LIFE

WHAT WE MAKE OF IT

Muntinlupa-Cavite Expressway

WHEN WE TRANSFORM INDUSTRIES, WE REDEFINE THE WAY WE LIVE.

We drive innovation—paving roads that enable everyone to move faster toward opportunities. Ayala seeks a bright future for all, so the Filipino can make the most out of life.

Ayala

THE 2015 ANNUAL REPORT

ABOUT THE REPORT

For over 180 years, Ayala has pioneered many industries that have shaped and enriched the lives of Filipinos. We continue to lead the way in real estate, banking, telecommunications, water, electronics manufacturing, and automotive.

Today, we continue to pursue new directions in industries aligned with the broader development goals of the country: our deepening presence in power and transport infrastructure, as well as our entry into education and healthcare.

OUR VISION

We will be the most relevant, innovative, and enduring Philippine-based business group, enabling shared value and prosperity for the many stakeholders we serve.

OUR MISSION

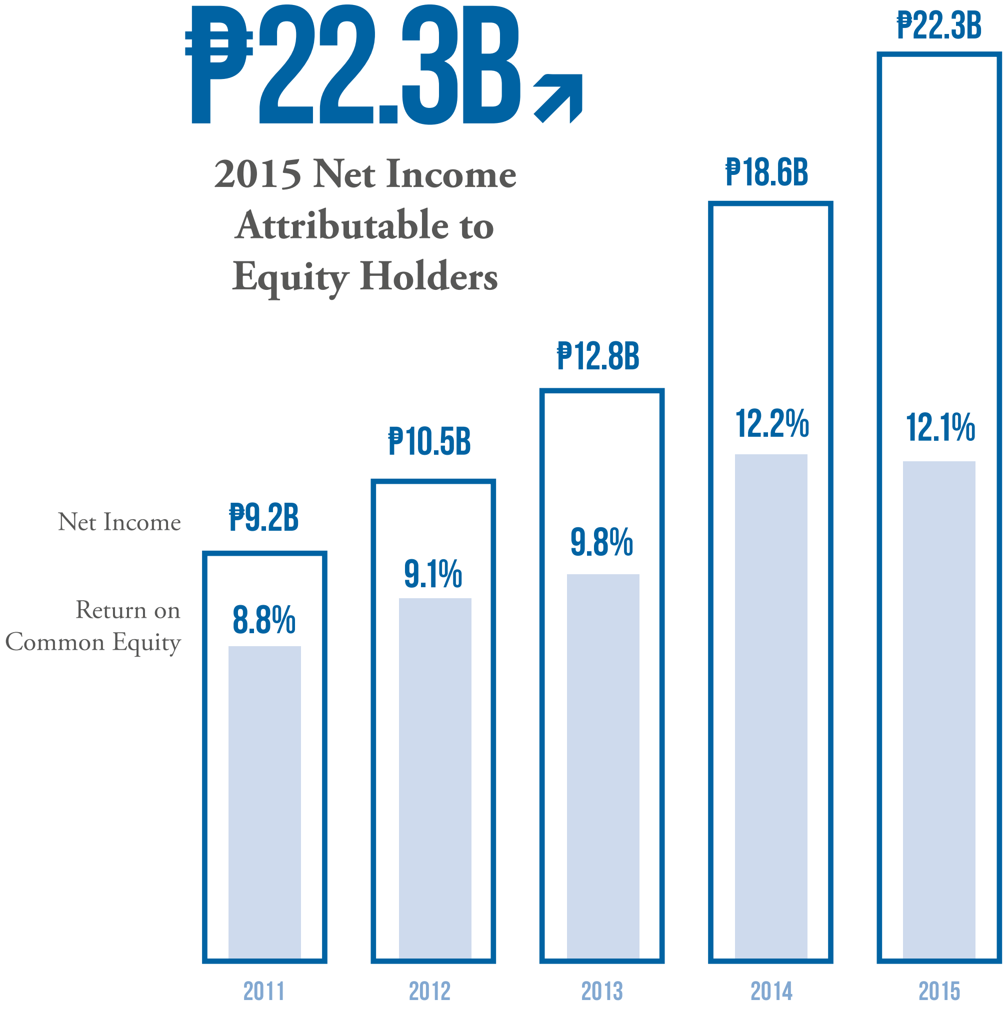
Anchored on values of integrity, long-term vision, empowering leadership, and with a strong commitment to national development, Ayala fulfills its mission to ensure long-term profitability and value creation. Ayala creates synergies as it builds mutually beneficial partnerships and alliances with those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

AYALA AT A GLANCE

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

₱22.3B

2015 Net Income Attributable to Equity Holders



16.7%
Five-Year Average Net Income Growth

10.4%
Five-Year Average Return on Common Equity

18.8%
Five-Year Total Shareholder Return CAGR*

794,075
Total Assets (in million pesos)

207,667
Revenues (in million pesos)

82,155
Cash and Cash Equivalents (in million pesos)

33.89
Earnings per Share (in pesos)

1.28
Current Ratio

*Compounded annual growth rate

2015 MILESTONES

JAN

FEB

- Ayala Auto's Volkswagen launches the Golf GTI, the iconic hot hatch
- Manila Water Company (MWC) signs a non-revenue water reduction project with Zamboanga Water District

MAR

- Bank of the Philippine Islands (BPI) is named 2014 Best Retail Bank, Best in Mobile Banking, and Best in Mortgage Product in the country by The Asian Banker

APR

- Ayala Land (ALI) acquires 9.2% of MCT BHD Malaysia, later raised to 33%
- Ayala Education acquires 59% of the University of Nueva Caceres

MAY

- AC Energy's joint venture South Luzon Thermal Energy Corp. (SLTEC) goes online with its first 135MW unit
- AF Payments rolls out the Beep contactless payment card system across Metro Manila's rail lines

JUN

- Ayala Health acquires 50% of Generika Drugstore

JUL

- Integrated Micro-Electronics (IMI) becomes the seventh largest automotive electronics manufacturing services (EMS) provider in the world
- AC Infra's MCX toll road officially opens to the public

AUG

- Globe opens its fourth GEN3 store in Greenbelt, Makati, the latest in its series of new one-stop digital lifestyle hubs
- AC Energy partners with Bronzeoak Philippines to develop an 18MW solar power farm in Bais, Negros Oriental

SEP

- Light Rail Manila Corporation, an AC Infra joint venture, officially takes over the operations of LRT1

OCT

- MWC signs a joint venture agreement with the local government of Tagum, Davao to build and operate a bulk water supply treatment plant
- ALI launches Vermosa, its newest masterplanned estate in Cavite

NOV

- The Ayala group supports the Philippines' hosting of the 2015 Asia-Pacific Economic Cooperation (APEC) Summit

DEC

- Globe's mobile subscriber base grows 12% to over 53 million, the highest in its history
- Ayala Health's FamilyDoc clinics are inaugurated in Cavite and Las Piñas
- Four Ayala companies (AC, ALI, MWC, Globe) are recognized in the top 50 in ASEAN for corporate governance
- MWC acquires 24.5% of Vietnam's Cu Chi Water Supply Co., its third asset in Vietnam

FIVE-YEAR CONSOLIDATED FINANCIAL HIGHLIGHTS

	AYALA LAND					BANK OF THE PHILIPPINE ISLANDS				
	2011[1]	2012[1]	2013	2014	2015	2011[1]	2012[1]	2013	2014	2015
FOR THE YEAR (in million pesos)										
Revenues	47,668	59,932	81,523	95,197	107,183	41,758	47,385	52,498	55,787	59,359
Net Income Attributable to Equity Holders	7,140	9,038	11,742	14,802	17,630	12,899	16,352	18,811	18,038	18,234
Cash Dividends to Common Shares	1,911	2,856	4,067	5,871	6,094	6,401	8,180	6,401	7,076	7,078
Cash Dividends to Preferred Shares	60	46	62	62	62					
AT YEAREND (in million pesos)										
Total Assets	166,399	254,116	325,474	388,944	442,342	843,565	985,241	1,195,364	1,450,197	1,516,356
Cash and Cash Equivalents	27,286	32,122	40,761	34,586	19,540	106,154	142,372	270,179	250,373	250,641
Short-Term Investments	195	17	17	301	164	86,359	128,501	92,153	67,171	50,371
Total Borrowings	39,041	74,778	101,902	124,666	130,996	25,853	33,315	28,230	33,680	21,372
Equity Attributable to Equity Holders	62,184	81,993	98,470	106,940	133,731	86,939	96,696	104,535	144,063	150,284
PER SHARE (in pesos)										
Earnings - Basic[1]	0.55	0.68	0.84	1.05	1.20	3.63	4.60	5.19	4.62	4.64
Earnings - Diluted[1]	0.55	0.67	0.83	1.05	1.20	3.63	4.60	5.19	4.62	4.64
Book Value of Common Shares[1]	4.67	5.87	6.86	7.44	9.01	24.45	27.19	29.37	36.64	38.22
Cash Dividend to Common Shares	0.15	0.21	0.29	0.41	0.42	1.80	2.30	1.80	1.80	1.80
FINANCIAL RATIOS										
Current Ratio	1.64	1.41	1.45	1.22	1.14					
Debt-to-Equity Ratio	0.51	0.78	0.91	1.02	0.87					

[1]Restatement pertains to impact of adoption of new accounting standards on employee benefits (PAS 19) and consolidated (PFRS 10)
[2]In million US dollars, except for share data in US dollars
**Please refer to page 295 for the glossary of financial terms*

AYALA CORPORATION

	2011[1]	2012[1]	2013	2014	2015
FOR THE YEAR (in million pesos)					
Revenues	110,828	130,571	159,412	184,276	207,667
Net Income Attributable to Equity Holders	9,183	10,504	12,778	18,609	22,279
Cash Dividends to Common Shares	2,124	2,344	2,877	2,928	3,569
Cash Dividends to Preferred Shares	554	543	529	1,281	1,281
AT YEAREND (in million pesos)					
Total Assets	369,039	510,904	599,664	726,048	794,075
Cash and Cash Equivalents	56,297	80,286	65,655	90,770	82,154
Short-Term Investments	1,613	297	119	1,103	2,052
Total Borrowings	111,268	175,085	205,681	258,845	263,341
Equity Attributable to Equity Holders	106,353	124,098	143,476	185,664	208,657
PER SHARE (in pesos)					
Earnings - Basic[1]	14.17	17.03	20.53	29.83	33.89
Earnings - Diluted[1]	14.07	16.92	20.39	29.35	33.38
Book Value of Common Shares[1]	183.98	208.78	230.68	261.63	298.80
Cash Dividend to Common Shares	4.00	4.00	4.80	4.80	5.76
FINANCIAL RATIOS					
Current Ratio	1.76	1.46	1.46	1.50	1.28
Debt-to-Attributable Equity Ratio	1.05	1.41	1.43	1.39	1.26
Debt-to-Total Equity Ratio	0.64	0.85	0.87	0.90	0.80

GLOBE TELECOM

	2011[1]	2012[1]	2013	2014	2015
FOR THE YEAR (in million pesos)					
Revenues	77,765	82,742	90,500	99,025	113,679
Net Income Attributable to Equity Holders	9,805	6,845	4,960	13,372	16,484
Cash Dividends to Common Shares	8,206	8,606	8,877	9,953	11,017
Cash Dividends to Preferred Shares	81	33	24	286	553
AT YEAREND (in million pesos)					
Total Assets	130,065	148,012	159,079	179,507	195,680
Cash and Cash Equivalents	5,159	6,760	7,421	16,757	11,814
Short-Term Investments					
Total Borrowings	48,679	61,779	69,301	65,276	72,229
Equity Attributable to Equity Holders	47,586	45,698	41,639	54,542	59,392
PER SHARE (in pesos)					
Earnings - Basic[1]	73.81	51.45	37.25	100.60	120.11
Earnings - Diluted[1]	73.57	51.38	37.22	100.36	119.92
Book Value of Common Shares[1]	353.55	339.15	308.05	330.03	366.62
Cash Dividend to Common Shares	62.00	65.00	67.00	75.00	83.00
FINANCIAL RATIOS					
Current Ratio	0.60	0.74	0.65	0.77	0.72
Debt-to-Attributable Equity Ratio	1.02	1.35	1.66	1.20	1.22
Debt-to-Total Equity Ratio					

MANILA WATER

	2011[1]	2012[1]	2013	2014	2015
FOR THE YEAR (in million pesos)					
Revenues	12,004	14,553	15,926	16,357	16,936
Net Income Attributable to Equity Holders	4,266	5,490	5,752	5,813	5,958
Cash Dividends to Common Shares	1,138	1,214	1,560	1,611	1,669
Cash Dividends to Preferred Shares	264	278	346	323	326
AT YEAREND (in million pesos)					
Total Assets	60,897	67,127	72,858	74,860	80,608
Cash and Cash Equivalents	5,235	5,540	6,780	6,052	6,850
Short-Term Investments	658	—	94	400	—
Total Borrowings	23,268	24,071	26,252	25,471	26,220
Equity Attributable to Equity Holders	22,637	26,632	30,477	34,508	38,825
PER SHARE (in pesos)					
Earnings - Basic[1]	1.71	2.24	2.34	2.36	2.41
Earnings - Diluted[1]	1.71	2.23	2.34	2.36	2.41
Book Value of Common Shares[1]	10.79	13.01	14.92	16.66	18.96
Cash Dividend to Common Shares	0.56	0.60	0.76	0.81	0.82
FINANCIAL RATIOS					
Current Ratio	1.24	0.83	1.12	1.16	0.80
Debt-to-Attributable Equity Ratio	1.03	0.91	0.86	0.74	0.68
Debt-to-Total Equity Ratio					

INTEGRATED MICRO-ELECTRONICS[2]

	2011[1]	2012[1]	2013	2014	2015
FOR THE YEAR (in million pesos)					
Revenues	575	662	745	844	814
Net Income Attributable to Equity Holders	3.3	5.6	10.5	29.1	28.8
Cash Dividends to Common Shares	1.4	—	—	2.3	7.9
Cash Dividends to Preferred Shares	4.9	2.7	0.9	0.8	—
AT YEAREND (in million pesos)					
Total Assets	442	453	488	553	517
Cash and Cash Equivalents	54	56	49	118	102
Short-Term Investments	—	—	—	—	—
Total Borrowings	79	91	93	100	111
Equity Attributable to Equity Holders	185	194	193	244	232
PER SHARE (in pesos)					
Earnings - Basic[1]	0.001	0.002	0.006	0.017	0.015
Earnings - Diluted[1]	0.001	0.002	0.006	0.017	0.015
Book Value of Common Shares[1]	0.11	0.10	0.10	0.12	0.13
Cash Dividend to Common Shares	0.0010	—	—	0.0014	0.0042
FINANCIAL RATIOS					
Current Ratio	1.51	1.56	1.53	1.73	1.54
Debt-to-Attributable Equity Ratio	0.43	0.47	0.48	0.41	0.48
Debt-to-Total Equity Ratio					

The Boardroom, Ayala Corporation

OUR LEADERSHIP

What we see ahead

MESSAGE FROM THE CHAIRMAN

Fellow Shareholders:

The Philippines' performance in the past year has been encouraging and suggests that our country's economic trajectory can be sustained in the near term amidst some headwinds in the global environment. Our economy remained resilient against the impact of a weakening China, trends in oil prices, political tension in some of our Southeast Asian neighbors, as well as the uncertainties arising from our own forthcoming political transition.

We continue to see expanding financial prosperity in the Philippines with private consumption fueling the 5.8 percent growth that our economy achieved in 2015. Robust foreign remittances and rising income levels, largely coming from the BPO sector, have been catalysts in the country's consumption story, accounting for about 60 percent of economic activity. In addition, the peso has remained resilient throughout the economic volatility in the global economy during the year, emerging as the second least volatile in Asia. Meanwhile, enterprises and consumers alike continue to benefit from the low interest and inflation rate environment.

Also, as the world becomes increasingly interconnected, the Philippines' successful hosting of the APEC Summit capped a year where we became increasingly relevant as a growing country in the region.

As we reflect on the past year, we remain encouraged by the sustained momentum of our economic drivers on the domestic front and the ripple effects that spread to the overall business environment. At the Ayala group, we are proud of a number of milestones across our portfolio of businesses. Most of our major businesses performed well and our new investments in power and transport infrastructure came to fruition.

This year, we are concluding our five-year growth aspiration of doubling our net income to ₱20 billion with a return on common equity of 15 percent, while increasing the equity earnings contribution of our unlisted businesses to 10 percent. We reached our net income target a year earlier than planned, attaining ₱22.3 billion in 2015, a nearly threefold increase from its level four years ago.

Through our investments that directly impact the lives of the people we serve, whether in housing, water, banking, and telecommunications, we strive to promote inclusivity, diversity, and cooperation.

We believe that this solid earnings trajectory resulting from a more deliberate approach to recalibrating our portfolio and identifying value-enhancing opportunities to achieve an optimum balance between returns, diversity, and social impact. Since embarking on our five-year plan in 2012, we have made several strategic and opportunistic adjustments to our holdings. First, we expanded our portfolio and established a growing cluster of power and transport infrastructure investments, positioned to be the new growth platforms for Ayala. Second, we rebalanced our interests across our group of companies. We raised our stake in the Bank of the Philippine Islands and in Manila Water to optimize returns, as we started to unwind our exposure in business process outsourcing to redeploy capital to other strategic opportunities. Finally, as our major businesses remain dominant in their respective spaces, we remained watchful of potentially disruptive trends. We have explored new industries, entered new markets, and created completely new businesses. In a modest way, we have begun to establish a presence in education and healthcare, two sectors that also support the country's social and economic goals. In addition, we continue to look for potentially disruptive opportunities in the areas of automotive and manufacturing.

Going forward, we remain optimistic about the overall environment in the Philippines and in Southeast Asia. Last year, we laid out our group-wide aspirations for 2020. We have committed over the next five years to generate significant value across four strategic imperatives:

- Increase our earnings capacity further by doubling our net income to ₱50 billion
- Improve shareholder return with a sustainable return on common equity of 15 percent
- Diversify our portfolio by increasing the equity earnings contribution of businesses outside our largest listed units to 20 percent
- Strategically expand our overall Southeast Asian presence by growing the equity earnings contribution of international businesses to 10 percent

As we strive to execute on this strategy over the next five years, we will, as we have always tried to do in the Ayala group, enable shared value and prosperity for our many stakeholders. Through our investments that directly impact the lives of the people we serve, whether in housing, water, banking, and telecommunications, we strive to promote inclusivity, diversity, and cooperation. Moreover, our deepening presence in power and transport infrastructure, as well as our recent entry into education and healthcare indicate that we continually challenge ourselves to look for ways to serve a wider community of customers and contribute to the overall national agenda.

In closing, we thank our Board of Directors for their engagement and foresight across a variety of working committees, our management team for ensuring a culture of professional commitment, our many business partners for their willingness to collaborate with us, and our fellow shareholders for their continued support, trust, and confidence in Ayala. We look forward to continued, lasting partnerships in our unwavering commitment to add greater value and enrich the lives of those we touch through our institutions, our products, and our services.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

PRESIDENT'S REPORT

Fellow Shareholders:

We believe the Philippines continues to be fundamentally strong, having remained resilient amid the challenges in the global economy.

We achieved a number of milestones as a group in the past year, with most of our businesses performing well. We are pleased to report that we surpassed our 2016 net income target a year earlier than planned.

The solid performance of most of our business units, particularly Ayala Land, Globe Telecom, and AC Energy bolstered the 20 percent growth in our earnings to reach ₱22.3 billion in 2015. We have also breached the ₱200-billion mark in total consolidated revenues, representing a 13 percent increase from our year-ago level.

We also strengthened our emerging pipeline of power and transport infrastructure investments with various projects coming to fruition. In power, we currently have approximately 650 megawatts of attributable capacity across renewable and conventional energy platforms, on target to reach nearly 1,000 megawatts by 2016. In transport infrastructure, we continued to move forward with our three public-private partnership projects and opened the Muntinlupa-Cavite Expressway, launched the Beep rail ticketing system, and took over the operations and maintenance of LRT1.

Real Estate

The sustained performance of its residential and office developments and commercial leasing segments drove Ayala Land's net income in 2015, which reached ₱17.6 billion, 19 percent higher year-on-year. Revenues from the residential business expanded 12 percent to ₱58.4 billion on new bookings and project completion. New launches and higher completion of office developments fueled the 32 percent growth in office space sales, which reached ₱6.4 billion during the year. The higher occupancy and average rental rates of its shopping centers and office spaces combined with steady improvement of its hotels and resorts portfolio lifted Ayala Land's commercial leasing revenues, which climbed 16 percent to ₱24.5 billion. Ayala Land continued to build up its recurring income business, with malls, offices, and hotels and resorts accounting for 34 percent of its net earnings in 2015.

