derivative liabilities				
Freestanding	**₱4,755**	**₱4,755**	₱1,803	₱1,803
Embedded	–	–	1,667	1,667
Total derivative liabilities	**₱4,755**	**₱4,755**	₱3,470	₱3,470
OTHER FINANCIAL LIABILITIES				
Noncurrent other financial liabilities				
Service concession obligation	**7,859,153**	**11,806,727**	7,868,295	12,738,815
Other noncurrent liabilities	**18,441,386**	**18,940,040**	23,738,011	23,809,863
Long-term debt	**226,999,015**	**276,149,199**	178,027,343	186,432,252
Total other financial liabilities	**253,299,554**	**306,895,966**	209,633,649	222,980,930
Total financial liabilities	**₱253,304,309**	**₱306,900,721**	₱209,637,119	₱222,984,400

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 instrument - The fair value of the freestanding currency forwards is based on counterparty valuation. Derivative asset - The fair value is estimated using a modified stock price binomial tree model for convertible callable bonds. The model involves a two-step process of generating stock price paths over the life of the note, and subsequently computing for the convertible bond value using an expected present value technique. The fair value of the derivative asset is simply the difference in fair values of a straight note and the convertible callable note. Significant assumptions and estimates used to compute for the value of the derivative asset are as follows:

a. The stock price was calculated using standard equity valuation techniques, using both the discounted free cash flows and market comparable approach.
b. Stock price volatility is derived from peers with traded shares.
c. Stock price was assumed to move in only two directions - up or down.
d. Credit spread was implied from current indicative rates given by creditor banks.

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 8.0% to 13.25% in 2014, in 0.23% to 13.25% 2013 and 0.30% to 13.25% in 2012.

AFS quoted debt and 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.

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 1.82% to 6.13% in 2014 and 1.25% to 4.08% in 2013 while the discount rates used for the foreign currency-denominated loans ranged 1.86% to 5.17% in 2014, in 0.09% to 4.27% 2013 and 0.13% to 3.01% in 2012.

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 0.02% to 12.26% in 2014, 0.23% to 6.16% in 2013 and 0.28% to 6.37% in 2012.

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, 2014 and 2013 (amounts in thousands):

2014

	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	**₱–**	**₱5,607,838**	**₱4,766,942**	**₱10,374,780**
Derivative assets				
Embedded	**–**	**–**	**8,835**	**8,835**
AFS financial assets				
Quoted equity investments	**1,916,800**	**–**	**–**	**1,916,800**
Unquoted equity investments	**–**	**1,014,382**	**261,115**	**1,275,497**
Quoted debt investments	**239,919**	**–**	**–**	**239,919**
	₱2,156,719	**₱6,622,220**	**₱5,036,892**	**₱13,815,831**
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	**₱–**	**₱–**	**₱51,297,654**	**₱51,297,654**
Recurring financial liabilities measured at fair value				
Derivative liabilities				
Freestanding	**₱–**	**₱–**	**₱4,755**	**₱ 4,755**
Recurring financial liabilities for which fair values are disclosed:				
Noncurrent other financial liabilities				
Service concession obligation	**₱–**	**₱–**	**₱11,806,727**	**₱11,806,727**
Other noncurrent liabilities	**–**	**–**	**18,940,040**	**18,940,040**
Long-term debt	**–**	**–**	**276,149,199**	**276,149,199**
	₱–	**₱–**	**₱306,895,966**	**₱306,895,966**
Nonfinancial assets for which fair values are disclosed:				
Investments in associates and joint ventures*	**₱182,213,103**	**₱–**	**₱–**	**₱182,213,103**
Investment properties	**–**	**–**	**234,471,109**	**234,471,109**
	₱182,213,103	**₱–**	**₱234,471,109**	**₱416,684,212**

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

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
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	₱–	₱–	₱40,728,639	₱40,728,639

(Forward)

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
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 financial 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:				
Investments in associates and joint ventures*	₱157,782,802	₱–	₱–	₱157,782,802
Investment properties	–	–	232,927,400	232,927,400
	₱157,782,802	₱–	₱232,927,400	₱390,710,202