Telecom

Globe Telecom posted another record year, with net income surging 23 percent to ₱16.5 billion buoyed by the solid revenue trajectory from demand for data services across mobile, broadband, and fixed line segments. The ₱1.2 billion gain from the sale of its 51 percent stake in Yondu also lifted Globe's earnings during the year. Core net income, excluding the impact of Bayan's results, grew 4 percent.

Service revenues jumped 15 percent to ₱113.7 billion. Mobile revenues grew 9 percent to ₱85.1 billion on sustained growth in the postpaid segment, up 7 percent, coupled with faster expansion coming from the prepaid segment, which grew 10 percent. Similarly, mobile subscribers reached 52.9 million at the end of 2015, a 20 percent increase from the previous year. Postpaid subscribers grew 6 percent, while prepaid subscribers jumped 21 percent. As it continued to roll out infrastructure improvements in its data network, Globe mobile data revenues expanded 55 percent to ₱22.1 billion. EBITDA rose 17 percent to ₱45.8 billion, with EBITDA margin steady at 40 percent.

Banking

Bank of the Philippine Islands reported net earnings of ₱18.2 billion in 2015, up 1.1 percent, as the bank's core lending business continued to drive growth, reducing reliance on securities trading. BPI's total revenues rose 6.4 percent to ₱59.4 billion driven by net interest income, which grew 11 percent to ₱38.6 billion on the back of a higher average asset base. Non-interest income dropped 1.2 percent to ₱20.7 billion as the bank's trading performance weathered a volatile year, with foreign exchange and securities trading posting gains of ₱2.9 billion.

Net loans expanded 9 percent to ₱872.9 billion, comprising 78 percent corporate and 22 percent retail borrowers. Deposits grew 8.5 percent to ₱1.3 trillion year-on-year.

Water

As it ramps up its businesses outside Metro Manila, Manila Water posted a 2 percent growth in consolidated net income to ₱6 billion. Revenues rose 4 percent to ₱16.9 billion backed by a 2 percent growth in billed volume. Earnings contribution from non-East Zone investments rose 46 percent, accounting for 16 percent of Manila Water's net income during the year.

Manila Water continues to expand its portfolio of businesses. In January 2016, it signed an agreement with Ayala Land to provide water and used water services to all its developments nationwide. In addition, its 5-gallon bottled water product under the brand Healthy Family opened three new plants in the fourth quarter of 2015 with a combined capacity of 43,000 bottles per day.

Electronics Manufacturing

Integrated Micro-Electronics reported a flat net income of US$28.8 million (or ₱1.3 billion) year-on-year, owing to the volatility in the foreign currency markets and weakness in China's economy, one of its largest markets. Enhanced portfolio mix and cost efficiency initiatives across IMI's operations covered for the softness in revenues.

Revenues of US$814.4 million (or ₱37 billion) dropped 4 percent from a year ago mainly due to a weak euro and downturn in the computing and telecommunications segments. Excluding the impact of changes in currency exchange, automotive revenues climbed 22 percent, while total revenues rose 2 percent.

Power and Transport

AC Energy Holdings recorded a net income of ₱2.1 billion during the year as its power generation assets came online and achieved more efficient operating levels. Furthermore, it realized gains from the partial sale of its stake in North Luzon Renewable Energy Corporation, an 81-megawatt wind farm in Ilocos Norte.

AC Energy currently has an attributable capacity of approximately 650 megawatts in its portfolio of conventional and renewable power projects currently in operations and under construction. It expects this capacity to reach close to 1,000 MW by 2016 once the first phase of its 2x660 GN Power plant in Dinginin, Bataan reaches financial close. In renewable energy, AC Energy's 18 MW solar power farm, Monte Solar Energy Inc., started commercial operations in March 2016. In conventional energy, the second 135 MW unit of its thermal plant, South Luzon Thermal Energy in Calaca, Batangas, also started commercial operations in February 2016. In addition, the first unit of its 4x138 GN Power plant in Kauswagan is expected to be completed in the fourth quarter of 2017.

In transport infrastructure, AC Infrastructure Holdings continued to move forward with its public-private partnership projects. AC Infrastructure, through Light Rail Manila Corporation, successfully took over the operations of LRT1 last September 2015 and has since increased the number of operational light rail vehicles by about 15 percent. Its automated fare collection system under AF Payments now has over 1.5 million Beep cards in circulation. Meanwhile, AC Infra's Muntinlupa Cavite Expressway toll road started operations last July 2015 and is currently serving over 22,000 vehicles per day, helping motorists save over 30 minutes in average travel time.

Balance Sheet and Capital Expenditures

We maintain a comfortable balance sheet and have access to various funding options to meet requirements. At the end of the year, our gross debt at the parent level stood at ₱93.6 billion, 7 percent lower than the previous year, with cash level at ₱47.4 billion. Our parent company net debt to equity ratio stood at 0.44 to 1 and consolidated net debt to equity ratio at 0.55 to 1.

For 2016, we have set aside ₱22.4 billion in capital spending at the parent level mainly to fund our pipeline of power generation projects. At the group level, we have earmarked ₱174 billion in combined capital expenditures primarily to support the growth strategy of our real estate and telecom units.

Sustainability

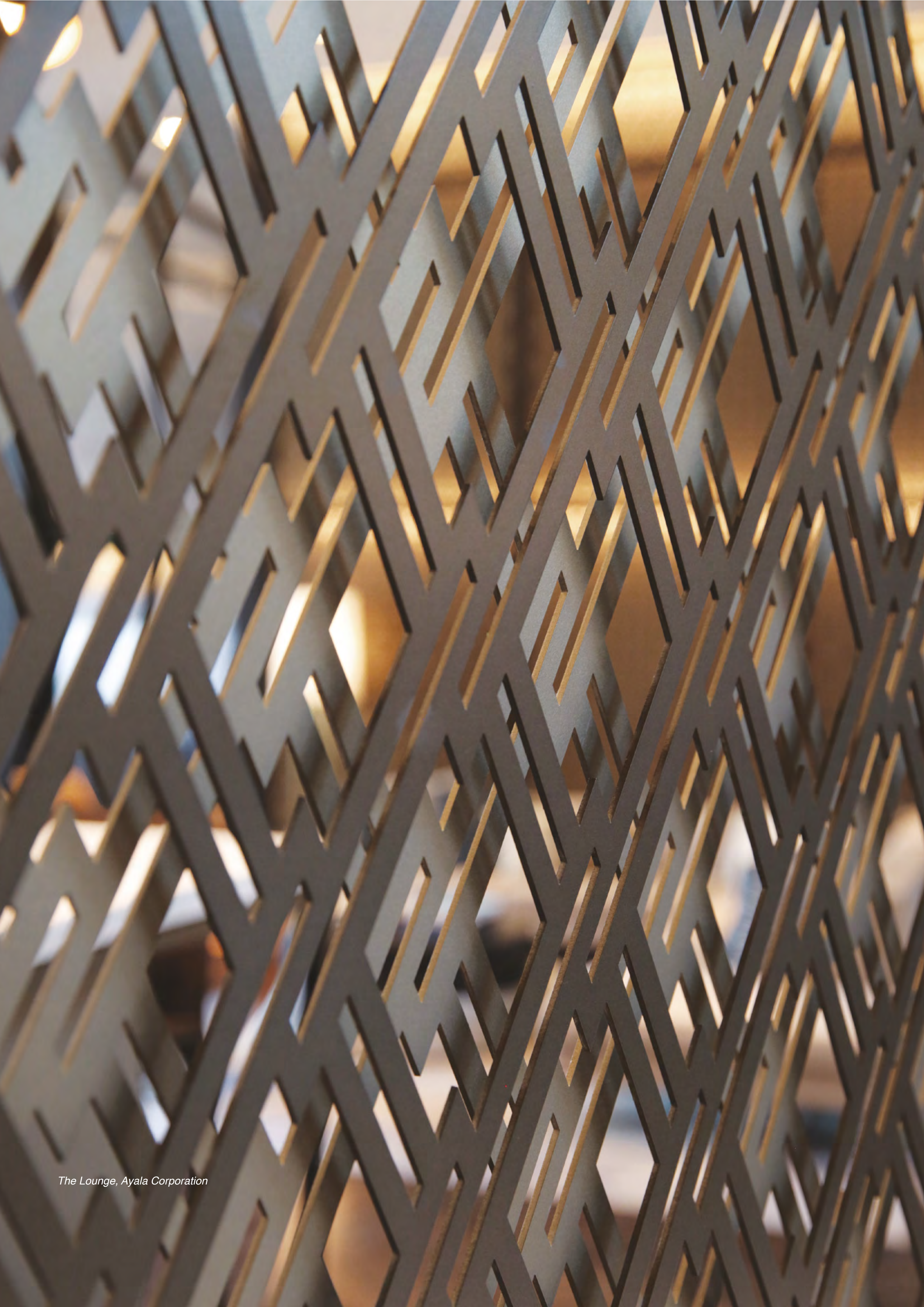
As we set aggressive economic goals for ourselves, we advocate the need to integrate sustainability and shared value creation into the core of our corporate strategies. We strive to advance our brand as one of the Philippines' most diversified shared value enterprises by enriching the social impact of our investments and innovating our business models to generate both financial and environmental benefits. We continue to be guided by the 360-degree sustainability framework we developed in 2013 to benchmark ourselves against global sustainability indices and best practices.

Outlook

We believe the Philippines continues to be fundamentally strong, having remained resilient amid the challenges in the global economy. In 2016, we expect most of our business units to continue growing at a healthy pace. Further, we will continue to strengthen our growing portfolio of power and infrastructure investments as we execute on various projects. In particular, we expect our power business to sustain its positive earnings trajectory in 2016. In addition, we will continue to explore new investments in healthcare and education, while looking for opportunities to scale up our automotive and manufacturing businesses. Overall, we remain vigilant in tracking economic indicators and other relevant metrics across the group to give us a pulse on the economy.

Looking ahead, we will continue to execute on our 2016 growth strategy as we prepare ourselves for a new five-year plan for 2020. It is in this light that I thank our Board of Directors, management team, and staff for their shared vision and commitment, as well as our many partners and stakeholders for their continued trust and support to Ayala. We thank all of you for walking with us on this journey.

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer



The Lounge, Ayala Corporation

BOARD OF DIRECTORS

Our Board of Directors at Ayala Corporation is composed of seven directors who have diverse experiences, backgrounds, and disciplines in the areas of business, finance, and law. They are elected annually and serve for a term of one (1) year. Majority of the Board is composed of non-executive and independent directors. The profile of each director follows on this page.

(From left to right) Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Xavier P. Loinaz, Ramon R. del Rosario Jr., Yoshio Amano, Delfin L. Lazaro, and Antonio Jose U. Periquet

Jaime Augusto Zobel de Ayala CHAIRMAN

Filipino, 56, 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 Chairman of Ayala Education, Ayala Retirement Fund Holdings, Inc., and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy Holdings, Inc., LiveIt Investments Limited, AI North America, Inc., and AG Holdings Limited; Chairman Emeritus of the Asia Business Council; Chairman of Harvard Business School Asia-Pacific Advisory Board and World Wildlife Fund Philippine Advisory Council; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, Endeavor Philippines and Singapore Management University. He was the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council until December 2015. In 2007, he received the Harvard Business School Alumni Achievement Award, the school's highest recognition. He was a recipient of the Presidential Medal of Merit in 2009 for enhancing the prestige and honor of the Philippines both at home and abroad. Subsequently, he was bestowed the Philippine Legion of Honor, with rank of Grand Commander, by the President of the Philippines in recognition of his outstanding public service. He graduated with B.A. in Economics (Cum Laude) at 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, 55, 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., Ayala International Holdings Limited, Accendo Commercial Corporation, Alabang Commercial Corporation, Automobile Central Enterprises, Inc., Ayala Automotive Holdings Corporation, Liontide Holdings, Inc., AC Energy Holdings, Inc., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice Chairman of Ceci Realty, Inc., Vesta Property Holdings, Inc., Aurora Properties, Inc., Columbus Holdings, Inc. Emerging City Holdings, Inc., Fort Bonifacio Development Corporation, and Bonifacio Land Corporation; Director of LiveIt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., AC Infrastructure Holdings Corporation, Ayala Retirement Fund Holdings, Inc. , 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, Habitat for Humanity International and Asia Philanthropy Circle; 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, National Museum, the foundation of the Roman Catholic Church and Asia Society. He graduated with B.A. Liberal Arts at Harvard College in 1982.

Xavier P. Loinaz INDEPENDENT DIRECTOR
Filipino, 72, 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 also holds the following positions: Independent Director of BPI Family Savings Bank, Inc., and BPI/MS Insurance Corporation; Trustee of E. Zobel Foundation; 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 (BPI) from 1982 to 2004. He was also the President of Bankers Association of the Philippines from 1989 to 1991. He graduated with an AB Economics degree at Ateneo de Manila University in 1963 and took his MBA-Finance at Wharton School, University of Pennsylvania in 1965.

Ramon R. del Rosario Jr. INDEPENDENT DIRECTOR
Filipino, 71, Independent Director of Ayala Corporation since April 2010. He holds the following positions in publicly listed companies: President and Chief Executive Officer 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., CIP II Power Corp., Fuld & Co., Inc., Fuld & Co (Philippines), Inc. and Paramount Building Management & Services Corp.; Vice-Chairman of Phinma Foundation and Phinma Property Holdings Corp.; Director ofUnion Galvasteel Corp., and other PHINMA-managed companies; 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 Ramon Magsaysay Award Foundation; 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 in Business Administration. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

Yoshio Amano INDEPENDENT DIRECTOR*
Japanese, 57, 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; 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, , 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 from the 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, 69, 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 BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Antonio Jose U. Periquet INDEPENDENT DIRECTOR
Filipino, 54, 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. and Albizia ASEAN Tenggara Fund; Independent Director of BPI Capital Corporation, and BPI Family Savings Bank, Inc.; and Trustee of Lyceum of the Philippines University and member of the Dean's Global Advisory Council at the University of Virginia's Darden School of Business. He is also an Honorary Investment Adviser to the British Government. He graduated with an AB Economics degree at Ateneo de Manila University in 1982 and took his Masters of Science in Economics at the Oxford University, UK in 1988 and Masters in Business Administration at University of Virginia, USA in 1990.

**under the ASEAN Corporate Governance Standards*

Fernando Zobel de Ayala, Jaime Augusto Zobel de Ayala

MANAGEMENT COMMITTEE

The Ayala Group Management Committee is composed of the Chairman and CEO, President and COO, the four Ayala Corporation Group Heads, and the CEOs of the Ayala Group of Companies. The Group Management Committee oversees the overall strategic plan, aligning individual business unit priorities to group-wide direction. It meets regularly to review business performance, discuss group-wide issues and events, and identify areas of possible synergy and collaboration.




Gerardo C. Ablaza, Jr.
President and CEO
Manila Water Company, Inc.

Filipino, 62, member of the Ayala Corporation Management Committee since April 2009 and the Ayala Group Management Committee since 1998. He is also Co-Vice Chairman of Globe Telecom, Inc. and served as its President and CEO from 1998 to April 2009. He graduated summa cum laude from De La Salle University in 1974 with a degree in Liberals Arts, major in Mathematics (Honors Program).

Alfredo I. Ayala
Chief Executive Officer of LiveIt Investments, Ltd. and Ayala Education, Inc.

Filipino, 54, member of the Ayala Group Management Committee since June 2006. He is a Trustee of International Business Processing Association of the Philippines (IBPAP) and of Philippine Business for Education (PBEd). He has an MBA from the Harvard Graduate School of Business Administration and B.A. in Development Studies (Honors) and Economics, from Brown University.

Paolo Maximo F. Borromeo
Corporate Strategy and Development Group Head

Filipino, 38, member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since September 2014. He oversees corporate strategy, innovation, new business development, investor relations, corporate communications, and public policy. He also heads Ayala's healthcare businesses under Ayala Healthcare Holdings, Inc. He obtained his Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and his Master's in Business Administration with honors from the Wharton School at the University of Pennsylvania.

Cezar P. Consing
President and CEO
Bank of the Philippine Islands

Filipino, 56, member of the Ayala Group Management Committee since April 2013. He first joined BPI's Board of Directors in 1995. He is also an Independent Director of Jollibee Foods Corporation. He graduated with a degree of A.B. (Accelerated Program) Economics (magna cum laude) from De La Salle University in 1979 and took his M.A. Applied Economics at the University of Michigan in 1980.




Ernest Lawrence L. Cu
President and CEO
Globe Telecom, Inc.

Filipino, 55, member of the Ayala Group Management Committee since January 2009. He is also a trustee of Ayala Foundation, Inc. and Hero Foundation, Inc. He earned a degree in BS Industrial Management Engineering from De La Salle University in 1982 and took his Master’s Degree in Business Administration at the JL Kellogg Graduate School of Management in 1984.

Bernard Vincent O. Dy
President and CEO
Ayala Land, Inc.

Filipino, 52, member of the Ayala Group Management Committee since April 2014. He is also the Chairman of two other publicly listed companies, namely Cebu Holdings, Inc. and Cebu Property Ventures and Development Corporation. He received his undergraduate degree in Business Administration from the University of Notre Dame in 1985 and earned his Master's Degree in Business Administration and M.A. in International Relations from the University of Chicago in 1989 and 1997, respectively.

John Eric T. Francia
President and CEO of AC Energy Holdings, Inc. and AC Infrastructure Holdings Corporation

Filipino, 44, member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since January 2009. He is also a Director of publicly listed companies namely: Manila Water Company, Inc. and Integrated Micro-Electronics, Inc. He was head of the Company’s Corporate Strategy and Development Group from January 2009 to September 2014. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude. He then completed his Master’s Degree in Management Studies at the University of Cambridge in the UK, graduating with First Class Honors.

Solomon M. Hermosura
General Counsel, Corporate Secretary, Compliance Officer and Corporate Governance Group Head

Filipino, 53, member of the Ayala Corporation Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is the CEO of Ayala Group Legal and serves as the Corporate Secretary and Group General Counsel of Ayala Land, Inc., and Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., Integrated Micro-Electronics, Inc. and Ayala Foundation, Inc. He graduated valedictorian with a Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examination.




Jose Teodoro K. Limcaoco
Chief Finance Officer, Chief Risk Officer and Finance Group Head

Filipino, 53, member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since 2015. He is the Chairman of Ayala Healthcare Holdings, Inc. and an independent director of SSI Group, Inc., a publicly listed company, and was President of BPI Family Savings Bank from July 2010 to February 2015. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) degree in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

Ruel T. Maranan
President
Ayala Foundation, Inc.

Filipino, 53, member of the Ayala Group Management Committee since 2015, when he took over leadership of Ayala Foundation. He was the Group Director of Manila Water Company, Inc. Corporate Human Resources Group from 2004 to 2014. He earned his AB Social Sciences degree from the Ateneo de Manila University and his law degree from the University of Santo Tomas. He has also completed the Harvard Leadership Management Program.

John Philip S. Orbeta
President and CEO, Ayala Automotive
Corporate Resources Group Head

Filipino, 54, member of the Ayala Corporation Management Committee since May 2005 and Ayala Group Management Committee since April 2009. He is concurrently the Chairman of Ayala Aviation Corporation and the Group Head for Corporate Resources covering Strategic Human Resources, Information & Communications Technology, Corporate Support Services and Knowledge Management at Ayala Corporation. He graduated with a degree in A.B. Economics from the Ateneo de Manila University in 1982.

Arthur R. Tan
President and CEO
Integrated Micro-Electronics, Inc.

Filipino, 56, member of the Ayala Group Management Committee since 2002. Concurrently, he is the Chairman of the Board, President and Chief Executive Officer of PSi Technologies Inc., and President of Speedy-Tech Electronics Ltd. He is the Vice Chairman of the Board of Directors of Ayala Automotive Holdings Corporation effective January 19, 2016. He graduated with a B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post graduate programs at the University of Idaho, Singapore Institute of Management, IMD, and Harvard Business School.

SENIOR LEADERSHIP TEAM

Managing Directors

Seconded to subsidiaries

Emmanuel A. Aligada
President and COO, Honda Cars Makati, Inc.
and Isuzu Automotive Dealership, Inc.

Ferdinand M. Dela Cruz
COO, Manila Water Operations
President and CEO, Manila Water Total Solutions

Gil B. Genio
Chief Technology and Information Officer
Globe Telecom, Inc.

Ronald Luis S. Goseco
Chief Finance Officer (until January 2016)
Energy and Infrastructure Group

Ramon G. Opulencia
Bank of the Philippine Islands (Europe) Plc

Luis Juan B. Oreta
Chief Finance Officer and Treasurer
Manila Water Company, Inc.

Ginaflor C. Oris
Chief Finance Officer and Group Head,
Corporate Finance and Supply Management
Makati Development Corporation

Virgilio C. Rivera, Jr.
COO, New Business Operations
Manila Water Company, Inc.

Jaime E. Ysmael
Chief Finance Officer and Compliance Officer
Ayala Land, Inc.

Executive Directors

Catherine H. Ang
Chief Audit Executive

Josephine G. de Asis
Controller

Ma. Cecilia T. Cruzabra
Treasurer

Maria Angelica B. Rapadas
Chief Information Officer

Seconded to subsidiaries

Ruby P. Chiong
Chief Finance Officer, Commercial Business Group
Ayala Land, Inc.

Rosallie A. Dimaano
Chief Finance Officer
Ayala Education, Inc.

Maria Corazon G. Dizon
Chief Finance Officer (effective January 2016)
Energy and Infrastructure Group

Monina C. Macavinta
Global Head, Human Resources
Integrated Micro-Electronics, Inc.

Jenara Rosanna F. Ong
Chief Finance Officer and Treasurer
Ayala Automotive Holdings Corporation

Alfonso Javier D. Reyes
Head, ALI Capital
Ayala Land, Inc.

Ma. Victoria P. Sugapong
Chief Accountant and Chief Risk Officer
Manila Water Company, Inc.

Sheila Marie U. Tan
Head, Strategic Legal Advisory
BPI Capital Corporation

Norma P. Torres
Head, Strategy Management
and Communications
Energy and Infrastructure Group

Associate Directors

Yla Patricia G. Alcantara
Head, Corporate Communications

Maria Susana C. Bables
Head, Corporate Accounting

Emily C. De Lara
Head, Knowledge Management

Felipe Antonio P. Estrella III
Head, Corporate Finance and Asset
Management

Antonio Joselito G. Lambino II
Head, Public Policy

Guillermo M. Luz

Michael C. Montelibano
Head, Business Development and Innovation

Aditas Vivian L. Santamaria
Head, Financial Planning and Analysis

Ma. Victoria A. Tan
Head, Group Risk Management and Sustainability

Gabriel Q. Villaluz III
Corporate Finance and Asset Management

Ma. Margarita G. Villanueva
Head, Strategic Planning

Seconded to subsidiaries

Josette Adrienne A. Abarca
Vice President, Finance and Administration
Generika Group of Companies

Fatima P. Agbayani
Chief Finance Officer
Light Rail Manila Corporation

Romualdo L. Katigbak
Chief Finance Officer
Ayala Foundation, Inc.

Erwin P. Locsin
Chief Information Officer
Ayala Foundation, Inc.

Rafael Nestor V. Mantaring
Head, Design and Development Asia
Integrated Micro-Electronics, Inc.

Rene D. Paningbatan
General Manager
Isuzu Automotive Dealership, Inc.

Gabino Ramon G. Mejia
Business Development Director
GNPower Mariveles Coal Plant Ltd, Co.

Consultants/Advisers

Patrice R. Clausse

Victoria P. Garchitorena

Marciano A. Paynor, Jr.

Serendra, Bonifacio Global City

OUR PORTFOLIO

How we create value

Our Philosophy and Strategic Priorities

As we look ahead to 2020, we aim to continue building a portfolio that provides multiple engines of scale, growth, and diversification while remaining healthy and resilient throughout macroeconomic and geopolitical cycles.

We will ensure that our businesses remain inclusively aligned to the Philippines' national development needs. We will continue to invest in those industries that we believe will remain key to the country's growth trajectory.

Moreover, all of our businesses will contribute to Ayala's long-term financial strength. Each will have clear trajectories toward sustained leadership in their respective sectors and will be highly competitive in this increasingly interconnected environment.

Looking ahead, our group will remain anchored by our publicly listed units in real estate, banking, telecommunications, and water infrastructure. These will continue to be our major drivers and comprise a large portion of the portfolio.

Beyond these leading businesses, we will focus on generating scale and greater profitability in three priority areas:

- Building on our now-rapidly scaling power and transport infrastructure arms,
- Nurturing our newest investments in social infrastructure, particularly in healthcare and education, and
- Re-energizing our presence in the automotive and manufacturing industries.

As we build and strengthen our portfolio, we will seek to not only generate a fair return on our invested capital, but also promote a healthy culture of innovation and disruption across all our businesses.

REAL ESTATE

47.2%
Ayala Land is the leading real estate developer in the Philippines, pioneering large scale, mixed-use, integrated estates across the country.

FINANCIAL SERVICES

48.3%
Bank of the Philippine Islands is the oldest bank in the Philippines and a recognized leader in Philippine banking and financial services.

TELECOMMUNICATIONS

30.4%
A partnership between Ayala and Singtel, Globe Telecom is a leading provider of telecommunications and broadband services in the Philippines.

WATER AND USED WATER SERVICES

51.6%
Manila Water is a leading provider of water and used water services in the Philippines and an emerging player in Southeast Asia.

MANUFACTURING AND AUTOMOTIVE

50.7%
Integrated Micro-Electronics, Inc. is a global supplier of electronics manufacturing services and power semi-conductor assembly and test services.

100%
Ayala Automotive is Ayala's holding company for automotive investments, with the leading vehicle dealership network for Honda and Isuzu and the Philippine distributor of Volkswagen.

POWER AND TRANSPORT

100%
AC Energy Holdings Inc. is a diversified portfolio of conventional and renewable power generation assets, built through acquisitions and development of greenfield projects.

100%
AC Infrastructure Holdings Corporation pursues toll road, rail and airport projects under the government's public-private partnership program.

SOCIAL INFRASTRUCTURE

100%
Ayala Education Inc. invests in education businesses, and aspires to deliver affordable, quality education to enhance the career potential of students.

100%
Ayala Health is Ayala's portfolio company for investments in healthcare, building an ecosystem that makes quality healthcare more accessible and affordable.

OTHER INVESTMENTS

100%
LiveIt Investments Ltd. is the holding company for Ayala's investments in the business process outsourcing sector.

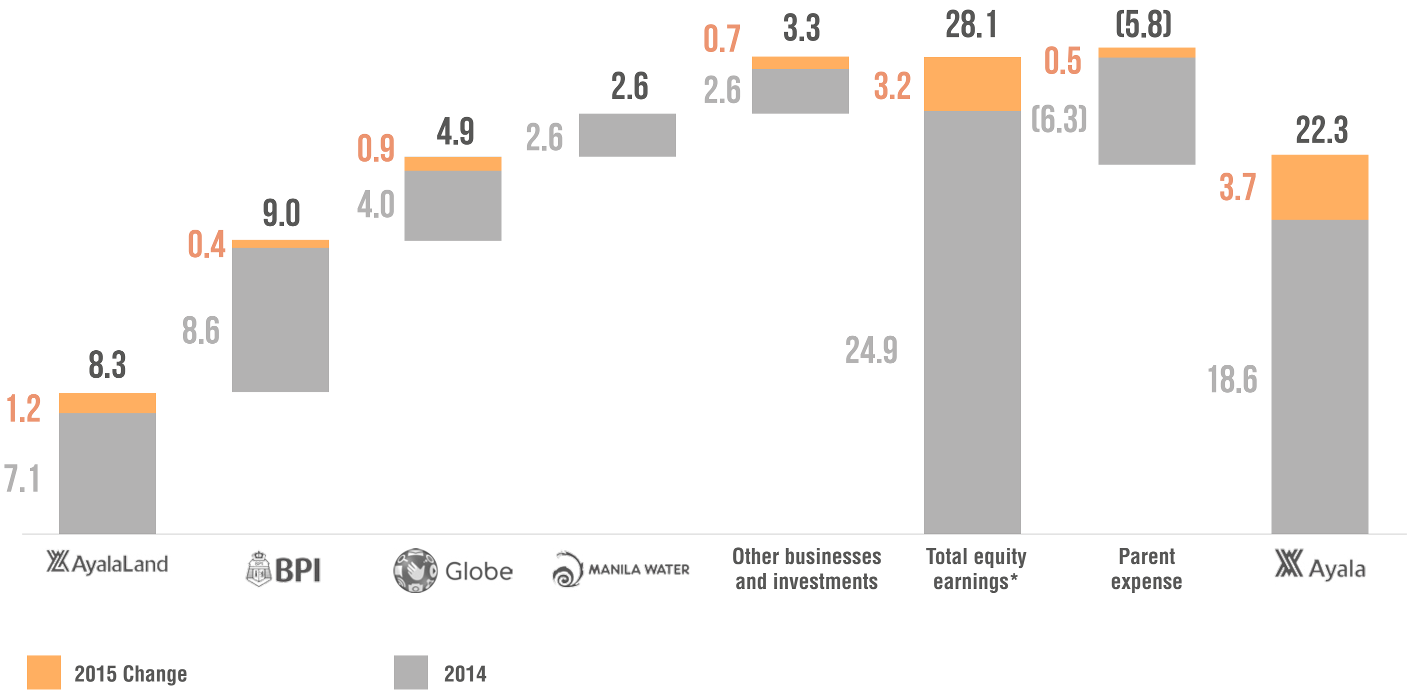
100%
AG Holdings Ltd is the holding company for Ayala's international property investments in the United States and Asia.

SOCIAL COMMITMENT

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

Percentages indicate Ayala Corporation's current economic interest in each business

2015 EQUITY EARNINGS CONTRIBUTION AND NET INCOME
(in billion pesos)



Equity earnings from investee companies are net of consolidation adjustments

Our Performance in 2015

Our performance in 2015 reflects continued advancements against our current five-year plan, launched in 2011 and culminating this year. We aspired to double our net income to over ₱20 billion, raise our return on common equity to 15 percent, and increase the contribution of our growth businesses to our portfolio. We made exceptional progress last year across these three strategic thrusts.

Increasing Profitability

Ayala earned ₱22.3 billion in 2015, achieving our long-term target of ₱20 billion a year ahead of schedule. This also represents a nearly three-fold increase from five years ago. Our equity in net earnings increased 13 percent from the previous year, built primarily on the back of overall excellent performances of our major publicly listed subsidiaries as well as the steady progress and maturation of several of our growth businesses. We also improved our cost efficiencies at the parent level.

Improving Shareholder Returns

We solidified our ability to generate competitive and sustainable double digit returns on the capital provided by our shareholders. Return on common equity (ROCE) remained strong at 12.1 percent for the second consecutive year, well above our levels from five years ago. While we may fall short of our ROCE target, we have every confidence that we have a healthy balance sheet to pursue our growth aspirations.

Diversifying the Portfolio

Finally, we have made significant progress towards diversifying our portfolio. Other businesses outside of our four major subsidiaries contributed 8 percent of equitized earnings in 2015, driven primarily by the breakthrough performance of AC Energy. This excludes the effect of non-recurring events. Looking ahead, our aspiration is to continue to evolve our portfolio and generate 20 percent of equity earnings from our growth businesses.

Our Financial Position

As we strive to realize these long-term targets, we have continued to maintain a conservative approach to managing our finances. We believe that having a strong balance sheet at all times provides our best defense to economic downturns and allows us to move aggressively when these opportunities for growth and expansion present themselves.

Ayala's finance team is guided by policies from the Board that cover all aspects of financial stewardship. These cover, among others, our liability and liquidity levels, foreign exchange exposure, interest rate mixes, and the spreading of our debt maturities. Finally, we ensure that risk—whether from business performance, funding, or with counterparties—is wholly considered and mitigated as best as possible throughout the entire process.

LOAN-TO-VALUE

	2013	2014	2015
Parent Debt (million pesos)	71,414	102,582	94,797
Parent Cash (million pesos)	25,443	56,480	47,284
Net Debt	45,971	46,101	47,513
Total Investments	425,330	544,413	539,962
Loan to Value (LTV) Ratio*	10.80%	8.50%	8.80%
Cost of Debt	5.1%	4.0%	4.1%

Balance Sheet Management

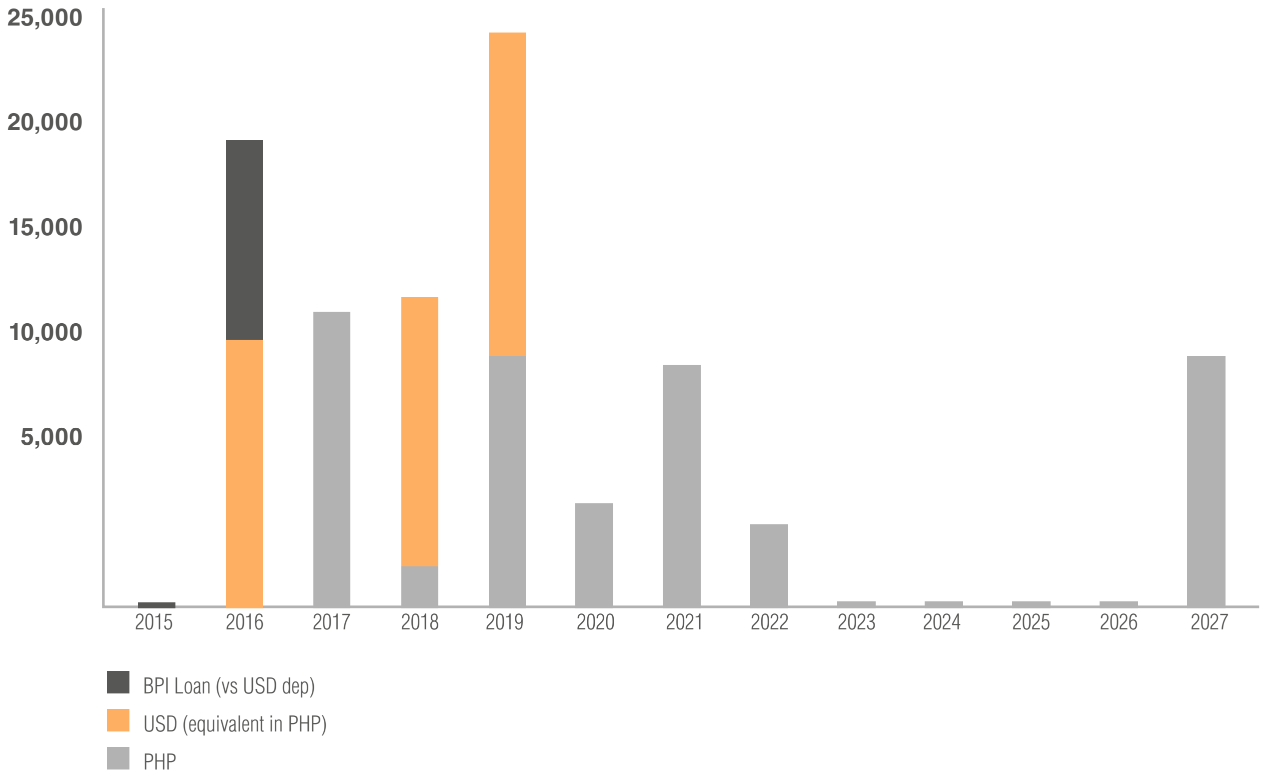
As an investment holding company, cash flows at the parent level are based primarily on dividends received from our investments. These dividends generally cover our parent operating expenses (including interest) and dividends in turn to our shareholders. The excess cash, along with divestment proceeds, is mainly used to fund new investments or reduce debt. We subject ourselves to tests of liquidity and leverage prior to incurring additional debt.

We believe that the loan-to-value ratio*, which compares our absolute debt to the market value of our investments, provides an excellent measure of our relative indebtedness and our capacity to take on or service these obligations. At the end of 2015, Ayala Corporation's loan-to-value ratio was 8.8 percent.

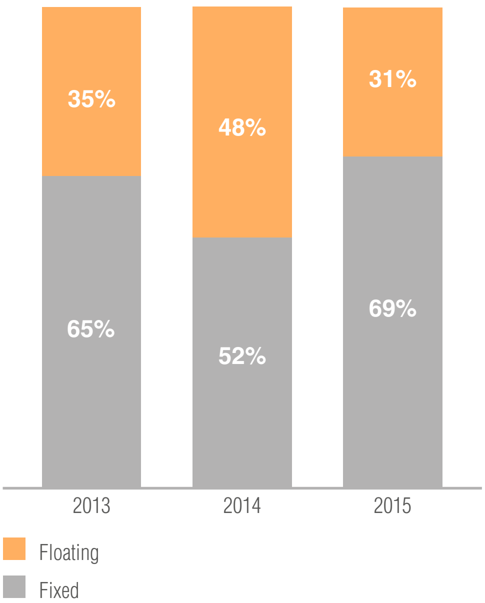
We manage our debt profile so that we are not overly exposed to market liquidity, foreign exchange, or interest rate risks. Maturities are spread with the intention of avoiding towers in any single year. We monitor our foreign exchange exposure closely both at the parent level and as a consolidated entity, working with our subsidiaries to understand and measure their foreign exchange risk arising from non-peso denominated assets, debt, revenues, expenses, and capital expenditure commitments.

* *Loan to value ratio refers to the ratio of our net debt (debt less cash on hand) to the current market value of our holdings in our publicly listed business units and other investments at the parent company.*

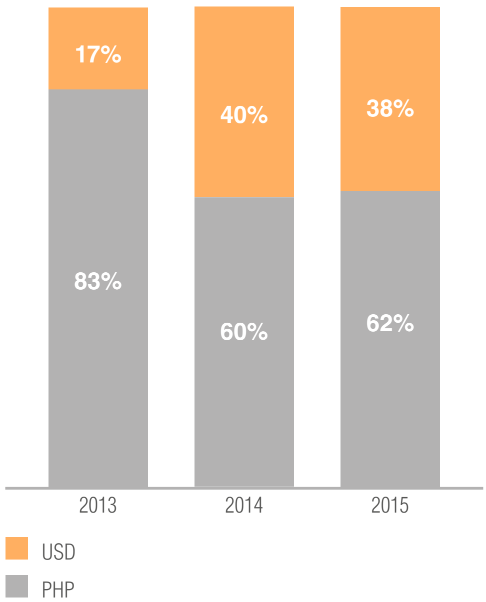
DEBT MATURITY PROFILE
(in millions of pesos)



FIXED/FLOATING RATE DEBT MIX
(Percentage of Total Parent Debt,
including Debt Guaranteed by Parent)

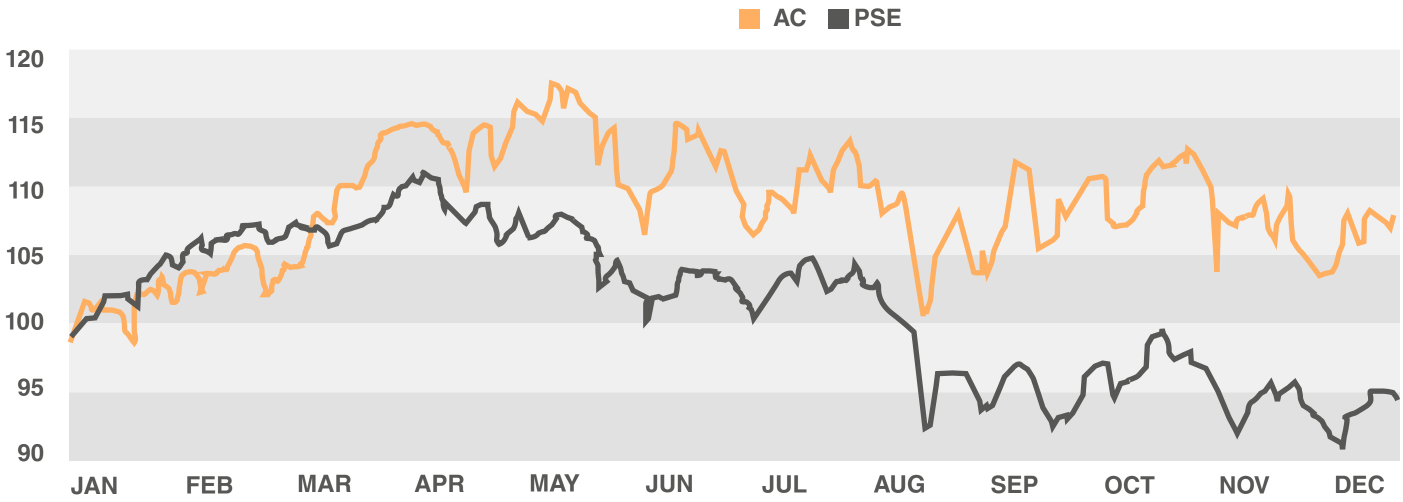


CURRENCY MIX OF DEBT
(Percentage of Total Parent Debt,
including Debt Guaranteed by Parent)



AC SHARE PRICE PERFORMANCE VERSUS PSE

(2014 year-end = 100)



LIST OF PREFERRED SHARES AND BONDS

Issuer	Type	Amount	Coupon	Issuance	Maturity	Details
AC	Preferred shares Pref B Series 2 (ACPB2)	₱13.5Bn	5.575%	Nov 5, 2014	Perpetual	5th year repricing: 5yr PDST R2 + 175bps 10th year repricing: 10yr PDST R2 + 300bps
AC	Preferred shares Pref B Series 1 (ACPB1)	₱10.0Bn	5.250%	Nov 15, 2013	Perpetual	10th year repricing: 5yr PDST R2 + 150bps 15th year repricing: 10yr PDST R2 + 300bps
AC	7-year putable Bond, fixed coupon	₱10.0Bn	7.200%	Apr 30, 2010	Apr 30, 2017	One time put option exercise date April 30, 2015
AC	10-year multiple Put Bond, fixed coupon	₱10.0Bn	6.800%	May 12, 2011	May 12, 2012	1st put option: May 12, 2016 (up to 20% of outstanding) 2nd put option: May 12,2019 (up to 100% of outstanding)
AC	15-year Callable Bond, fixed coupon	₱10.0Bn	6.875%	May 11, 2012	May 11, 2027	May 11, 2022 (at 101.000%) May 11, 2023 (at 100.750%) May 11, 2024 (at 100.500%) May 11, 2025 (at 100.375%) May 11, 2026 (at 100.250%)
AC	7-year Callable Bond, fixed coupon	₱10.0Bn	5.450%	Nov 23, 2012	Nov 23, 2019	Call option dates: Nov 23, 2016 (at 100.500%) Nov 23, 2017 (at 100.375%) Nov 23, 2018 (at 100.250%)
AYCFL (Guaranteed by AC)	Exchangeable Bond to ALI Shares	US$300Mn	0.500%	May 2, 2014	May 2, 2019	Put option on May 2,2017 Call option by issuer anytime after May 2, 2017 if ALI price exceeds 130% of prevailling exchange price

DIVIDENDS RECEIVED (in million pesos)	**2013**	**2014**	**2015**
AyalaLand	2,078.19	2,928.52	2,935.57
BPI	3,327.25	1,080.40	5,130.71
Globe	2,701.69	3,025.49	3,349.18
MANILA WATER	883.00	995.98	1,008.45
IMI	27.32	31.22	23.99
OTHERS	51.17	72.20	68.50
TOTAL	**9,068.62**	**8,133.81**	**12,516.40**

	2013	**2014**	**2015**
Cash Dividend per Share	4.80	4.80	5.76
Dividend Yield-Common	1.5%	0.9%	0.8%
Dividend Payout Ratio	27%	23%	19%

Stock and Bonds

In 2015, Ayala Corporation's common stock ended the year at ₱756 from ₱694 the year before. We generated a total shareholder return (TSR) of 9.8 percent, outperforming the Philippine Stock Exchange Index (PSEi)'s -1.9 percent over the same period.