**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:

	2014	2013
At January 1	**₱5,855,357**	₱3,988,597
Additions	**1,380,725**	1,702,033
Disposals/ redemptions	**(2,415,755)**	(451,939)
Recognized in statement of income	**216,565**	616,666
At December 31	**₱5,036,892**	₱5,855,357

<u>Derivatives</u>

	2014	2013
Derivative Assets		
Conversion option of AIVPL	**₱8,835**	₱456,768
Derivative Liabilities		
Conversion option of AIVPL	**₱4,755**	₱1,604
Freestanding currency forwards of IMI	**–**	1,803
	₱4,755	₱3,407

In 2014 and 2013, IMI entered into various short-term currency forwards with an aggregate notional amount of US$17.0 million (₱760.0 million) and US$37.0 million (₱1,643.0 million), respectively. As of December 31, 2014 and 2013, the outstanding forward contracts have a net positive fair value of nil and US$0.04 million, respectively. Net fair value gains (loss) recognized in 2014, 2013 and 2012 amounted to US$0.3 (₱13.0 million), (US$0.7) million (₱30.0 million)and nil, respectively (see Note 23).

Embedded derivatives
<u>MWC</u>
₱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, 2013, 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, 2014, 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.

<u>AIVPL Group</u>
Note A
In conjunction with the transactions contemplated by the Subscription Agreement among the Borrower, Lender and Actis, in February 2010, Integreon has settled $22.2 million of the total outstanding notes receivables. Consequently, upon settlement of the notes, the marked to market valuation amounting to $1.8 million, which had been recognized in prior years pertaining to the convertible promissory notes of $7.3 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$55.9 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 $7.3 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 $7.3 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 $7.3 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, 2014 and 2013, the fair value of the compound embedded derivatives representing the Conversion Option and the Term Extension Option amount to $0.2 million (₱8.9 million) and $0.7 million (₱31.1 million), respectively.

Note B
On April 27, 2012, Stream issued a convertible promissory note to LIL Group (Lender) amounting to $4.7 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* - Stream 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, LIL Group and certain holders of convertible promissory notes entered in 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 LIL Group 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 $325.0 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.

On the other hand, the conversion option is regarded as an embedded derivative for bifurcation. Accordingly, the net positive fair value of the embedded derivative, which is presented as derivative asset in the consolidated statement of financial position, amounted to $0.20 million (₱ 8.9 million) and $10.3 million (₱457.7 million) as of December 31, 2014 and 2013, respectively. The related marked to market gain and interest income amounted to $0.2 million (₱8.9 million) and $0.1 million (₱4.0 million), respectively, in 2014 and $8.68 million (₱368.3 million) and $0.51 million (₱21.6 million), respectively, in 2013.

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

	2014	2013
Balance at beginning of year	**₱456,768**	₱184,276
Initial value of long call option	**29**	–
Net changes in fair value of derivatives	**8,777**	389,772
	465,574	574,048
Fair value of settled instruments	**(456,739)**	(117,280)
Balance at end of year	**₱8,835**	₱456,768

Derivative Liability

	2014	2013
Balance at beginning of year	**₱3,470**	₱–
Net changes in fair value of derivatives	**3,088**	3,470
	6,558	3,470
Fair value of settled instruments	**(1,803)**	–
Balance at end of year	**₱4,755**	₱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. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing and financing activities are as follows:

2014

- In November 2013, the Parent Company acquired 37.6 million ADHI Class B common shares for a total consideration of ₱13.2 billion. Outstanding payable to DBS arising from this transaction amounted to ₱3.3 billion
- Transfers from land and improvements to inventories amounted to ₱11.0 billion
- Transfer from inventories to property and equipment amounted to ₱138.8 million
- Transfers from investment properties to inventories amounted to ₱827.2 million
- Transfer from investment properties to property and equipment amounted to ₱2.3 million
- Transfers from property and equipment to other assets amounting ₱239.8 million
- Transfer from investment properties to other assets amounted to ₱8.6 million
- Transfer from prop erty and equipment to investment property amounting to ₱33.1 million in 2014;
- Transfer from other assets to property and equipment amounting to ₱274.4 million
- Transfer from land and improvements to other assets amounted to ₱100.3 million;
- Transfer from land and improvements to intercompany receivables amounted to ₱25.4 million;
- Contingent consideration for the purchase of KDW amounting to ₱90.2 million as of December 31, 2012.
- Capitalization of machinery and facilities equipment under finance lease amounted to $3.77 million (₱168.6 million). Conversion of long-outstanding trade and nontrade receivables of the IMI Company to Class A common stock amounting to $1.75 million (₱78.3 million).