We have also been an active participant in local and global capital markets over the years, regularly accessing these as the pre-eminent Philippine issuer for debt and preferred shares. In 2014, we issued US$300 million in exchangeable bonds and ₱13.5 billion in preferred shares. We also executed a ₱12.4 billion equity placement of our common shares. These activities allowed us to fulfill most of our funding requirements for 2014 and 2015.

Dividends

As a holding company, Ayala's policy is to provide a fixed-rate, semi-annual cash dividend of ₱2.88 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 Series 2 shares, the dividends are given at 5.25 percent and 5.575 percent per annum, respectively. It is the company's policy to treat all shareholders equally, ensuring payment of dividends in an equitable and timely manner—within 30 days after being declared and finally cleared.

In 2015, we declared total dividends per common share of ₱5.76. We recognize that our shareholders view our dividends as a regular source of both income and capital returns, and thus we strive to maintain consistent distributions from year to year. As we move ahead, we will continue to revisit potential, sustainable increases in the regular dividend rate, with the continued capacity to make new or additional investments as the primary consideration.

As we close our current five-year plan and now shift our orientation to the end of the decade, Ayala remains well-positioned to consistently and sustainably generate value for you, our shareholders. Our four major listed businesses are on track to retain leadership and relevance in their respective sectors. Meanwhile, we have prioritized growth sectors which we believe will both diversify our portfolio across many fronts while offering new sources of growth and returns—with a strong, enabling financial position to guide our group toward achieving our long-term aspirations for 2020.

We believe that having a strong balance sheet at all times provides our best defense to economic downturns and allows us to move aggressively when opportunities for growth and expansion present themselves.

Roosevelt Station, LRT1

OUR BUSINESSES

Where we make a difference

REAL ESTATE
AYALA LAND

To upgrade the ordinary and transform raw land into the most livable of spaces—this is what we seek to achieve for the Filipino every day. We push ourselves to create environments that delight, connect, and inspire people, families, and generations. As we do so, we are guided by a clear vision, a strong commitment to sustainability, and a deep-seated set of values. This is why we challenge ourselves in the way we build structures today and in the way we plan the cities of the future.

What keeps us going? The beauty of everyday things.

Ayala Land sustained its trajectory in 2015, recording a 19 percent growth in its net income, which reached ₱17.6 billion on the back of the steady growth of its property development and commercial leasing segments.

Revenues from property development, comprising the sale of residential lots and units, office spaces, and commercial and industrial lots grew 10 percent to ₱67.8 billion. Higher bookings and project completion across Ayala Land's residential brands drove the 12 percent increase in revenues from residential lots and units to ₱58.4 billion. Residential sales reached ₱105.3 billion. Meanwhile, revenues from Ayala Land's commercial leasing business expanded 16 percent to ₱24.5 billion.

In residential development, Ayala Land Premier continues to dominate the luxury residential market. Its project launches focused on prime locations such as Bonifacio Global City (BGC) and Nuvali. Alveo strengthened its leading position in the upscale segment, significantly contributing to the residential and office space sale portfolio through the successful take-up of its projects at Circuit Makati, within the Makati Central Business District and BGC, and other existing estates within Metro Manila. Avida continued to mark its presence in the middle-income segment amidst a strong competitive environment with the positioning of its vertical projects within our key estates in Metro Manila and harping on the steady demand for house and lots at Nuvali and other mixed use developments in Altaraza and Alviera. Low-income segments Amaia and Bellavita continued to launch new projects, allowing Ayala Land to expand its footprint across the country.

In retail leasing, Ayala Land opened Solenad 3 in Nuvali, Ayala Malls Legaspi in Albay, Shops at Atria in Iloilo, Ayala Malls Serin in Tagaytay, Circuit Lane in Circuit Makati and UP Town Center in Quezon City. The opening of these new malls brings Ayala Land's total mall portfolio to 1.45 million square meters of gross leasable area.

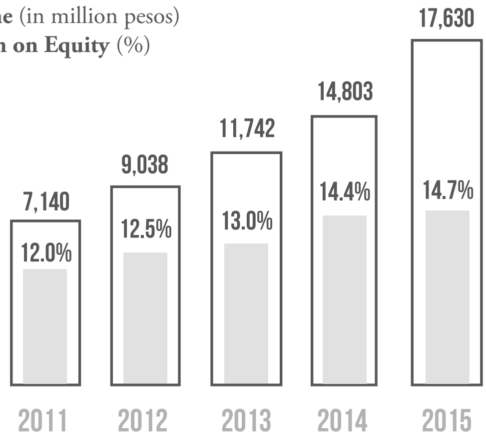
In office leasing, Ayala Land completed the BGC Corporate Center and Bonifacio Stopover at BGC, Alabang Town Center BPO in Alabang and eBloc 4 at the Cebu IT Park. With the acquisition of Aegis PeopleSupport Building in Cebu, Ayala Land's office leasing portfolio reached 715,000 square meters of gross leasable area.

To further increase its presence in the hotels sector, Ayala Land opened a 152-room Seda hotel at Atria Park District in Iloilo, adding to its roster of branches in BGC, Nuvali, Abreeza in Davao, and Centrio in Cagayan De Oro. Together with our internationally branded hotels and El Nido Resorts, this brings Ayala Land's total portfolio to 2,324 room keys.

Ayala Land continued to expand its masterplanned estates to key growth centers in the country. In 2015, it introduced three new integrated mixed-use estates, the 11-hectare Cloverleaf in Quezon City, the 9-hectare Capitol Central in Bacolod, and the 700-hectare Vermosa in Cavite.

In addition, Ayala Land continued to revitalize its established estates. In the Makati Central Business District, it started the groundwork to develop a 39-floor, Triple A-grade office building, and the new 275-room Mandarin Oriental hotel at the northern tip of the Ayala Triangle Gardens. These new buildings will be set on a 9,000-square meter high-end retail podium that will cater to the advancing cosmopolitan lifestyle in Makati.

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



Five-Year Average Net Income Growth	26.4%
Five-Year Average Return on Equity	13.3%
Five-Year Total Shareholder Return CAGR	17.0%

FINANCIAL SERVICES

BANK OF THE PHILIPPINE ISLANDS

To flourish through better opportunities. To thrive with passion in a challenging landscape. The aspirations of the Filipino redefine the way we make things happen. Bank of the Philippine Islands is the first bank in the Philippines and in Southeast Asia. Established in 1851, it ushered the start of the country's banking and finance industry. BPI proudly carries on this tradition, financing many private and public sector initiatives and enterprises in support of economic growth and nation-building.

Your dreams and aspirations—let's make them happen.

Bank of the Philippine Islands recorded a net income of ₱18.2 billion in 2015, 1.1 percent higher than the previous year on the back of higher net interest income, tempered by higher operating expenses, provisions, and taxes.

BPI's net interest income grew 11.0 percent to ₱38.6 billion year-on-year primarily driven by the 12.1 percent expansion of its average asset base to ₱1.4 trillion, partly moderated by a decline in net interest spreads by 3 basis points.

Non-interest income dipped 1.2 percent to ₱20.7 billion, owing to the volatility in foreign exchange trading. This softening was partly offset by higher income from the bank's fee-based services combined with the 10.1 percent growth in income from insurance companies. This resulted in a 6.4 percent expansion in the bank's total revenues to ₱59.4 billion.

BPI recorded higher impairment losses, up 41.6 percent to ₱4.0 billion from a year ago as the bank increased its loan loss provisions in anticipation of growth in its loan portfolio.

Return on equity stood at 12.3 percent, 1.4 percent lower than the previous year. Return on assets dipped to 1.3 percent from the 1.4 percent registered a year ago.

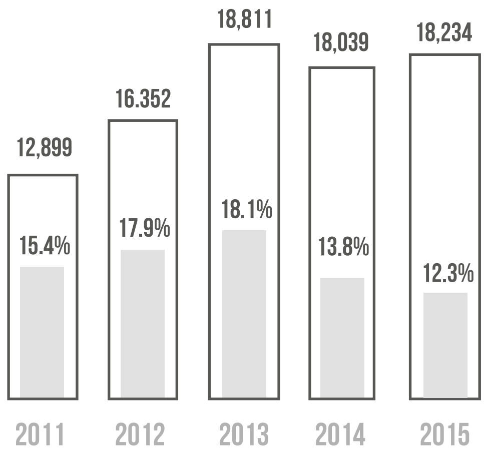
The bank's total resources stood at ₱1.5 trillion, a 4.6 percent increase from the previous year, boosted by an 8.5 percent expansion in total deposits, which reached ₱1.3 trillion. Current and savings deposits climbed 13.0 percent to ₱922.4 billion, while time deposits declined 1.9 percent to ₱353.3 billion.

BPI's total capital funds reached ₱150.3 billion, 4.3 percent higher from the previous year on the back of higher profits from operations, net of dividends declared. The bank's capital adequacy ratio, using Basel III measures, was 13.6 percent. Although 1.3 percent lower from a year ago, this year's CAR remained well above the 10.0 percent regulatory requirement.

Loans, net of impairment losses, increased 9.1 percent to ₱872.9 billion. The bank's 30 day net non-performing loan ratio, (net of fully reserved accounts) per BSP definition, stood at 0.6 percent, slightly higher from its year-ago level of 0.5 percent.

During the year, BPI made considerable gains in strengthening the quality of its business. It strengthened its client relationship management as it remained disciplined in its approach to risk. The bank continued to lead in providing innovative banking services to address the evolving needs of its clients.

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



Five-Year Average Net Income Growth	**10.6%**
Five-Year Average Return on Equity	**15.5%**
Five-Year Total Shareholder Return CAGR	**9.8%**

TELECOMMUNICATIONS

GLOBE TELECOM

Transforming experience through connections. Cultivating memories from relationships that define us. This is the way we live, and this is how we push forward. Unlimited data spreading in all directions. The Flow, an installation by the artist Libor Sostak, uses hand-blown glass elements that resemble dynamic movement. It echoes information rushing in virtual and infinite space, creating a wonderful world. This enables a digital lifestyle flowing through every Filipino—connecting us to better possibilities. We charge ahead, inspiring progress and opportunity. We nourish passion as we create value. When we revolutionize the modern landscape, we lead a bright future for all.

We live fully through a wonderful world of digital experiences.

The solid growth in data demand across its mobile, broadband, and fixed line segments drove Globe Telecom's net earnings during the year. Its net income expanded 22 percent to ₱16.5 billion in 2015 from a year ago.

The growth in Globe's net income was aided by one-time gains coming from the sale of its 51 percent equity stake in Yondu, Inc. and the acquisition of a 98.6 percent stake in Bayan Telecommunications.

Its core net income, which excludes the impact of the one-time gains, foreign exchange, and mark-to-market charges, likewise grew 4 percent to ₱15.1 billion from a year ago. Excluding the impact of Bayan's results, Globe's net income and core net income grew 22 percent and 4 percent, respectively.

Service revenues climbed 15 percent to ₱113.7 billion on the back of robust performance across Globe's business segments and the consolidation of Bayan's results in the second half of 2015. Mobile revenues rose 9 percent, reaching ₱85.1 billion in 2015 as a result of strong revenues across the postpaid and prepaid mobile brands. Globe Postpaid revenues posted a 7 percent growth underpinned by the significant customer base expansion and strong take up of the new myLifestyle Plans. Revenues from TM, Globe's mass-market brand, likewise improved 14 percent while revenues from Globe Prepaid posted a solid 8 percent growth year-on-year.

Globe continued to improve its subscriber base, reaching 52.9 million, 20 percent higher from its year-ago level. The sustained momentum in mobile data revenues, which reached ₱22.1 billion, further lifted Globe's mobile business during the year.

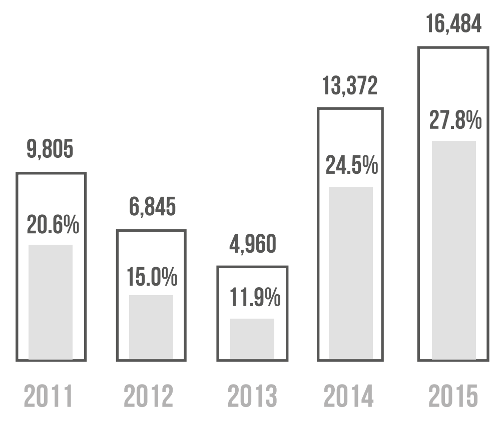
Similarly, Globe's broadband business, which now includes Bayan, registered strong growth in both revenue and subscriber base, jumping 38 percent to ₱17.5 billion and 55 percent to 4.3 million, respectively.

Globe's fixed line data business likewise improved, climbing 40 percent to reach ₱7.7 billion on the back of higher demand for data connectivity. This was supported by the consolidation of Bayan's fixed line data revenues from the third quarter of the year. Traditional fixed line voice revenues, which likewise now includes Bayan, also posted a 23 percent increase year-on-year to ₱3.4 billion due to the continued popularity of the broadband bundled plans.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) jumped 17 percent to ₱45.8 billion year-on-year. Total operating expenses and subsidy grew in step with revenues, 14 percent higher to ₱67.9 billion as Globe continued to reinvest gains to support the growing subscriber base and the expansion of its data network. EBITDA margin was steady at 40 percent. Excluding the impact of Bayan's results, consolidated EBITDA for the year would have reached ₱44.8 billion, a 14 percent improvement from a year ago.

Globe spent ₱32.1 billion in capital expenditures during the year, 51 percent higher than the previous year, to support the growing subscriber base and its demand for data.

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



Five-Year Average Net Income Growth	27.2%
Five-Year Average Return on Equity	20.0%
Five-Year Total Shareholder Return CAGR	22.7%

WATER AND USED WATER SERVICES

MANILA WATER COMPANY

At Manila Water, we grow together—as a company, as a community, as a country. In every pipe we lay and every innovative solution we develop, we strengthen our relationships with our partners. We collaborate by listening to our customer's needs and delivering a level of service that is of exceptional quality. We believe that better access to water means a better quality of life for all.

With water comes growth—of the community, and of the environment.

Manila Water Company Inc. ended 2015 at a steady pace, registering a 2 percent growth in consolidated net income to ₱5.96 billion primarily driven by higher billed volume and increasing contribution from its subsidiaries.

Notwithstanding the absence of a tariff adjustment, the East Zone concession posted a net income of ₱4.96 billion on the back of a 3 percent growth in billed volume owing to a modest increase in service connections. Manila Water sustained its non-revenue water in the East Zone at 11 percent.

Manila Water's operating units outside the East Zone concession sustained their growth momentum boosted by solid growth in billed volume. Laguna Water registered a 23 percent jump in profits to ₱203 million fueled by strong billed volume growth following the 19 percent growth in new service connections.

Clark Water recorded a net income of ₱117 million, a 17 percent rise from the previous year due to lower depreciation as a result of the favorable extension of its Concession Agreement adding another 15 years to its concession life.

However, Boracay Water registered a net income of ₱70 million, 27 percent lower year-on-year, due to higher depreciation and amortization.

Manila Water's Vietnam-based associates, Thu Duc Water, Kenh Dong Water, and Saigon Water, contributed a total of ₱404 million in net income, growing by 13 percent from the previous year.

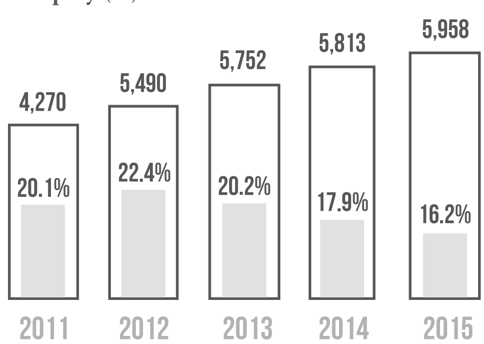
Manila Water continues to explore opportunities in water infrastructure. Its first foray in Mindanao for a 10-year non-revenue water reduction project, in a joint venture with the Zamboanga City Water District, commenced construction in January 2015. The project targets saving 10 million cubic meters throughout the life of the project. In July 2015, Manila Water signed its second joint venture in Mindanao with the Tagum City Water District for a bulk water supply purchase agreement.

Back in Luzon, an amendment of the Laguna Water concession was signed in June 2015, for territorial expansion from the cities of Biñan, Cabuyao, and Sta. Rosa to cover all cities and municipalities in the entire province of Laguna and the addition of used water services in the concession.

In January 2016, Manila Water signed an agreement with Ayala Land Inc. to provide water and used water services to its developments nationwide, making Estate Water, the subsidiary tasked to undertake the developments, the preferred full-service private operator in developments identified by Ayala Land.

In pursuit of expansion projects and investments outside the Philippines, Manila Water signed a Memorandum of Understanding with the PDAM Bandung for a non-revenue reduction project in Bandung City, West Java, Indonesia. In November 2015, the company also acquired its first concession type project in Cu Chi District, Vietnam.

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



Five-Year Average Net Income Growth	8.8%
Five-Year Average Return on Equity	19.4%
Five-Year Total Shareholder Return CAGR	8.2%

ELECTRONICS MANUFACTURING

INTEGRATED MICRO-ELECTRONICS

We push where the future takes us—forward. When challenges weaken any market, we take charge. We increase our engineering capabilities as we strengthen our global impact. For 35 years, we have remained relentless in innovating engineering solutions that upgrade the quality of life of our people. We are the only Filipino company among the top 20 EMS providers worldwide, but we strive to be better. Because that's where a promising Philippines is headed—forward.

How far will the future take us? How fast do we want to go?

The volatility in foreign currency markets and weakness in China's economy weighed on the profits of Integrated Micro-Electronics Inc. in 2015, which declined 1.1 percent to US$28.8 million (or ₱1.3 billion). IMI's strategy to rebalance its portfolio mix and improve its internal efficiencies helped cushion the softness in revenues.

IMI's operating margins expanded 114 basis points, while cash flow from operations reached US$48.3 million as the company focused on higher margin auto and industrial segments and continued productivity improvements.

Consolidated revenues declined 4 percent to US$814.4 million or ₱37 billion year-on-year mainly attributed to a weak euro coupled with the downturn in the computing and telecommunications segments. The revenue headwinds were offset by strong volume growth in the automotive segment, particularly the strong ramp up in automotive camera modules which surged 203 percent. Excluding the impact of changes in currency exchange, automotive revenues climbed 22 percent, and total revenues rose 2 percent.

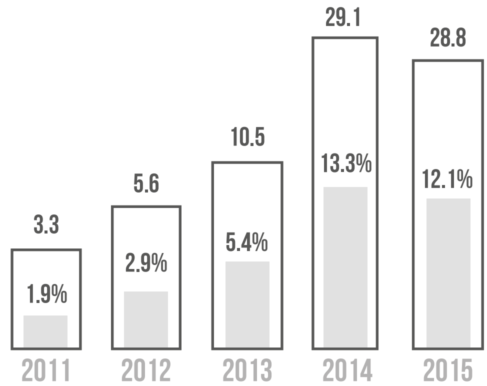
IMI's China operations recorded US$279.3 million in revenues, down 14 percent from the previous year owing to accelerated slowdown in the consumer electronics segment, product phase-out, and lower volume for 4G telecommunications infrastructure.

IMI's Europe and Mexico operations recorded combined revenues of US$267.4 million, relatively flat from last year. The persistent weakness in the euro resulted in a 3 percent aggregate revenue decline for Bulgaria and Czech Republic even with the strong volume growth from the automotive business. In Mexico, revenues climbed 9 percent as a result of higher demand for plastic injection and assembly. Overall, revenues for IMI's Europe and Mexico plants would have increased 15 percent without the impact of the weak euro.

IMI's electronics manufacturing services (EMS) operations in the Philippines registered US$225.4 million in revenues, a 10 percent growth a year ago as it ramped up its automotive and industrial segments.

IMI is the 7th largest automotive EMS company and ranks 18th in the top 50 global list of the largest EMS providers by Manufacturing Market Insider, the only Filipino company that made it to the distinguished list.

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



Five-Year Average Net Income Growth	15.4%
Five-Year Average Return on Equity	7.3%

AUTO DISTRIBUTION

AYALA AUTOMOTIVE

When we transform how we travel, the journey becomes the destination. Ayala Automotive brings more choice brands of vehicles for you to explore and discover more destinations with your family and friends.

The Philippine automotive industry saw a banner year in 2015, with unit sales exceeding the 300,000 level. Industry sales reached 321,533 units, 19 percent higher than the previous year. The growth was fueled by increased demand for mini passenger cars and subcompact sedans, multipurpose vehicles (MPV), and sports utility vehicles (SUV).

Ayala Automotive ended the year with net income ₱109 million attributed to higher income generated by its Honda and Isuzu operations.

Isuzu Philippines Corporation posted a 60 percent growth in sales largely due to the strong performance of the mu-X, its midsize SUV, and light trucks. The Ayala dealerships captured a bigger share of Isuzu's nationwide sales with Isuzu Pasig as the top national dealer and Isuzu Cebu as the leading provincial dealer.

Honda Cars Philippines recorded a 44 percent growth in sales owing to the introduction of new models such as its compact MPV, the Mobilio and compact SUV, the HR-V. This momentum is expected to be sustained with the introduction of new models in 2016. The Ayala dealerships maintained leadership in the Honda network with Honda Cars Alabang as the top selling dealer.

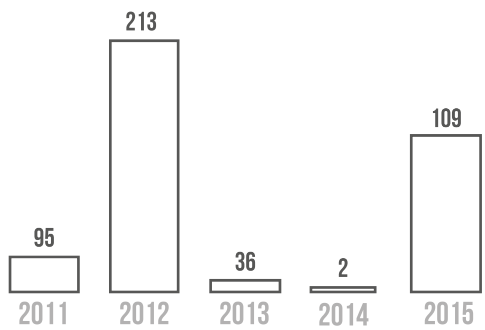
Volkswagen Philippines captured a significant share of industry awards. It was cited in 12 recognitions, including the Auto Focus People's Choice and Media's Choice awards. The Golf GTI, in particular, was among the most-awarded vehicles in the country. It won five major awards by the country's three most recognized motoring media organizations.

Volkswagen Philippines launched its Child Safety Initiative campaign as part of its road safety program in malls and schools. The campaign was also awarded as Best Practice in Road Safety by Top Gear Philippines and as Best Specialized Advocacy Campaign under Public Relations Program in the 51st Anvil Awards.

Amid a competitive environment, Ayala Automotive continues to pursue value-adding initiatives to its products and services to address the evolving needs of its customers and stakeholders.

The 2015 European Car of the Year, the Volkswagen Passat, is now available in the Philippines. With over 22 million vehicles in its series sold worldwide, the new 8th generation Passat offers Filipinos a redefined kind of business class with its German engineering and award-winning design

Net Income (in million pesos)



Isuzu mu-X is a multi-function vehicle popular among the midsize SUV market

POWER GENERATION

AC ENERGY

When we transform power generation, we renew our hope for the future.
AC Energy builds conventional and renewable sources of power to serve your ever-growing need for energy.

AC Energy registered a net income of ₱2.1 billion in 2015 as its renewable and conventional plants improved operating efficiencies and as it realized value from its wind farm investment.

AC Energy currently has an attributable capacity of about 650 MW in its portfolio of projects under construction or in operation. It expects this capacity to reach close to 1,000 MW by 2016 once the first phase of its 2x660 GN Power plant in Dinginin, Bataan reaches financial close.

In renewable energy, AC Energy saw the full year operations of North Luzon Renewables' 81 megawatt wind farm in Pagudpud, Ilocos Norte. The wind farm continues to generate steady improvement in operating efficiencies. The company realized value with the partial sale of its ownership in the project to DGA, a subsidiary of Mitsubishi Corporation in 2015. After the transaction, AC Energy remains the largest shareholder in North Luzon Renewables with a 36 percent economic stake.

Similarly, AC Energy's 52 MW North Wind Power continued to achieve better operating results. Both wind projects received their Feed-in-Tariff Certificate of Compliance from the Energy Regulatory Commission.

AC Energy continues to expand its renewable energy portfolio. In September 2015, it entered into a partnership agreement with Bronzeoak Clean Energy Inc. for the development, construction, and operation of a ₱1.3-billion solar power farm in Bais City, Negros Oriental. Completed in February 2016, the solar power farm has a capacity of approximately 18 megawatts in the first phase. The second phase will involve the expansion of the solar power farm to a targeted total of 50 MW. Moving forward, AC Energy continues to explore the expansion of renewable energy platforms.

In conventional energy, AC Energy brought to commercial operations the first unit of its 2x135 MW plant under South Luzon Thermal Energy Corp. in April 2015. Commercial operations of the second unit started in February 2016.

Meanwhile, construction of the 540 MW plant of GNPower Kauswagan is in full swing with the first unit scheduled to be operational by the fourth quarter of 2017.

SLTEC Power Plant in Calaca, Batangas started operations in April 2015

Completed site of Montesol Energy in Bais City, Negros Oriental

TRANSPORT

AC INFRASTRUCTURE

When we transform how we move, our world becomes smaller.
AC Infra builds roads, operates railways, and develops electronic payment systems
to move you farther, faster, and safer.

AC Infrastructure Holdings continued to execute its public-private partnership projects. In July 2015, the Muntinlupa-Cavite Expressway, the first interoperable expressway in the country, started operations. The road currently serves over 22,000 vehicles per day and helps motorists save over 30 minutes in travel time.

Through AF Payments, AC Infrastructure also successfully rolled out the Beep ticketing system for LRT1, LRT2, and MRT3 rail lines. This has resulted in faster queueing times for passengers. To date, it has now 1.5 million Beep cards in circulation and will further grow as it expands to broader retail use.

Finally, through Light Rail Manila Corporation (LRMC), AC Infrastructure successfully took over the operations of the LRT1 last September 2015 and has since increased the number of operational light rail vehicles (LRV) by about 15 percent. In addition to the rehabilitation of LRVs, LRMC is working on station improvements with the aim of enhancing passenger safety, comfort, and convenience. Furthermore, LRMC is expected to repair the rail tracks by the second quarter of 2016. These efforts are in line with the objective of improving the overall efficiency of the system. LRT1 currently accommodates an average of over 400,000 commuters daily. The line runs a total of 20 kilometers from Baclaran in Pasay City to Roosevelt in Quezon City and will be extended by another 11.7 kilometers from the present end point to the Niog area in Bacoor, Cavite. The extended rail line is expected to benefit more than four million residents in the southern part of Metro Manila and Cavite.

As the Ayala group's arm for its transport infrastructure investments, AC Infra aims to contribute to the development of infrastructure and help improve transport services in the country. In the coming years, the company will continue to explore other strategically valuable infrastructure projects under the PPP program and other transport-related investment opportunities.

From 400,000 to four million commuters will be served with the LRT1 extension

The Muntinlupa-Cavite Expressway cuts commuters' travel time by 30 minutes

Beep is the unified ticketing system of the LRT and MRT lines

EDUCATION

AYALA EDUCATION

When we transform education, we plant the seeds of tomorrow. Ayala Education wants every Filipino youth to have a chance for a better life by helping them reach their full potential.

APEC curriculum enhances mental and personality growth

University of Nueva Caceres is one of the leading universities in the Bicol region with approximately 7,000 students

Through Ayala Education Inc., Ayala deepened its presence in the education space during the year as it ramped up its platforms in affordable Secondary Education and entered Higher Education.

In Secondary Education, Ayala Education grew its enrolment in the Affordable Private Education Center Inc. or APEC Schools from 130 students when it first opened in 2013 to 3,300 students during the year. APEC Schools, Ayala Education's joint venture with the Pearson Affordable Learning Fund (Pearson), an affiliate of Pearson PLC, is a chain of secondary schools that provides quality education at an affordable price. APEC Schools is present in 24 sites across Metro Manila, Rizal, Cavite, and Batangas. APEC Schools is targeting to significantly grow its enrollment in the school year 2016–2017 with the addition of three new sites and senior high school.

In Higher Education, Ayala Education acquired in July 2015 a 59 percent stake in the University of Nueva Caceres, one of the leading universities in the Bicol region. UNC has approximately 7,000 students enrolled in various programs in the arts and sciences, business and accountancy, computer studies, criminal justice, education, engineering and architecture, graduate studies, law, nursing, as well as basic education.

Ayala Education plans to invest in other high-quality colleges and universities, with like-minded partners, who share its vision of significantly enhancing the employability and careers of graduates on a large scale.

HEALTHCARE

AYALA HEALTH

When we transform healthcare, we look forward to a new day. Ayala Health makes quality healthcare affordable and accessible for you and your loved ones.

FamilyDOC provides community-based primary care facilities

Generika offers affordable quality medicine in 571 stores nationwide

Cognizant of the significant gaps in the accessibility and affordability of healthcare in the country, Ayala made a direct foray in the space during the year and set up Ayala Healthcare Holdings. Ayala Health is envisioned to be a portfolio of healthcare business currently comprising retail pharmacy and primary care, targeting the growing middle income segment.

Ayala Health's initial entry into the space was the acquisition of a 50 percent stake in the Generika group, a pioneer in the retail distribution of quality generic medicines in the country. The third largest pharmacy chain the Philippines, Generika had a total of 571 stores nationwide at the end of 2015. Generika continues to expand its footprint, with a target to open over 100 stores this year.

In primary care, Ayala Health started a chain of community-based retail clinics under the FamilyDOC brand, offering the services of an outpatient doctor's clinic, a diagnostic facility, and a pharmacy at an affordable cost. It opened two pilot clinics in Cavite and in Las Piñas, and if successful will roll out 100 clinics over the next few years.

Ayala Health intends to build a healthcare ecosystem, strengthening synergies and partnerships across the various healthcare units within the Ayala group, particularly with Ayala Land's QualiMed and Globe's KonsultaMD. It continues to be mindful of potentially disruptive trends, exploring other segments of the industry to enhance its portfolio of services.

BUSINESS PROCESS OUTSOURCING

LIVEIT INVESTMENTS

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

LiveIt Investments Ltd. is the holding company for Ayala Corporation's investments in the business process outsourcing (BPO) sector in Legal, Research, Document and Business Services (Integreon, Inc.), Full-Service Creative, Advertising and Marketing (AffinityX), and Full-Service Accounting and Next Generation HR (IQ BackOffice, Inc.) with total employees of over 5,000, located in 18 sites.

In 2015, LiveIt's share of revenues and EBITDA from its investees was US$102 million and US$4 million, respectively. In 2016, LiveIt expects further growth and margin improvement with the expansion of digital marketing offerings, automation, and lean process improvements.

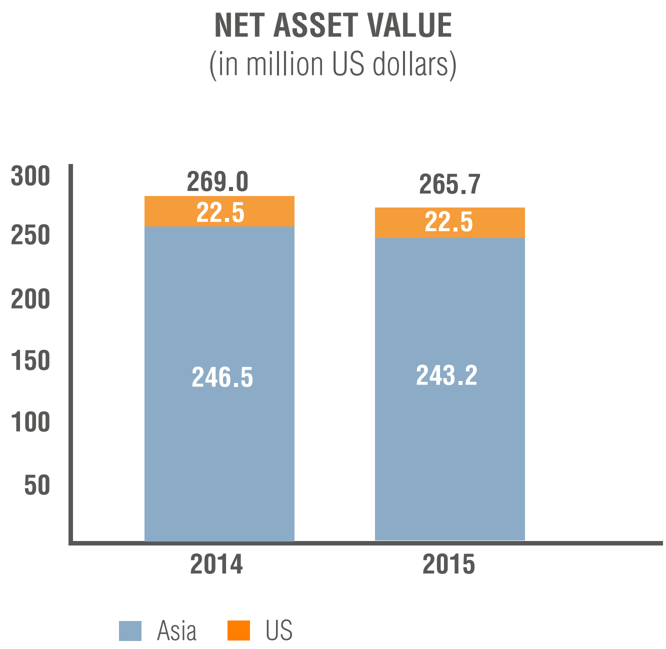
	Integreon (Insightful Outsourcing. *Remarkable* Results.)	AFFINITY X (EVERY REVOLUTION STARTS SMALL)	IQ BackOffice
Service	Trusted global provider of award-winning legal, document, business, and research support solutions to leading law firms, corporate legal departments, financial institutions, and professional services firms	Large-scale, end-to-end creative and marketing services provider	Full-service accounting and human resource provider
Reach	Over 2,400 employees support more than 250 clients from 14 delivery centers across the US, UK, India, China, Philippines, and South Africa	Over 2,00 employees in the US, India, and the Philippines	Over 600 employees in the US, India, and the Philippines
2015 Revenues	$101 million	$ 33 million	$13 million
Awards and Developments	• Recognized as a "top ranked" Legal Process Outsourcing firm by Chambers and Partners for the fifth consecutive year. • Cited as one of the world's best outsourcing service providers in the International Association of Outsourcing Professionals (IAOP) 2015 Global Outsourcing 500 for the fifth consecutive year	• Delivered more than 5 million ads and other marketing and creative services across the US, Canada, UK, and Australia • Awarded as the "Best Emerging IT-BPM Company for Creatives" at the 9th International ICT Awards in the Philippines • Launched AudienceX, which provides clients the ability to offer targeted online advertising campaigns to their small business customers, including ad creative, campaign delivery across desktops, tablets and mobile devices, optimization and reporting.	• Expanded globally in accounts payable outsourcing and broader full service accounting outsourcing solutions • Spearheaded next-generation Human Capital Management (HCM) solutions with the first private and public cloud hybrid deployment and launched world-class high-value, low-cost HCM solutions for the small and medium enterprise market

INTERNATIONAL

AG HOLDINGS

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

Oasis, Macau SAR, China



In Asia, AG Holdings continues with its investments in ARCH Funds, with commitments into ARCH Fund III, as its primary investment outlet while still looking out for additional ways to effectively deploy capital. For 2015, AG Holdings posted valuation gains from its ARCH investment representing 24 percent of Asia's net income and further increasing the total value of the investment in ARCH Funds I, II, and III.

The ARCH Funds have already made significant total cash distributions with the return of capital of 100 percent for ARCH Fund I since 2014, and 50 percent for ARCH Fund II by 2015.

AG Holdings' residential investment in Macau has continued to contribute significant earnings in 2015 equivalent to almost 50 percent of Asia's net income. This project is expected to be fully completed by 2018.

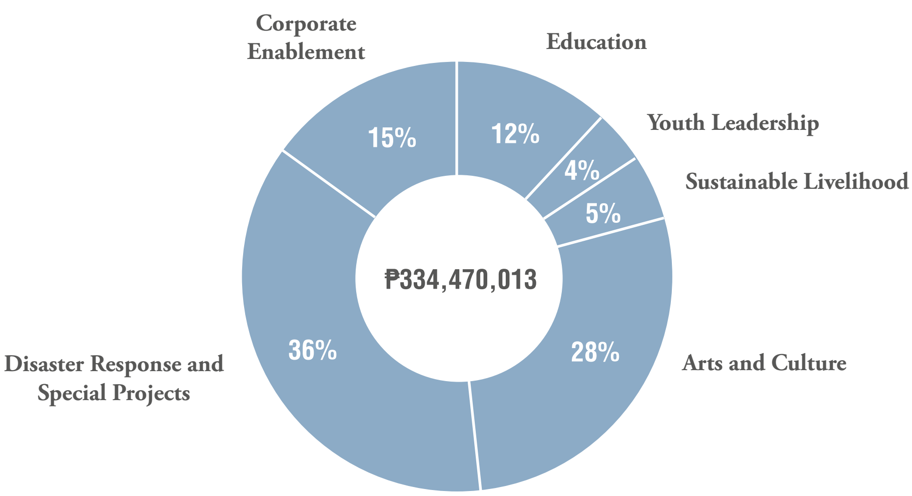
Ayala International North America (AINA), AG Holdings' US subsidiary, continues with its efforts to dispose of its remaining properties in Fontana, California, and Kansas City, Missouri. It made a new investment in a real-estate private equity fund that focuses on multi-family properties with value-added opportunities in the West Coast of the US. AINA will continue to look out for pockets of opportunities and deploy capital opportunistically.

SOCIAL COMMITMENT
AYALA FOUNDATION

When we transform partnerships, we redefine commitment. Ayala Foundation engages communities in preserving their cultural heritage and empowering future leaders—bridging aspirations toward a productive Filipino society.

We believe the future lies in the Filipino youth.

USES OF FUNDS



During the year, Ayala Foundation continued to establish greater relevance to stakeholders in the Ayala group through program synergy, focusing on its program pillars in education, youth leadership, sustainable livelihood, and arts and culture, as well as initiatives in disaster rehabilitation.

Education

Ayala Foundation, together with Ayala, launched the Ayala Master of Tri-Sector Collaboration (MTSC) Scholarship at the Singapore Management University. The MTSC is one of the world's most advanced degree programs in professionalizing partnership development and management. Three exemplary individuals from the nonprofit sector were selected for the scholarship, which started in January 2016.

Ayala Foundation conducted a program review of the 17-year-old Center of Excellence in Public Elementary Education to determine how the model could be updated to better address today's public education challenges. A key finding in the review was the quality of teacher training as the main differentiator of CENTEX compared to other public schools. This finding has reinforced the vision for Ayala Foundation's newest education program, the Training Institute. In 2015, the Training Institute was present in five locations in Visayas and Mindanao.

Complementing the Training Institute is the Global Filipino Schools, a new project Ayala Foundation has launched together with Globe Telecom. The project provides computer laboratories for public elementary schools, while training teachers in the use of technology to enhance learning.

Meanwhile, Text2Teach continued to provide access to educational videos for public schools, reaching 876 schools in its fourth phase, exceeding its target of 850 schools.

Youth Leadership

Through a partnership with the Autonomous Region of Muslim Mindanao–Office of the Regional Governor and the Eisenhower Fellows Association of the Philippines, 50 Muslim youth leaders participated in Leadership Communities, one of Ayala Foundation's youth leadership programs. To date, 10 projects have been identified for implementation in Basilan using the LeadCom framework, with seed funding from Ayala Foundation and ARMM-ORG.

On its 17th year, Ayala Youth Leaders Congress made a call for authentic leadership through its theme, "Leading True, Being True." Eighty-one students participated in the congress, with former CNN Beijing bureau chief Jaime Flor Cruz as keynote speaker.

Sustainable Livelihood

To step up its efforts in helping create productive communities, the Sustainable Livelihood team focused on developing partnerships and market-ready, community-made products. To date, sales of livelihood products from various communities Ayala Foundation supports amounted to ₱1.14 million, majority of which came from Ayala companies.

Arts and Culture

The Ayala Museum and the Filipinas Heritage Library focused on creating deeper engagement with its audiences—from expanding opportunities for collaboration with partners within the Ayala group to generating new audiences on a global scale. In September, the "Philippine Gold: Treasures of a Forgotten Kingdom" exhibit was launched in New York, in partnership with Asia Society. This landmark exhibit became a catalyst for a global audience to pay attention to the richness of Philippine culture.

Disaster Response

Two years after supertyphoon Haiyan, AFI continues to work with local governments, corporations, and the Ayala group to deliver rehabilitation initiatives in the Visayas, delivering a total of 20 new classrooms, two school stages, and livelihood support for fishermen and farmers.

In partnership with Escuela Taller, 29 Boholanos completed their training in heritage conservation. These scholars completed the restoration of the Dauis Watch Tower, which was destroyed by an earthquake in 2013. The newly repaired watchtower was turned over to the Dauis Parish and community in the first quarter of 2015. AFI also spearheaded activities to organize the scholars into a cooperative to help them negotiate other conservation projects.

NLREC Wind Farm, Pagudpud, Ilocos Norte

OUR SUSTAINABILITY PHILOSOPHY

What we commit to

SUSTAINABILITY THAT CREATES SHARED VALUE

At Ayala, we understand that the finite resources and the societal needs we need to address require us to integrate sustainability into the core of our corporate strategies. We need to balance our impact on the environment and on society as we continue to optimize profits and seek opportunities for growth. Recognizing sustainability is a driver for innovation and growth, we have expanded the way we define sustainability by embracing the concept of shared value creation.