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 ₱343.8 million representing 55% of the total purchase price amounting to ₱625.0 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 ₱282.0 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).

35. 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, 2014, 2013 and 2012 which are included in the consolidated financial statements follow:

	2014	**2013**
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**₱46,557**	₱65,045
Other current assets	**47,205**	51,698
Total assets	**₱93,672**	₱116,743
Total liabilities	**₱10,866**	₱18,986

The following is the share of the MDC on the net income of the Joint Venture:

	2014	2013	2012
		(In Thousands)	
Revenue from construction contracts	**₱–**	₱–	₱–
Contract costs	**(22,440)**	(1,031)	(994)
Interest and other income	**6,513**	946	1,175
Income (loss) before income tax	**(15,927)**	(85)	181
Provision for income tax	**(51)**	85	(181)
Net loss	**(₱15,978)**	₱–	₱–

Provision for income tax pertains to the final tax on interest income.

36. **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, 2014	2014	2013
			Outstanding balance as of December 31	
			(Amounts in thousands)	
US$229.2 million transferable term loan facility	December 16, 2010	US$229,200	**US$229,200**	US$229,200
US$150 million transferable term loan facility	March 28, 2011	150,000	**150,000**	50,000
US$20.0 million revolving credit facility	September 28, 2012	20,000	**20,000**	–
US$225 million transferable term loan facility	November 28, 2013	225,000	**225,000**	–
US$100 million transferable loan facility	March 28, 2014	Undrawn	**–**	–
US$200 million term loan facility	May 9, 2014	Undrawn	**–**	–
			US$624,200	US$279,200

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.

On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.5% per annum, payable semi-annually. The Bonds are guaranteed by the Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options.

On January 24, 2014, the Company issued promissory note to BPI amounting to ₱8.0 billion. The loan under this note (including interest, charges, and those taxes for which the Company is liable under the terms of Loan Agreement) was secured by an assignment of deposits belonging to AYCFL (the Assignor). For this purpose, the Assignor, cedes, transfers and conveys unto the Bank, its successors and assigns, by way of assignment, all of the rights, titles and interests of the Assignor on and over these deposits. The Assignor, while the obligations secured remain outstanding, shall not withdraw and shall keep renewed for the term of the Note the Assigned Deposits.

ALI Group
On October 16, 2009, ALI executed 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.

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement signed in July 2000, 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 15 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 5.0% to 20.0% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to Station Square East Commercial Corporation (SSECC), 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, SSECC obtained stand-by 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 was able to deliver the committed facilities and Anvaya Golf and Sports Club officialy opened its doors to its members on December 7, 2013.

<u>Parent Company's Concession Agreement</u>
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; and
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, 2014 and 2013, the Company's capital commitment for construction of service concession asset amounted to ₱470.0 million and ₱665.8 million, respectively.

MWC Group

MWC's Concession Agreement (the "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 ₱100.0 million to ₱395.0 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 March 2012, MWC submitted to MWSS a business plan embodying its rate rebasing proposal for charging year 2013. MWCC conducted a review of the proposal including MWC's last five (5) years financial performance. The financial review process extended up to the third quarter of 2013. 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 shall be implemented in 5 equal tranches of negative 5.9% per charging year. MWC objected to MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

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 MWC's Standard Rates and FCDA, until such time that the Appeals Panel has rendered a final award for the 2013 Rate Rebasing determination.

On December 17, 2014, the MWSS Board of Trustees approved the implementation of an FCDA adjustment of ₱0.36 per cubic meter based on the exchange rates of USD1:₱44.80 and JP¥1:₱0.42 which was published on December 31, 2014 and took effect 15 days after its publication. The FCDA component of the water bill will be adjusted to 1.32% of the basic charge in the first quarter of 2015. The FCDA has no impact on the projected net income of MWC.

As of March 10, 2015, MWC continues to implement the current standard rates pending the final award of the Arbitration Panel.

<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.

BIWC's Concession Agreement
The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain 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 5.0% 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.

Under its concession agreement, BIWC is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);

b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Agreement; and

c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence adjustment as defined in BIWC's concession agreement.

The rate rebasing date is set every 5 years starting January 1, 2011. Hence, the first rate rebasing period shall commence on January 1, 2010 and end on December 31, 2010, and in the case of subsequent rate rebasing periods, the period commencing on the last rate rebasing date and ending on December 31 of the fifth year thereafter. No rate rebasing transpired on January 1, 2011.

BIWC requested for the deferment of the rate rebasing since it was not able to commence operations in June 2009, as originally planned, because the SEC required the Company to seek conformity from the Department of Finance before it could be incorporated.

In January 2013, TIEZA approved the new tariff adjustment for BIWC which is equivalent to an increase from its existing rates of 35.0% to be implemented on a staggered basis for a period of four years with 10.1% increase in 2013; 9.2% for 2014; 8.4% in 2015; and 7.8% in 2016, effective February 1, 2013.

For 2013 and 2014, only the approved rate rebasing adjustment was implemented while the CPI adjustment was deferred due to economic considerations relative to the first time adjustment and natural calamities in 2013.

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 on 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.

On August 15, 2014, the CWC and CDC signed an amendment agreement to the CA dated March 16, 2000. The Amendment provides for the following:

- Extension of the original concession period for another 15 years up to October 1, 2040;
- Additional investment of ₱4.00 billion provided under the amended CA to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original CA amounted to ₱3.00 billion;
- Introduction of rate rebasing mechanism for every four years starting 2014;

- Reduction in tariff rates by 3.9% (from Php25.63/m^3 to Php24.63/m^3) effective September 1, 2014 with no tariff change until 2017, subject to the Extraordinary Price Adjustment; and
- Increase in tariff rates by:
    - ₱0.41 (from Php24.63/m^3 to Php25.04/m^3) in 2018
    - ₱0.42 (from Php25.04/m^3 to Php25.45/m^3) in 2019
    - ₱0.42 (from Php25.45/m^3 to Php25.87/m^3) in 2020
    - ₱0.43 (from Php25.87/m^3 to Php26.30/m^3) in 2021

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.6 million. Further, the recovery period of the Company's investment is now extended by another 15 years from 2025 to 2040.

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 2014, 2013 and 2012, total revenue from the Vietnam Project amounted to ₱25.5 million, ₱174.9 million and ₱169.5 million, respectively. Total costs related to the Vietnam Project amounted to ₱54.3 million, ₱96.2 million and ₱124.5 million in 2014, 2013 and 2012, 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$116.6 million 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.

ACEHI

On December 23, 2014, ACEHI entered into an Equity Contribution Agreement with GNPK, Citicorp International Limited in its capacity as offshore collateral agent and certain other parties, whereby ACEHI agreed to provide its proportionate share in the equity required for the construction of the Kauswagan Power Plant Project. On even date, the Company, ACEHI and Citicorp International Limited, in its capacity as Offshore Collateral Agent for the secured parties, signed an equity subscription undertaking whereby the Company agreed to make timely capital subscriptions of up to US$281 million into ACEHI under the subscription agreement as and when required thereunder to support ACEHI's commitments under the Equity Contribution Agreement.

On December 22, 2014, ACEHI and GNPK executed a Contract of Lease and Access Agreement for certain parcels of land in Kasuwagan, Lanao del Norte with an area of approximately 608,642 square meters.. The lease is for 50 years and payments will start in 2015.

On December 23, 2014, the Kauswagan Power Holding Limited Partnership Agreement (KPHLC LPA) and GNPower Kauswagan Limited Partnersip Agreement (GNPK LPA) were amended to facilitate the subscription by PINAI investors for the Class C limited partnership interest in KPHLC and Class B interests in GNPK. Total aggregate committed capital of PINAI and ACEHI per LPA will be up to US$110.0 million and US$281.0 million, respectively.