SUSTAINABILITY PHILOSOPHY

In 2013, we developed our 360-degree sustainability framework after an extensive materiality workshop that resulted in significant indicators relevant to us and to our stakeholders. We will continue to review the relevance of these indicators as we monitor and report our performances against these metrices.

In addition, we anchor our sustainability and shared value creation processes with the United Nations Sustainable Development Goals. These goals have set a clear and concise global benchmark that will enable wider collaboration across all sectors to work for a world that is not only sustainable, but also just, equitable, and inclusive. We are, therefore, eager to align our business and sustainability goals with these global targets, in partnership with the government and a more engaged stakeholder base.

We commit to creating shared value and improving the impact of our businesses on society and the environment 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 stakeholders' inputs and expectations on sustainability. We continuously pursue opportunities to improve operating efficiencies and further satisfy shareholder requirements.

Business Sustainability

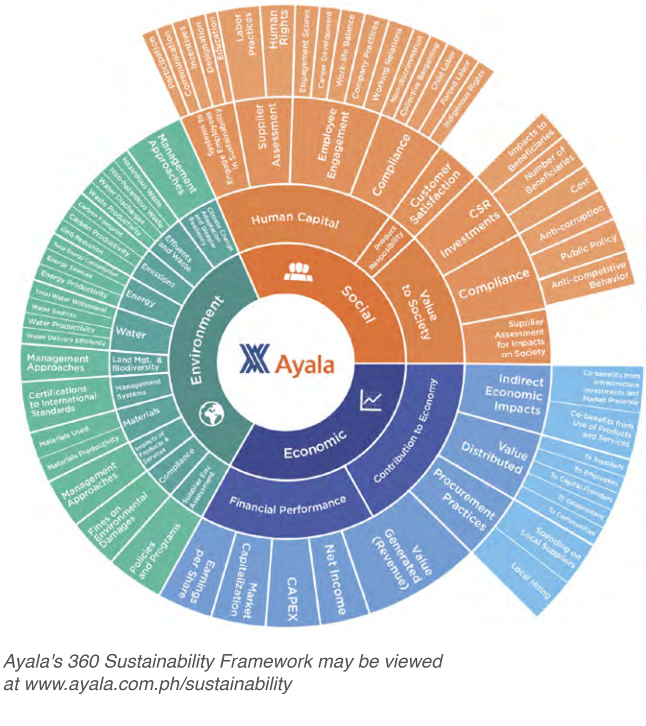
We continue to broaden our market presence while exploring new business opportunities. We apply synergies within our group and our strategic partnerships to improve margins, reduce costs, and increase efficiency. We will continue to make value-accretive investments in sectors critical to economic development.

Operations

We are committed to optimizing 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 go beyond regulatory compliance, apply best practices, and adopt global voluntary standards on environmental and social responsibility.

Products and Services

We take innovative approaches to increase 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



Ayala's 360 Sustainability Framework may be viewed at www.ayala.com.ph/sustainability fully bear in mind environmental and social factors when developing our products and services, and design these in ways that lessen their environmental impact and increase our support for community development.

Supply Chain

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

Human Resources

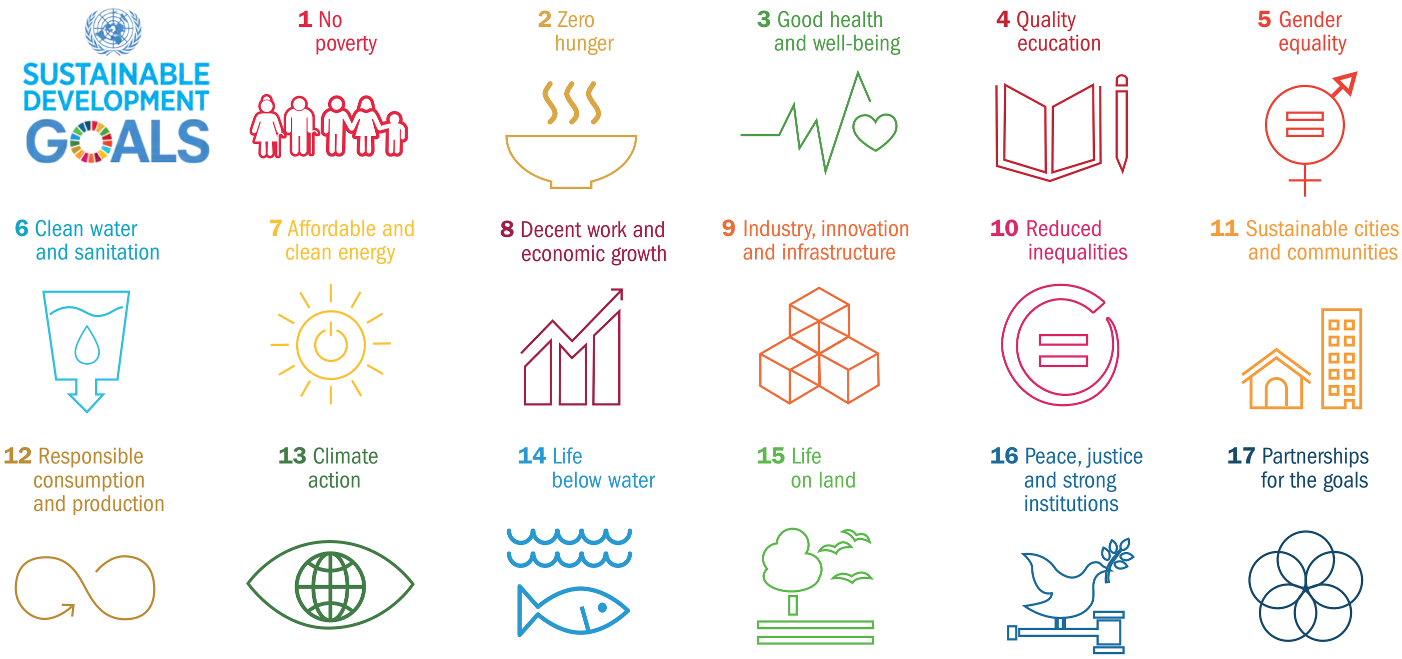
We put prime importance on employees' well-being. We ensure that they work in the safest and healthiest environment, and provide a work environment that encourages professional and personal growth. We will promote employees' initiatives to enhance sustainable business practices.

Creating shared value is using our businesses to find innovative and socially relevant solutions to the challenges that our country faces.

Jaime Augusto Zobel de Ayala
Ayala Group Sustainability Summit
November 2015

Community Involvement

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



SUSTAINABILITY INITIATIVES

For more than 180 years, we have been building a stronger business house that values society's welfare, and environmental conservation in equal terms with profits. Our commitment to help strengthen the physical and social infrastructure of our country remains steadfast. We have transformed our products and services into mechanisms for sustainable and inclusive growth.

Profits that Matter

Ayala's vision and core values aim to leverage our financial capital to support nation-building. According to a UN report, the Philippine economy continued to grow at a robust pace, consolidating its middle-income growth. However, not all groups have benefited due to underinvestment in infrastructure and social services. Thus, we continue to refine our value proposition, embrace market inclusivity, and pursue new business tracks that parlay our capital and diverse interests into tangible benefits for those who have to make do with much less. This vision becomes clearer across our group as we enter new industries, touch base with lower-income markets, and learn new modes of market engagements. We review our profit strategy, investments, and key economic activities through the lens of inclusive growth.

We continue to generate and distribute economic value to our key stakeholders—suppliers for operating costs, employees for wages, providers of capital for interest and other financial fees, governments for taxes, and communities for donations and other socio-civic activities. We retain some for our shareholders as dividends and future investments.

Indirect Economic Impact

Our indirect economic impact includes those that account for our entry into lower-income markets, the jobs supported in our distribution chain, our programs that enhance professional knowledge and skills within our industries, and our new

Manila Water engages local contractors in building its water infrastructure

businesses that seek to put environmental conservation at the center of their profit motive. For instance, our water utility company, Manila Water, has been purchasing from small- and medium-scale enterprises and continues to grow its Kabuhayan para sa Barangay program which enlists qualified cooperatives into their supply chain. Seminars on new business opportunities for additional income are also continually held.

Caring for Our People and Communities

Our success as a business is directly related to the growth and well-being of our people and the communities around us. Our people are a potent force that brings about the achievement of our objectives. We rely on a larger and more prosperous public, not only to broaden demand for our products and services, but also to provide an enabling social environment that will allow us to work more efficiently and innovate further. At Ayala, we believe that finding and delivering social goods as a way to drive profit and create inclusive economic growth is the only way forward.

Our Employees

At Ayala, we assess our performance as an employer by our ability to keep our employees sustainably engaged. We adopted Towers Watson's framework on Sustainable Engagement that measures engagement in three areas: Energy, Enablement, and Engagement.

Energized employees find a sense of personal accomplishment in their work and in working with others in their team. As a result they tend to have good individual, interpersonal, and emotional well-being at work. Enabled employees believe that resources and tools are available for them to do their job effectively with fewer obstacles. Engaged employees, beyond being energized and enabled, do more than what is required to ensure our success. Our survey gathered responses from 27,102 employees comprising 94 percent of our total employees across 12 subsidiaries. This response rate is 11 percentage points higher than global average.

There are four key engagement drivers that significantly influence our engagement as shown in the chart below.

Our efforts in keeping our employees informed on important matters affecting the organization help keep our employees empowered. Our continual process improvements and use of appropriate technology remove obstacles for employees to do their jobs effectively. Our employees have high confidence with our senior management decisions because of our standards of integrity within the organization and our feedback and recognition mechanism. Our employees find good allies in the people within and outside their teams in achieving deliverables and in managing stress levels.

All these contributed to Ayala group's sustainable engagement score at 86 percent, which is at par with the Philippine norm and with global high performance companies. This reflects on our overall performance on various organizational aspects such as communication, customer focus, performance appraisal, total rewards, learning, and career development, among others. The survey also reveals a strong employee association with our respective company brands and goals. The findings present an opportunity for improvement particularly in the way our work environment supports productivity and performance.

KEY ENGAGEMENT DRIVERS IN THE AYALA GROUP

There are four key engagement drivers that significantly influenced our engagement score, as follows:

Key Drivers	Our Definition	Our Performance
Empowerment	Relates to whether employees believe they have sufficient authority and decision-making to do their job well and that their work contributes to achievement of company's business objectives	89%
Operating Efficiency	Measures our effort to make our operations more streamlined and cost-effective through use of appropriate technology and continue process improvements	85%
Leadership	Measures the level of confidence our employees have in senior management decisions, in their interest in the well-being of employees, and their performance in planning and change management	80%
Working Relationships	Pertains to good cooperation in work groups within and among units, and that everyone is respected, regardless of his role	86%

Audrey Chong, CFO of Ayala International based in Singapore, received Ayala's award "Asia's Best Workplace Reporting-Highly Commended" from CSR Works International last January 2016

Ayala Corporation was awarded Asia's Highly Commended award for Best Workplace Reporting in the Asia Sustainability Reporting Awards organized by CSRWorks Events, a unit of CSRWorks International, Singapore's leading sustainability advisory, research, and training firm with more than 10 years track record. The award was given in Singapore last January 2016.

Ayala Corporation employs 133 employees, 41 of which are seconded to our subsidiaries. Of the 92 employees stationed at the head office, 52 are females and 40 are males. Married, single, and widow employees account for 64, 26, and two, respectively. Employees aged between 30 to 50 years old comprised majority of our employees while 34 employees are above 50 years old and 11 employees are below 30 years old.

All regular employees are given opportunities for advancement through institutionalized training and career growth programs. Strategically targeting areas for improvement and advancement, these programs ensure that our employees are constantly updated with knowledge and skills needed to deliver quality results. Training programs are either held in-house, online, or thru public courses. In 2015, a total of 2,058 training hours were recorded or an average of 15.7 training hours per employee; 738 hours and 1,320 hours for staff and managerial positions, respectively.

Ayala's groupwide Leadership Excellence Acceleration Program (LEAP), developed in collaboration with the Harvard Business School, is offered to its senior leaders and officers. The program covers strategic visioning and execution, customer centricity, innovation and growth, and leading for transformation and engagement. After Ayala LEAP, leadership development focus shifted to the next line of leaders. For the middle managers, Ayala developed the Emerging Ayala Group Leaders Program (EAGLE) which focuses on strategy, innovation, customer centricity, and transformational leadership.

In addition to training, we made available to our employees and their dependents health programs for periodic medical and dental care and annual medical check-up. Forty one of our employees availed of the annual physical examination and executive check-up while 58 employees and their dependents availed of the dental services. We also established an annual vaccination program to combat diseases such as flu, hepatitis B, cervical cancer, and pneumonia. Sixty three of our employees and their dependents, or 68 percent, availed of these vaccines. The company maintains on-site medical clinic managed by doctors and nurses supervised by one of the leading hospitals in the country. First-aid and over-the-counter medicines are available when needed. A total of 27 days lost due to accident-related absences was recorded in 2015.

To keep our employees energized and engaged, we organized activities designed to increase and strengthen camaraderie. Our annual foundation and summer outing day and our initial cinema night attracted 30 and 33 of our employees and their dependents, respectively. The annual Halloween Party was the most attended, where 68 of our employees and their dependents enjoyed games and other activities. We have enrolled 24 of our employees to a gym membership. We also supported our employees' sport and other interests through our annual JZA Cup comprising of golf, badminton, volleyball, bowling, and street dance, among others.

We did not receive any information that the company is in violation of relevant laws pertaining to labor, employees, or environmental issues.

Our Communities

In collaboration with the Ayala group and various private enterprises in the country, Ayala Foundation continues to harness the power of businesses to create lasting social growth. The development of the Iraya-Mangyan community, one of the original settlers in the coastal areas of Mindoro Province, is a key program of Ayala Foundation. The Iraya-Mangyan tribe is one of the earliest inhabitants of the country, until they were forced to relocate to the highlands due to modernization and development. In the mountains, the tribe has subsisted on root crops and fruits, and practices slash-and-burn agriculture. Despite their simple life and meager resources, they continue to be talented artisanal weavers. The tribe went largely unnoticed until 1989, when their plight caught the media's attention. Unfortunately, their slash-and-burn practices were destroying the very environment they relied on for sustenance. Marginalization left them malnourished and vulnerable to diseases. They also lacked proper education, and so their unique culture and traditions were in danger of disappearing.

Following the initiative of Jaime and Beatriz Zobel, Ayala Foundation helped the Iraya-Mangyan people transition to contemporary society by educating them about the environment; improving and creating a market for their handicrafts; providing them access to basic housing and health services; and establishing primary schools for their children.

Proper education and access to basic housing and health services are now available to Iraya-Mangyan

Valuing our Natural Capital

Our sustainability policy is to protect and conserve the environment while we grow our business. This drives us to innovate and find new business models, processes, products, and services that minimize our environmental impact. Addressing environmental challenges while pursuing economic growth and improving quality of life is possible through collaboration, shared vision and goals, and social inclusion. Viewed from a long-term and larger perspective, we are not only managers of our businesses but also stewards of our planet.

Ayala works with communities, government agencies, and other stakeholders in conserving our natural resources and protecting the wealth of wildlife of our country. Ayala Land, our real-estate developer, carefully studies the conditions of the land prior to developing projects and integrates biodiversity conservation, especially of native species, in the business strategy and value proposition of its products. Ever since we developed our Makati flagship project in the 1950s, we have gained the reputation as one of the most environmentally conscious developers in the Philippines. We are known for protecting natural terrain and waters, even incorporating the land's green features and the richness of our marine life as centerpieces of our development, design, and marketing processes.

Our hotels and resorts have been recognized by local and international groups as models of sustainable tourism and biodiversity protection. The restoration of ecosystems and our watershed protection drives, meanwhile, continue to live as a testament of the way we do business.

Resource Efficiency

E-waste, such as discarded mobile phones and electronic gadgets, is the most rapidly growing type of solid waste in our communities today. While they contain toxic and hazardous material (such as mercury, cadmium, arsenic, and chemical flame retardants), they also contain valuable materials (such as aluminum, gold, and silver) that could be reused to conserve virgin resources and the energy needed to produce new electronics. Our telecommunications business unit, Globe, launched its Project 1 Phone in 2014 to curb the harmful impact of its share of e-waste while transforming its useful materials into mechanisms for social and economic growth. Together with Total Environment Solutions Asset Material Management (TES-AMM), Globe developed a program that would encourage its subscribers and the public to donate their old phones and gadgets for recycling. All proceeds went to construct 10 classrooms in Aklan Province that were destroyed by Typhoon Haiyan. In addition, Globe was able to divert electronic waste away from landfills, strengthening the market for professional e-waste recyclers and encouraging a stronger culture of e-waste recycling in the Philippines.

E-waste collected by Globe is prepared for recycling

The moment we ingrain sustainability into the business, the size and scale of what we can do becomes so much larger.

Fernando Zobel de Ayala
Ayala Group Sustainability Summit
November 2015

Moving Forward with Sustainability

In the coming years, we will continue to advance our brand as one of the Philippines' most diversified shared value enterprises by strengthening our core lines to create business solutions to our most critical societal challenges.

We also explore meaningful partnerships and collaborate with public and private sectors to improve physical infrastructure necessary for national development. These are evident in our projects in toll road, light rail transit, and power generation.

In addition, we are expanding our investment in socially relevant enterprises. We secured an interest in the University of Nueva Caceres, the oldest tertiary-level educational institution in Southern Luzon. We also entered the healthcare sector, including retail pharmacy, technology-enabled medical services, and hospitals and multi-specialty clinics nationwide.

We create shared value by innovating solutions that can significantly address social and environmental challenges. From establishing inclusive business models in real estate, banking, and telecommunications, to expanding our stake in infrastructure and social services, Ayala continues to grow by effectively meeting society's most pressing needs. As we advance more innovations in sustainability and shared value creation, we invite the public to partner with us in contributing to Philippine progress.

El Nido Resorts' Pangulasian Island continues to win international recognition for environmental stewardship and community development, most recently the 2015 Southeast Asia's Best Sustainable Hotel Award

Anteroom, Ayala Tower

OUR GOVERNANCE FRAMEWORK

How we work

GOVERNANCE INFRASTRUCTURE THAT DRIVES STRATEGY EXECUTION

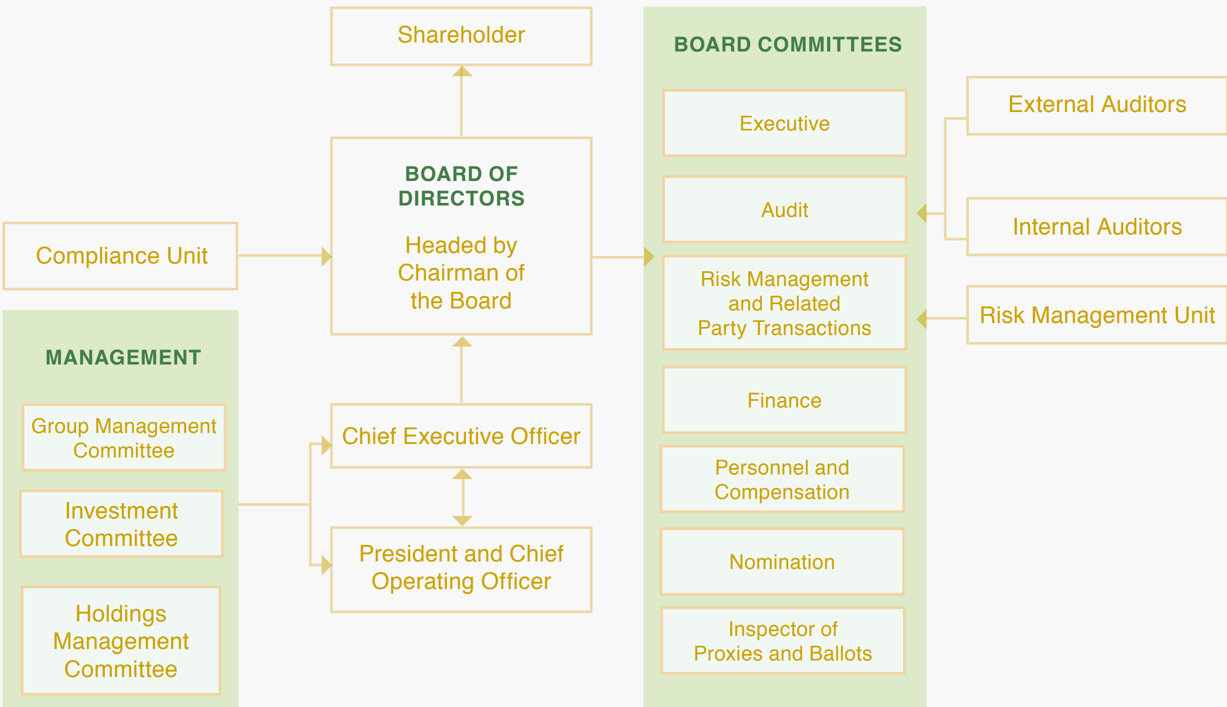
Good corporate governance provides the foundation and enables the company to grow sustainably over the long-term

As a company that has expanded its business portfolio and has been operating for more than 180 years, we remain steadfast in our commitment to cultivate governance standards and practices that enable growth across our businesses and create a sustainable enterprise in the long-term. Ayala's Governance System includes an effective Board and its Board Committees, empowered and accountable Management and Management Committees, and operational internal governance mechanisms such as internal control, risk management, and transparency that support long-term value creation.

The diagram below shows the key components of Ayala's Governance System:

Ayala is in full compliance with the Code of Corporate Governance and its corporate governance practices have been consistently recognized in various awards, polls, and publications locally and in the region. At the inaugural ASEAN Corporate Governance Awards on November 14, 2015, Ayala Corporation was recognized as one of the ASEAN Top 50 publicly listed companies (PLCs) in good corporate governance. The Ayala group had two, namely Globe Telecom and Ayala Land, of the top three Philippine PLCs; and had four, namely, Ayala Corporation, Ayala Land, Globe Telecom, and Manila Water, of the eleven Philippine listed firms named among the ASEAN Top 50 PLCs.

GOVERNANCE SYSTEM



INTERNAL GOVERNANCE MECHANISMS

- Strategy Formulation and Execution
- Risk Management
- Accountability and Audit
- Compliance
- Disclosure and Transparency
- Policy on Insider Trading
- Stakeholder Relations
- Code of Conduct and Ethics
- Whistleblower Policy
- Anti-Money Laundering

We see governance as a foundation of Ayala's operations, allowing us to keep the trust and confidence of our partners and our private and public, local, national, and international stakeholders. We believe that proper controls are fundamental in ensuring a sustainable enterprise in the long-term and that conforming to regulatory requirements and international standards are part of the formula for success.

We continue to set the bar higher for ourselves by deepening our sense of commitment and building a governance culture across the company.

The existing structures and processes, which we consistently review and refine, guide our board, management, and employees and are integral part of the Governance System for Ayala.

Good governance is imperative in creating a sustainable enterprise in the long-term. Compliance with regulations and universally adopted principles are important pillars of our organization that have served us well as an enabling factor for success.

Jaime Augusto Zobel de Ayala
Ayala Corporate Governance and
Risk Management Summit, March 2016

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, revisits the group's corporate strategy and monitors its implementation. In 2015, the Board reviewed a refreshed vision statement of the company. As a result, the company adopted a new vision statement that is available in the company website and appended to the company's Manual of Corporate Governance.

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

The Board reviews and affirms the true and fair representation of the annual financial statements, as it did for the financial statements for fiscal year 2015.

Atty. Solomon M. Hermosura receiving the ASEAN Top 50 PLCs award for Ayala Corporation at the ASEAN Corporate Governance Awards

Composition

The Board as a whole possesses the right skills and background for the current issues facing the company. There is sufficient diversity in the Board and an appropriate mix of non-executive and executive directors.

- 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 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 pages 20 to 21.

We ensure an independent minority representation in the Board and the exercise by minority shareholders of their rights, including the right to cumulative voting in the election of directors and appraisal rights.

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 four independent directors who make up more than 57 percent of the Board's membership—Ramon R. del Rosario, Jr., Xavier P. Loinaz, Antonio Jose U. Periquet, and Yoshio Amano. Delfin L. Lazaro is a non-executive director. Mr. Amano meets the definition of an independent director as stated earlier and is considered an independent director under the ASEAN standards.

As of 2015, Ayala's independent directors have served the company for an average of 5.4 years, well within the maximum nine-year term limit for independent directors. None of the directors nor Senior Management has worked for Ayala's external auditing firm in the past two years.

The non-executive and independent directors met on April 10, 2015 without the presence of any of the executive directors and management.

Chairman and Vice Chairman

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

The positions of Chairman of the Board and CEO are held by the same person, a structure that has worked well for the company. The company's corporate governance principles, the quality of discussion at Board meetings, as well as the culture of open communication with the CEO and senior management has not been compromised with a combined Chairman and CEO position.

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 2015.

Board of Directors	Attendance in the Meeting					
	01-14-15	03-10-15	04-10-15	06-25-15	09-22-15	12-03-15
Jaime Augusto Zobel de Ayala	✓	✓	✓	✓	✓	✓
Fernando Zobel de Ayala	✓	✓	✓	✓	✓	✓
Delfin L. Lazaro	✓	✓	✓	✓	✓	✓
Yoshio Amano	✓	✓	✓	✓	✓	✓
Xavier P. Loinaz	✓	✓	✓	✓	✓	✓
Antonio Jose U. Periquet	✓	✓	✓	✓	✓	✓
Ramon R. del Rosario, Jr.	✓	✓	✓	✓	✓	✓

✓ - Present x - Absent

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

Consistent with the Guidelines in Conducting Performance Assessments, the Board conducts an annual assessment to evaluate the performance of the Board, its committees, and its individual members, to measure the effectiveness of the company's governance practices and identify areas for improvement, and to adopt new methodologies to further strengthen the company's corporate governance standards. The self-assessment tool covers the (1) structure of the Board, (2) shareholder benefits, (3) fulfillment of the Board's key responsibilities, (4) oversight function, (5) effectiveness of the Board's processes and meetings, (6) quality of the Board-Management relationship, (7) corporate ethics, and (8) performance evaluation.

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 and responsibilities. The committees provide an organized and focused means for the directors to achieve specific goals and address issues, including those related to governance.

Board Committees
Assist the Board of Directors in exercising its powers and fulfilling its roles and responsibilities

Risk Management and Related Party Transactions Committee

- Assists the Board on risk governance processes
- Promotes open discussion of risks faced by Ayala and its subsidiaries
- Ensures that management maintains a sound risk management framework and an internal control system to mitigate material risk exposures that have impact on the company's objectives
- Reviews and evaluates any material or significant related party transactions

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

Audit Committee

- Assists the Board of Directors in fulfilling its responsibility for oversight of the organization's corporate governance processes:
  - » External Auditors
  - » Internal Auditors
  - » Effectiveness of Internal Control
  - » Compliance to applicable legal, regulatory, and corporate governance requirements
  - » Integrity of Financial Statements
- Reports to the Board of Directors, describing the committee's composition, responsibilities and how they were discharged, and any other information required by law, and confirms annually that all responsibilities outlined in its charter have been carried out

Personnel and Compensation Committee

- Establishes a policy for a formal and transparent procedure for determining salaries of officers and directors
- Compels incoming and incumbent officers to declare annually all existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties
- Reviews the Human Resources Development or Personnel Handbook to strengthen provisions on conflict of interest, salaries and benefits policies, promotions and career advancement directives, and compliance of personnel concerned

Nominations Committee

- Reviews and monitors the structure, size and composition of the Board to ensure compliance with applicable laws,rules and regulations as well as the Corporation's By-laws and Manual of Corporate Governance
- Adopts process and criteria in nominating directors to ensure there is a mix of diverse and competent directors, each of whom can add value in the formulation of sound corporate strategies and policies
- Reviews succession plans for the members of the Board and senior executives

Finance Committee

- Oversees the company's financial policy and strategy, including capital structure, dividend policy, acquisitions, and divestments
- Supervises Treasury activities including review and approval of its policies
- Reviews and evaluates the financial affairs of the company on a regular basis

Committee of Inspectors of Proxies and Ballots

- Adopts process of validating proxies and ballots in accordance with applicable laws, the By-Laws, and the rules and regulations of the SEC regarding proxies

BOARD COMMITTEE MEMBERSHIP

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

C - Chairman
M - Member

**Non-executive Director*
***Independent Director*

**** Independent Director under the ASEAN standards*
*****May not be members of the Board of Directors*

Executive Committee

The Committee reviewed and approved the following transactions in 2015:

- Additional equity infusions and advances to whollyowned subsidiaries of the company
- Sale of and subscription to ALI common shares for the ALI top-up placement
- Policies on Foreign Exchange Risk Management and Interest Rate Risk Management
- Investment in Sares Regis Multi-Family Value Add Fund II
- Funding of up to US$20 million loan to GNPower Mariveles Coal Plant Ltd. Co.
- Extension of availability period of US$100 million term loan facility with The Bank of Tokyo – Mitsubishi UFJ, Ltd.
- Purchase of shares and increase of ownership in Manila Water Company, Inc.
- Acquisition of 50 percent stake in Generika Drugstore
- Execution of agreements for the Muntinlupa-Cavite Expressway project
- Sale of AC shares in BPI Globe BanKO, Inc.
- Investment of AC Energy Holdings, Inc. (“AC Energy”) in Monte Solar Energy, Inc.
- Availment of internet-based disbursement solution of Deutsche Bank AG
- Revised trading, approval, and signing limits for treasury matters
- Investment in Ayala Hotels, Inc. for Mandarin lot re-development
- Acquisition of parcels of land in Calaca, Batangas for AC Energy’s second thermal power plant
- Investment in the retail electricity supply business by AC Energy

Ayala

Report of the Audit Committee to the Board of Directors
For the Year Ended 31 December 2015

The Board-approved Audit Committee Charter defines the duties and responsibilities of the Audit Committee. In accordance with the 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 four (4) regular meetings and one (1) executive meeting with the external auditor;
- 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:
  - Management has the primary responsibility for the financial statements and the financial reporting process; and
  - 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 the status and actions taken by Management with regards to the tax assessment imposed by the Bureau of Internal Revenue; and
- We have discussed the updates on the financial consolidation system being implemented by Management.

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, 2015 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange. We are also recommending the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2016 based on their performance and qualifications.

March 03, 2016

XAVIER P. LOINAZ
Chairman

RAMON R. DEL ROSARIO JR.
Member

YOSHIO AMANO
Member

Audit Committee

The activities of the Audit Committee are discussed in its report to the Board of Directors.

The Committee had four meetings in 2015.

Audit Committee	Attendance in the Meeting			
	03-05-15	05-07-15	08-12-15	11-11-15
Xavier P. Loinaz	✓	✓	x	✓
Ramon R. Del Rosario, Jr.	✓	✓	✓	✓
Yoshio Amano	✓	✓	✓	✓

✓ - Present x - Absent

Ayala

Report to the Board of Directors
Risk Management and Related Party Transactions Committee
For the Year Ended 31 December 2015

The Risk Management Committee was renamed Risk Management and Related Party Transactions Committee in June 2015 to reflect the Committee's role in the review and approval of material related party transactions. The Committee provides 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 related party transactions and its required reporting disclosures.

The Committee had three meetings in 2015 and would like to report that:

- The Committee ensured that the Company's risk management process is effective and key risks that may impact the overall objectives of the company are discussed, monitored, reported, and managed. The Chief Risk Officer, as supported by the Group Risk Management Unit, led the risk management program designed to increase risk awareness and to promote good risk management process effectively balancing risk and reward within the Company and across the group.

- The Committee reviewed and approved significant material related party transactions such as sale and participation in re-development of real property, loan facility, investment and divestment, and amendment of contracts, among others. The Committee ensured that these transactions were at arm's length, the terms were fair and they inured to the best interest of the company and its shareholders. The Chief Finance Officer, through the Controllership Unit, disclosed related party transactions in the Company's financial statements.

Interface between the Board Risk Management and Related Party Transactions Committee and Audit Committee

Both Committees revisited their respective charters and clarified that the Risk Management and Related Party Transactions 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 Company's financial statements, the financial reporting process, the system of internal controls and compliance with legal and regulatory matters. The output of the enterprise risk management process is an input to the annual risk-based planning of the Internal Audit Unit.

ANTONIO JOSE U. PERIQUET
Chairman

RAMON R. DEL ROSARIO, JR.
Member

YOSHIO AMANO
Member

Risk Management and Related Party Transactions (RPT) Committee

The activities of the Risk Management and RPT Committee are discussed in its report to the Board.

The Committee had three meetings in 2015.

Risk Management and RPT Committee	Attendance in the Meeting		
	03-06-15	09-22-15	12-02-15
Antonio Jose U. Periquet	✓	✓	✓
Ramon R. Del Rosario, Jr.	✓	✓	✓
Yoshio Amano	✓	✓	✓

✓ - Present x - Absent

Finance Committee

Accomplishments in 2015

- Approval of policies on Interest Rate Risk Management and Foreign Exchange Risk Management
- Approval of additional equity infusions and advances to wholly owned subsidiaries of the company
- Approval of investments in education, healthcare, retail electricity supply business, and small-scale renewable energy investments
- Approval of increase by 20 percent of the regular semi-annual cash dividend per common share
- Approval of availment of Deutsche Bank and ING Bank investment products
- Approval of debt policy on loan-to-value ratio of up to 20 percent of the portfolio investment

The Committee had eight meetings in 2015. Messrs. Delfin L. Lazaro and Antonio Jose U. Periquet attended all the meetings while Mr. Jaime Augusto Zobel de Ayala attended seven out of the eight meetings.

Finance Committee	Attendance in the Meeting							
	02-02-15	03-25-15	05-29-15	07-06-15	09-21-15	11-09-15	11-27-15	12-08-15
Delfin L. Lazaro	✓	✓	✓	✓	✓	✓	✓	✓
Antonio Jose U. Periquet	✓	✓	✓	✓	✓	✓	✓	✓
Jaime Augusto Zobel de Ayala	✓	✓	✓	✓	✓	x	✓	✓

✓ - Present x - Absent

Personnel and Compensation Committee

Accomplishments in 2015

- Approval of performance bonus and merit increase of ` employees
- Approval of 2015 Employee Stock Ownership Plan

Only one meeting was held on March 20, 2015 where the Chairman and the members of the Committee were all present.

Personnel and Compensation Committee	Attendance in the Meeting
	03-20-15
Ramon R. Del Rosario, Jr.	✓
Delfin L. Lazaro	✓
Yoshio Amano	✓

✓ - Present x - Absent

Nomination Committee

Accomplishments in 2015

- Review and approval of final list of nominees for directors for election at the 2015 annual stockholders' meeting
- Review of the qualifications of all persons nominated to positions requiring appointment by the Board

Nomination Committee	Attendance in the Meeting		
	03-10-15	04-10-15	12-17-15
Ramon R. Del Rosario, Jr.	✓	✓	✓
Jaime Augusto Zobel de Ayala*	✓	✓	✓
Fernando Zobel de Ayala	✓	✓	✓
Antonio Jose U. Periquet	✓	✓	✓

*until April 2015 only ✓ - Present x - Absent

The Committee had three meetings in 2015 where the Chairman and members of the Committee were all present.

Committee of Inspectors of Proxies and Ballots

Accomplishments in 2015

- Validation of proxies submitted by the stockholders prior to the date of the stockholders' meeting, and submission of the Proxy Validation Summary to the Office of the Corporate Secretary
- Counting and tabulation of votes cast at the annual stockholders' meeting, and submission of the results of the tabulation to SGV for independent validation

The Committee met twice during the year where the Chairman and the members of the Committee were all present.

Committee of Inspectors of Proxies and Ballots	Attendance in the Meeting	
	04-08-15	04-10-15
Solomon M. Hermosura	✓	✓
Catherine H. Ang	✓	✓
Josephine G. De Asis	✓	✓

✓ - Present x - Absent

Training of Directors

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

Since 2014, the company has organized the annual group-wide Corporate Governance and Risk Management Summit as part of the continuing education program for our Board, CEOs, and other key officers. The Summit is just one of the venues in bringing the importance of governance to the spotlight and making sure the organizations are constantly evolving.

The Institute of Corporate Directors (ICD) continues to recognize 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

The company holds group-wide Corporate Governance and Risk Management Summit annually

good governance to the Philippines to share their insight and experience with board directors, compliance officers, and the public.

In 2015, all Directors and Senior Management participated in the Annual Corporate Governance and Risk Management Summit administered by the Institute of Corporate Directors (ICD) and the CG Seminar conducted by SGV & Co. Both ICD and SGV & Co. are accredited training providers of the Securities and Exchange Commission (SEC).

Director Compensation

The Personnel and Compensation Committee of the Board have the responsibility of recommending to the Board the fees and other compensation for directors. In discharging this duty, the committee is guided by the objective of ensuring that the level of compensation should fairly pay directors for work required in a company of the Corporation's size and scope. Stockholders approve the decision on total remuneration or changes to previously approved board compensation during the annual stockholders' meeting.

Non-executive and independent directors are Board members who are not officers of the company. They receive remuneration consisting of: 1) annual 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 2015, the following directors received gross remuneration as follows:

Director	Gross Remuneration
Yoshio Amano	₱3,000,000.00
Delfin L. Lazaro	2,750,000.00
Xavier P. Loinaz	2,700,000.00
Antonio Jose U. Periquet	2,750,000.00
Ramon R. del Rosario, Jr.	3,050,000.00
Total	**₱14,250,000.00**

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

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

MANAGEMENT

Role and Responsibilities

Management is accountable to the Board of Directors for the operations of the company and its performance. Furthermore, they:

- define the company's targets in concrete and specific terms,
- execute the Board-approved strategies for achieving these targets,
- inform the Board in a regular and timely manner about any issues concerning the company's strategy, risk management, and compliance, and
- provide updates to the Board on the implementation of the company's strategy.

The respective roles of the Chairman and CEO and the President and 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 and COO is responsible for daily operations, new business initiatives, corporate policies, and resource allocation.

In all functions and critical issues, both coordinate closely with each other. The Chairman & CEO and President & COO are supported by Management Committees 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.

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 and CEO, President and COO, and members of the Management Committees attend the annual stockholders' meetings.

Management Committees

Management has created committees that it deems necessary to ensure that decision-making is always made in the best interest of the organization. Initiatives which are reviewed and endorsed by management-level committees are discussed lengthily with the Board-level committees for approval and endorsement to the full Board for ratification.

Ayala Group Management Committee

The Group Management Committee is composed of the Chairman and CEO, President and COO, the four AC Group Heads, and the CEOs of the Ayala Group of Companies. The Group Management Committee oversees the overall strategic plan, aligning individual business unit priorities to group-wide direction. The Committee meets regularly to review business performance, discuss group-wide issues and events, and identify areas of possible synergy and collaboration.

Full profiles of the Group Management Committee members have been detailed on pages 23-29.

AC Investment Committee (IC)

The IC is composed of the Chairman and CEO, President and COO, and key officers of the company. The IC reviews, provides direction, and gives preliminary approval for initiatives that may originate from the company or its subsidiaries specifically requiring funding from the company. Once a project clears the IC, it is endorsed for approval to the appropriate board committee and to the full Board.

AC (Holdings) Management Committee

The AC Holdings Management Committee includes the Chairman and CEO, President and COO, and the four AC Group Heads. The Holdings Management Committee approves corporate, administrative, and organizational matters that pertain exclusively to AC as well as group-wide affairs when relevant.

Senior Executive Compensation

Ayala provides market-competitive guaranteed compensation and benefits to its senior executives, aligned to corporate goals, annual targets, and the long-term strategic plan. It adopts a performance-based variable compensation scheme using the KRA scorecard accomplishments as metrics. We have official long-term plans of record for AC and all the business units that set the financial and non-financial goals and metrics. The latest goals set in 2015 are for the year 2020. As additional incentive to senior executives and key talents, from the 3 percent of the company's authorized capital stock which the stockholders have allocated, the Board granted stock ownership plan to eligible grantees in December 2015. The basis for grant is consistent outstanding performance record over a period of three years. The grant price is average market price over a 30-day period, net of discount of 15 percent.

INTERNAL GOVERNANCE MECHANISMS

Strategy Formulation and Execution

Ayala Corporation utilizes an inclusive and iterative approach to crafting and executing a long-term strategic plan for the entire Ayala Group.

With guidance from the Board of Directors, the parent company defines the overall vision, objectives, and aspirations of the group. Strategic imperatives are defined based on perceived strengths, weaknesses, and opportunities and threats that surround our portfolio. Each subsidiary develops their individual strategic plans aligned and contributing to the overarching group-wide goals and priorities. These are then codified into plans of record that contain the strategic, financial, and operational commitments for each business. Outside of individual business unit plans, we also define strategic initiatives and investments that can help advance the accomplishment of these long-term goals, support our subsidiaries, and define new sectors of growth.

As these plans are finalized, we also ensure that risk is

2015 Ayala Group Strategic Planning Session managed appropriately using a robust risk assessment process (page 92), as well as our conformance to global standards of sustainability (page 68).

The combined plans are reviewed regularly to evaluate performance and progress toward achieving our long-term aspirations, as well as the specific contributions of each of our portfolio companies. Throughout the year, progress is constantly monitored via regular business updates. Our Controllership Unit closely tracks progress against both short-term and long-term plans, and provides regular reports to management. We also hold portfolio review exercises regularly, where we take stock of the performance of each business unit and review prospects of our current portfolio.