AC Infra
Investment commitment in LRT 1 and AFCS projects
As of December 31, 2014, AC Infra's total equity investment commitment for the LRT 1 and AFCS projects amounts to ₱8.5 billion and ₱500.0 million, respectively.

37. 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 the Group's 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 MWC and Maynilad Water Services, Inc. (jointly, the "Concessionaires") for real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱955.3 million. On November 15, 2010, the local government of Quezon City demanded the payment of ₱302.7 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and local government of Quezon City have been questioned by the Concessionaires and MWSS, and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively.

38. **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 ₱1.4 billion.

39. 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;

ii. 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;

iii. 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 1.5% of their original cost less accumulated normal depreciation or net book value;

iv. 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;

v. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of 10% on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;

vi. 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;

vii. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy shall be subject to 0% VAT;

viii. 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 50% of the universal charge for power needed to service missionary areas where it operates the same;

ix. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

x. Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to 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 8.53 kilowatt per hour (kWh) 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 Feed-In Tariff (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.

On October 10, 2014, the DOE granted Northwind a Certificate of Endorsement for Feed-In Tariff (FIT) Eligibility (COE-FIT No. 2014-10-001) for its Phase III expansion project. The endorsement qualifies the Phase III expansion under the FIT System and accordingly, will be granted the national FIT for wind projects amounting to 8.53/kWh. The endorsement shall be the basis for the Energy Regulatory Commission (ERC) to issue a FIT Certificate of Compliance.

40. Events after the Reporting Period

Parent Company

a) In January 2015, the Company assisted ALI to raise funds through a placement of 484,848,500 common shares of ALI that the Company owns at a price of ₱33.00 per share (the “Offer Price”). The placement was conducted via a bookbuilt offering structured as a top-up placement with all the proceeds to be received by ALI.

   The equity placement raised an aggregate of ₱16.0 billion in proceeds which ALI will use for its expansion projects.

   As a result of this transaction, the Company’s holdings in common shares of ALI was reduced to 47.3% from 48.9% but the Company will retain voting control at over 68.9%.

b) On March 10, 2015, the BOD of the Company approved the following:
   - Approval for AI North America, Inc. (“AINA”), a wholly-owned subsidiary of AG Holdings, to invest US$20.0 million in the Sares Regis Multi-family Value Add Fund II, a real estate private equity fund to be managed by the Sares-Regis group (SRG) based in California, USA. The investment will entitle AINA to get a voting interest through 1 (one) board seat on the Board of Advisors. AINA is also authorized, through its authorized signatories, to execute the Limited Partnership Agreement with SRG.
   - Application of US$20.0 million Term Loan Facility for GN Power Mariveles Coal Plant Ltd. Co. (GMCP). Arlington BV will grant the loan of up to US$20.0 million in accordance with the following terms and Ayala-Sithe Global funding terms:
     - Interest of 10% per annum compounded semi-annually
     - Payable on or before December 31, 2016
     - Step-up interest of 20% per annum if the loan is unpaid by maturity date
     - Sithe commits to buy-out US$15.0 million of the loan by July 2015

ALI

a) In February 2015, ALI purchased the remaining non-controlling interest of the following:
   - Anglo Philippine Holdings Corporation in NTDCC comprising of 382,072 common shares and 1,605,169 preferred shares for ₱523.0 million.
   - Remaining interest of Allante Realty and Development Corporation and DBH, Inc. consisting of 167,548 common shares and 703,904 preferred shares for ₱229.0 million.

   This brings ALI's ownership in NTDCC from 63.8% to 73.2% of the total outstanding capital stock of NTDCC, which owns and operates the Trinoma Commercial Centre in North Triangle, Quezon City.

b) On February 20, 2015, the BOD of ALI approved the declaration of regular cash dividends of ₱0.2 per share on the outstanding common shares. The dividends will be paid on March 20, 2015 to stockholders of record as of March 6, 2015.

c) On February 23, 2015, the BOD of ALI approved the declaration of cash dividends of 4.74786% per annum or ₱0.0474786 per share on the outstanding unlisted voting preferred shares. The dividends will be paid on June 29, 2015 to stockholders of record as of June 15, 2015.

MWC Group

a) On January 6, 2015, MWC's Remuneration Committee approved the grant to the qualified executives, officers and employees of stock options covering up to 7,281,647 common shares at a subscription price of ₱26.00 per share.

b) On January 5, 2015, CMWD delivered its initial 18.0 million liters per day bulk water supply to MCWD. CMWD will increase its bulk water delivery to 35.0 million liters per day in 2016.

c) On January 30, 2015, MWC and the Zamboanga City Water District (ZCWD) have signed and executed a Joint Venture Agreement to govern their relationship as joint venture partners in the conduct of Non-Revenue Water Reduction Activities. MWC and ZCWD shall thereafter cause the incorporation of a Joint Venture Company which shall perform the Non-Revenue Water Reduction Activities for a period of ten (10) years. MWC shall own seventy percent (70%) while ZCWD shall own (30%) of the Joint Venture's outstanding capital stock.

d) On February 20, 2015, the BOD of MWC approved the following:
   i. Declaration of cash dividends for the first semester of 2015 of ₱0.4075 per share on the outstanding Common Shares and ₱0.04075 per share on the outstanding Participating Preferred Shares. The dividends will be paid on March20, 2015 to stockholders of record as of March 6, 2015.
   ii. Additional investment of ₱492.0 million in Manila Water Total Solutions Corporation and ₱250.0 million in Manila Water Philippine Ventures, Inc.

IMI

a) On February 17, 2015, the BOD of IMI approved the declaration of regular cash dividends of US$0.0042 (₱0.1868) per share on the outstanding common shares. The dividends will be paid on March 19, 2015 to stockholders of record as of March 4, 2015.

AC Infrastructure Holdings Corporation

a) On January 27, 2015, together with Metro Pacific Light Rail Corporation, AC Infra submitted its prequalification bid for the operation and maintenance of LRT Line 2 under Light Rail Manila Holdings 2, Inc. (LRMH2I). On February 16, 2015, the Department of Transportation and Communications (DOTC) announced the qualification of LRMH2I to bid for the project together with three other qualified bidders.

AC Energy Holdings Inc.

a) On various dates of January to February 2015, the Company infused $14.3 million to ACEHI to fund the investment in GNPK.

b) On February 9, 2015, the AC Energy guarantee in connection with NLREC ₱3.0 billion loan facility was extended by 2 months or until April 10, 2015.

BPI

a) On November 19, 2014, the BOD of BPI approved the declaration of cash dividends of ₱0.90 per outstanding common shares subject to the approval of the BSP. On February 2, 2015, the BSP approved the dividend declaration which will be paid on March 17, 2015 to stockholders of record as of February 24, 2015.

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c) **Approval of the Consolidated Financial Statements**

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2014, 2013 and 2012 and for each of the three years in the period ended December 31, 2014 were endorsed for approval by the Audit Committee on March 5, 2015 and authorized for issue by the Board of Directors (BOD) on March 10, 2015.

Glossary

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

EBITDA
Earnings before interest, taxes, depreciation, and amortization

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 investees' employee stock options and assumed conversions of potential ordinary shares

ROCE
Return on common equity (net income attributable to equity holders / average equity attributable to equity holders)

ROE
Return on equity (net income attributable to equity holders / average stockholders equity)

TSR CAGR
Compounded annual growth rate of total shareholder return

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Let's pioneer the future

2014 Annual Report

Ayala

LET'S PIONEER THE FUTURE

Ayala draws strength from its diversity, from synergy as well as shared vision and values. Through three centuries, it has always been a bold but discerning Filipino company, knowing when to stand firm and when to change things for the better.

One hundred eighty years ago, the spirit of innovation and our deeply held principles brought our company to existence. Today, they live on in each and every Ayala company. Join us as we continue to pioneer the future.

Let's build sustainable communities

2014 Annual Report

AyalaLand

Let's make the best happen

2014 Annual Report

BPI

Let's create a wonderful world

2014 Annual and Sustainability Report

Globe

Let's partner to transform communities

2014 Annual Report

MANILA WATER

Let's innovate solutions

2014 Annual Report

IMI

Let's collaborate better

2014 Annual Report

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