At the end of each year, we ensure that variable compensation is aligned with performance and reflective of progress made toward achieving Ayala's long-term goals. We undergo an extensive review of business performance based on in-depth discussions with each subsidiaries to provide our independent assessment and calibrate reward levels across the group.

Principles of Corporate Decision-Making

The evaluation process for investments and other corporate decisions at AC is built on the following principles:

- Stakeholder Engagement – we ensure that the views of all stakeholders are secured and heard thoroughly before and during the formal decision event.
- Strategic Alignment – initiatives need to align to our overall strategic philosophy, our priorities, and sectoral focus areas.
- Financial viability – both long-term and short-term—is rigorously evaluated based on return forecasts, risk thresholds, and internal financial metrics.
- Other factors, such as community impact, sustainability issues, governance and partner relationships, funding and manpower requirements, and legal/regulatory compliance, play major roles into the eventual decision.

Risk Management

Risk and Opportunities

Organizations face a wide range of risks and opportunities that may impact its business objectives and may enhance its value creation process, respectively. Therefore, it is key for every organization to establish a risk management framework that has the right architecture, strategy, and protocols that support the risk management process. The risk architecture ensures that a structure is in place to communicate and report on risks and opportunities; the strategy outlines the guidelines and attitudes towards risks, while the protocols include methodologies, tools, and techniques that are available to execute the risk management process. Identifying, assessing, prioritizing risks, evaluating the range of risk responses available, and deciding the most appropriate one in each case is the heart of risk management. Responding to risks should produce benefits for all stakeholders.

Risk Architecture

Risk management is an integral part of successful corporate governance in every organization. At Ayala, the risk management process starts from the top. The Board of Directors through the Risk Management and Related Party Transactions Committee ensures that an effective risk management process is in place and that its risk appetite remains relevant and appropriate to achieve its set goals. The Chief Risk Officer (CRO) is the risk advocate for the company and for the group and owns the policy and the program. The Group Risk Management and Sustainability Unit supports the CRO by designing activities that enhance the risk culture within the organization and within the group, formulating risk management strategies, developing tools and techniques for risk assessment, and monitoring and reporting on key and emerging risks. The committees established by management ensure that there is a structure at the operating level that will communicate and monitor key and emerging risks. They also ensure that risks are discussed during project and investments meetings.

The business or unit heads ensure that risks are embedded and managed in its day-to-day operations. The Internal Audit Unit provides an independent assurance on the adequacy, effectiveness, and efficiency of the risk management process and the internal control system. Diagram below:

Board Oversight	**Board of Directors**			
	Risk Management and Related Party Transactions Committee			
	Risk management process		Risk appetite/ Risk tolerance	
Risk Governance	**Management Committee**			
	Ayala Holdings Management Committee		Investment Committee	
	Risk ownership and accountability		Risk discussions	
Policy & Management	**Chief Risk Officer**			
	Group Risk Management & Sustainability Unit			
	ERM policy	ERM strategy	ERM protocols	Monitoring & reporting
Embedded Risk Management	**Business Units – Transactional Risk Management**			
	Corporate Strategy and Development	Controllership, Treasury, and Corporate Finance & Asset Management	Strategic Corporate Resources	Legal and Regulatory Compliance
	Day-to-day risk management activities			
Assurance	**Internal Audit**			
	Adequacy, effectiveness, and efficiency of risk management process and internal control system			

Risk Management Strategy

Our risk management strategy revolves around the strengthening of our risk culture within the company and across the group.

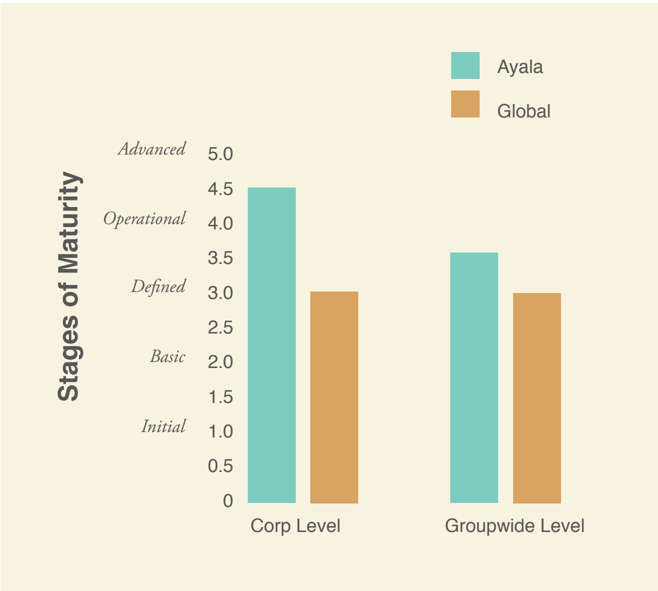
Risk culture drives our behavior and influences our day-to-day management of risks, our response to opportunities that spur growth, and our actions when we face adversities or crises. Therefore, it is necessary that we understand and measure our beliefs and attitudes toward risk and opportunities. Our assessment of our risk culture showed that we are strong in the areas of Organization, Relationships, and Risk Competence while we need to enhance the Motivation factors such as incentives and performance management. To address these areas, we planned to conduct a series of risk management awareness training to the rest of the company employees and to incorporate risk management in our tactical planning session. The session will align our key responsibilities and initiatives to the achievement of our vision pillars while managing risks.

Across the group, we evaluated the risk maturity of key entities, in a consistent manner, even though the risk management process is largely localized and driven by the individual entity's risk management team. We used AON Risk Maturity Index (RMI) which was developed in partnership with the Wharton School of the University of Pennsylvania. The RMI is designed to capture and assess an organization's risk management practices and provides participants with immediate feedback in the form of a Risk Maturity Rating and actionable steps for improvement. Every entity is evaluated against a scale of 1 to 5, 5 being the most advanced.

In the evaluation, Ayala Corporation scored 4.5 which outperforms the Ayala Group average at 3.6 and the global average of 3.0. The RMI score indicates that Ayala Corporation has a strong risk governance and risk management process and that risk and opportunities are being discussed at the Board level. As a continuous improvement activity, Ayala Corporation will revisit its risk tolerance and risk appetite and set the tone for key entities to follow and consider when they determine their own risk appetite and tolerance level.

Meanwhile, the Ayala group average risk maturity was at 3.6, 0.6 higher than the global benchmark of 3.0. The most and least matured entities were rated at 5.0 and 1.5, respectively. The overall risk maturity score suggests that the Ayala group of companies understands and is addressing its key risks; has capabilities to measure, manage, and monitor risks but these are not entirely consistent across the organization. Every entity has its plans to improve on its risk management process within the next two to three years.

AYALA'S RMI VS GLOBAL BENCHMARK



Risk Management Protocol

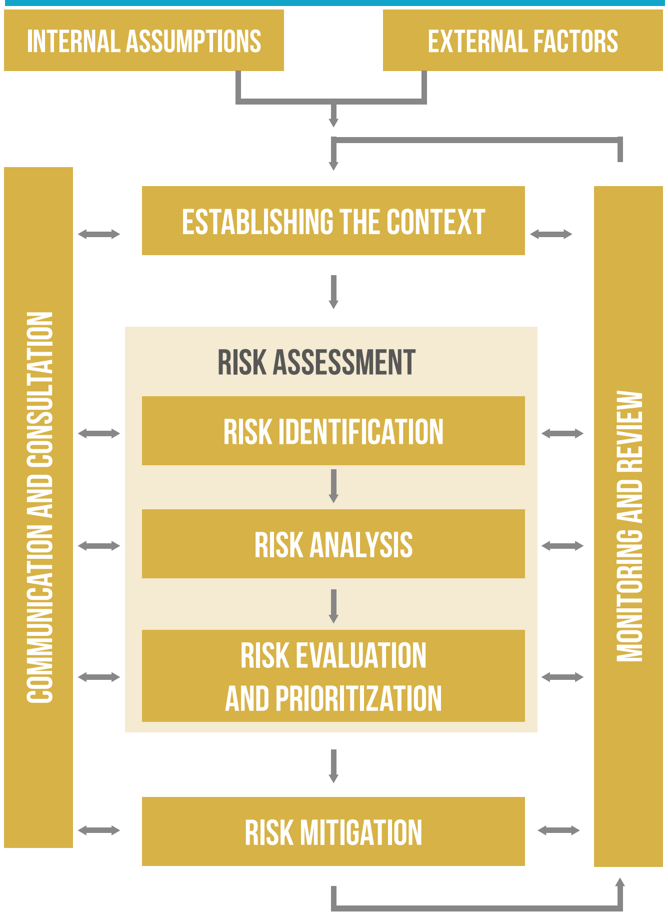
In Ayala's risk management journey, tools and methodologies are being improved. In 2014, Ayala employed the Black Swans workshop to identify its value drivers and risks. In 2015, we continued to deepen our understanding of risks and opportunities using bow-tie and risk interaction mapping activities. To help monitor and report on risks, Ayala is developing an ERM dashboard that will capture its risk universe, risk profile, and risk mitigation strategies.

Risk Management Process

Our risk management process starts with establishing the context—external and internal factors that may impact our value creation and value protection objectives. We conduct research, invite speakers, engage consultants, and collaborate with internal stakeholders to help us establish the right context. This sets the tone when we gather senior officers in our annual risk assessment activity—from risk identification, analysis, and evaluation.

We also prioritize our risks so we can allocate our resources and plan our risk mitigation strategy accordingly. The results of the risk assessment process is used to update our risk register. All throughout the period, we encourage constant communication and collaboration on how to manage critical and emerging risks and this aids in our monitoring and reporting process.

AYALA'S RISK MANAGEMENT PROCESS



Ayala Corporation's officers and managers actively participating in the bow-tie and risk interaction mapping workshop in February 2015

Key Risks and Opportunities

Key to Ayala's risk management process is the understanding of external factors while challenging its internal assumptions. In doing so, Ayala is not only managing traditional operational risks but includes macro risks that may impact the achievement of its objectives. We were able to consolidate our risks universe into 11 risk categories that are relevant to us. Below is our two-year risk profile.

RISK	2015 Ranking	2014 Ranking	Change
Portfolio Management	1	1	↔ no change
Brand & Reputation	1	1	↔ no change
Regulatory & Political	1	7	↑ 6 places
Funding	4	6	↑ 2 places
Governance	5	1	↓ 4 places
Capital Markets	6	4	↓ 2 places
Talent	7	7	↔ no change
Natural & Man-made Disasters	8	4	↓ 4 places
Information Security	9	9	↔ no change
Innovation & Technology	10	10	↔ no change
Synergy	11	10	↓ 1 place

Portfolio Management

Being a holding company, it is critical that our portfolio management strategy is sufficient to maximize profitability and robust to seize opportunities as spotted. We manage this risk end-to-end: from business development, execution, performance monitoring, and divestment. We have developed a gating process for potential businesses and alliances, established controls in monitoring business performances, and have a divestment approval process in place.

Brand and Reputation

For more than 180 years, Ayala's reputation of high integrity and strong governance makes it a company of choice for investors, bankers, lenders, partners, customers, and employees. Our brand and reputation opens opportunities for partnerships and alliances that help us create value for all our stakeholders, provides access in capital markets, recruits and retains the best talent, and builds loyal customers. The brand has long been established and we have been continuously safeguarding it by ensuring that we have effective governance processes and that our internal control system is effective and adequate. We have also established a process to manage our stakeholders–from customers, employees, investors, partners, lenders, government, media, advocacy groups, and the public, in general.

Brand and Reputation and Portfolio Management risks are ranked first for two consecutive years.

Regulatory and Political

The regulatory and political environment has posed uncertainty in the context of the 2016 national election and recent experiences of our business units in dealing with regulatory agencies. This uncertainty is reflected in the management ranking—regulatory and political risk was also ranked first, sharing the same spot as Brand & Reputation and Portfolio Management risks, six places higher than last year. The results of the 2016 national election is viewed as both a risk and an opportunity. We believe that our long-standing value of commitment to national development goals will help us manage the political and regulatory changes as a result of the new leadership. We also ensure that our businesses comply with all relevant regulatory requirements affecting their operations.

Other Risks

The remaining risks are defined, analyzed, evaluated, and managed in accordance to the company's risk appetite. These risks are regularly monitored and reported to relevant officers and to the Board through the Risk Management and Related Party Transactions Committee.

Accountability and Audit

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

External Auditors

SGV & Co. is the external auditor of the company, with Jessie D. Cabaluna as the partner-in-charge since 2012. In accordance with regulations issued by the SEC, the audit partner principally handling the company's account is rotated every five years.

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

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

In its meeting last April 10, 2015, the shareholders re-appointed SyCip, Gorres, Velayo and Co. (SGV & Co.) as the external auditor of Ayala Corporation for the calendar year 2015. Fees approved in connection with the audit and audit-related services rendered by SGV & Co. pursuant to the regulatory and statutory requirements for the years ended December 31, 2015 and 2014 amounted to ₱9.72 million and ₱13.64 million, respectively, inclusive of VAT.

SGV & Co. was also contracted to provide other services for a fee of ₱155,000 in accordance with established procurement policies. The Audit Committee reviewed the nature of non-audit services rendered by SGV & Co. and the corresponding fees and concluded that these are not in conflict with their function as the company's external auditors. The aggregate fees billed by SGV & Co. are shown below (with comparative figures for 2014):

(Amount in millions of pesos)

External Auditor Fees	2015	2014
Audit and Audit-Related Fees	₱9.72	₱13.64
Non-Audit Fees	0.15	1.96
Grand Total	**₱9.87**	**₱15.60**

Audit and Audit-Related Fees. *Include audit of Ayala Corporation's annual financial statements and midyear review of financial statements in connection with the statutory and regulatory filings or engagements for the years ended 2015 and 2014. 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. *Include one-time, nonrecurring special projects/consulting services and seminars.*

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

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, with Catherine H. Ang as the Chief Audit Executive, 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, ISO 9001 certified, IT Infrastructure Library (ITIL) certified, a Financial Executives Institute of the Philippines (FINEX) member, 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).

Ayala's Internal Audit also collaborates with the internal audit functions of the subsidiaries and affiliates to promote sharing of resources, knowledge, tools, and best practices through the Ayala Group Internal Audit Network (AGIAN).

In October 2015, the group had its first Chief Audit Executive (CAE) Forum with the objective of having stronger collaboration among the Ayala CAEs. Discussion focused on strategic direction to shape the Ayala Group internal audit teams to continue to provide relevant and value-adding service to the organization, to ensure succession planning, and to attract and retain the best talents within the group. The group also held its 17th annual AGIAN conference with the theme "The Evolving Role of Internal Audit."

The Ayala Group IA Leadership with Jaime Augusto Zobel de Ayala, Ayala Corporation Chairman and CEO, Ramon R. Del Rosario, Jr., Ayala Corporation Audit Committee Member, and Joseph Albert L. Gotuaco, BPI CFO and Head of Strategy & Development at the 1st Chief Audit Executive Forum.

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 for its internal auditors.

Compliance Office

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 with the company's Corporate Governance Manual and the rules and regulations of regulatory agencies
- 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*
- Facilitates a yearly performance assessment of the Board, Board Committees, and individual members of the Board using a formal self-rating system.

In 2015, Mr. Hermosura participated as a panelist at the Asialaw Asia-Pacific In-house Counsel Summit 2015 held in Hong Kong addressing the latest challenges facing in-house counsel lawyers. He also attended various fora on governance, legal, and compliance, including the Asean Law Association (ALA) General Assembly on "Sharing Prosperity at the Crossroads of ASEAN Integration: The Legal Challenges," the ASEAN Corporate Scores PH PLCs, and the Asia-Pacific Chief Legal Officers' Council meetings.

**Pursuant to SEC Memorandum Circular No. 5, series of 2013 and SEC Memorandum Circular No. 12, series of 2014*

Disclosure and Transparency

Ownership Structure

Ayala's outstanding common shares as of December 31, 2015 were held by:

	Outstanding Common Shares	% Ownership
Mermac, Inc.	303.7 million	49.01%
PCD Nominee Corporation (Non-Filipino)*	161.5 million	26.07%
PCD Nominee Corporation (Filipino)*	68.7 million	11.08%
Mitsubishi Corporation	63.1 million	10.18%
Others	22.6 million	3.66%
Total	**619.6 million**	**100.00%**

**Out of the 230.2 million shares registered under the name of PCD Nominee Corporation, 64.7 million or 10.4 percent and 56.1 million or 9.05 percent are for the account of Deutsche Bank Manila and Hongkong Shanghai Banking Corporation, respectively*

	Outstanding Shares	% Foreign Owned
Common Shares	619.6 million	
Voting Preferred Shares	200.0 million	
Total Voting Shares	**819.6 million**	**31.84%**
Preferred B Series 1 Shares	20.0 million	
Preferred B Series 2 Shares	27.0 million	
Total Outstanding Shares	**866.6 million**	**30.13%**

There were no cross or pyramid shareholdings.

Accurate and Timely Disclosures

Ayala is committed to providing quality, accurate, and timely disclosures to the regulators and investing public. We ensure that investors are provided with adequate information on the results of operations and financial performance.

All relevant disclosures are filed in a timely manner, with the SEC, Philippine Stock Exchange (PSE), and Philippine Dealing and Exchange Corporation (PDEx). These information including the Annual Report and the consolidated audited financial statements are readily available to the public through the company's website www.ayala.com.ph.

There are policies and procedures in place to make sure that Ayala complies with disclosure requirements under the listing rules of the SEC, PSE and PDEx. Aside from compliance with periodic reporting requirements, Ayala has procedures for internal reporting and decision-making with regard to promptly providing disclosures on significant 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 results of the company's operations are provided and discussed by the members of senior management with investment and financial analysts during the investors meetings and quarterly analyst briefings.

As a result of Ayala's continued effort to provide timely and relevant information:

- On April 14, 2015 - The Annual Report (SEC Form 17-A) together with the consolidated audited financial statements for 2014 were submitted to the SEC, within 120 days after yearend.
- On March 11, 2015 - The Notice of the Annual Stockholders' Meeting with the detailed explanation of the Agenda items was released to the SEC and PSE, 30 days ahead of the scheduled annual meeting on April 10, 2015.
- On March 17, 2015 - The audited financial statements as contained in the Definitive Information Statement were submitted to the SEC and PSE, 24 days before the annual stockholders' meeting and three days earlier than 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.

Financial and Non-Financial Reports

The Board of Directors through the Audit Committee has the responsibility to the shareholders in relation to the integrity of the company's consolidated financial statements and any financial information disclosed in the company's Annual Report. The information on the financial statements is guided by the company's risk management processes and policies to allow better assessment of financial performance and cash flows. Such financial statements comply with Philippine Accounting Standards and Philippine Financial Reporting Standards. The annual consolidated financial statements include detail on total assets, total liabilities and equity, revenues, costs and expenses, income before income tax, net income attributable to equity holders of Ayala and non-controlling interests, earnings per share, any significant accounting judgement, estimates used, and related disclosures.

Ayala also regularly provides thorough disclosure of its business segment results to its shareholders to help them appreciate the company's various businesses and their impact on the overall value improvement of the company.

Ayala has an existing policy on Related Party Transactions. These are transactions between the company or any of its subsidiaries or affiliates and a related party which shall be subject to review and approval to ensure that they are at arm's length, fair, and will inure to the best interest of the company and its subsidiaries or affiliates and their shareholders. These transactions may include sales and purchases of goods and services to and from related parties that are concluded at normal commercial terms consistent with the principles of transparency and fairness. There were no related party transactions classified as financial assistance to entities other than wholly-owned subsidiaries. There were also no cases of non-compliance with the laws, rules, and regulations pertaining to significant or material related party transactions in the past three years. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements on pages 246 to 249.

2015 DISCLOSURES

In 2015, the company filed, among others, unstructured disclosures involving the following:

Unstructured Disclosures

- Ayala unit acquires 50 percent stake in Generika
- MCX Tollway, Inc. signs a Memorandum of Agreement on Interoperability with South Luzon Tollway Corporation and Manila Toll Expressway Systems, Inc.
- AC Energy's wind farms receives FIT compliance certificate
- South Luzon Thermal Energy Corp. (SLTEC) achieves commercial operations date for the Power Plant in Calaca, Batangas
- Ayala Education, Inc. invests in University of Nueva Caceres
- Ayala Corporation and Globe Telecom, Inc. turn over full ownership of BPI Globe BanKo to Bank of the Philippine Islands
- AC Energy invests in a solar power plant in Negros Occidental
- AC Energy sells Luzon Wind Energy Holdings B.V.
- Light Rail Manila takes over LRT1 operations
- Ayala Corporation participates in the equity placement transaction of Ayala Land, Inc. involving 484,848,500 ALI common shares
- Ayala Group allots ₱185 billion for CAPEX in 2015
- AC Energy shortens corporate term of PhilNewEnergy
- SEC approves the Amended By-Laws
- Ayala updates company's vision statement
- Ayala issues consolidated changes in the Annual Corporate Governance Report (ACGR) for the year 2014 and regular updates on the ACGR for the year 2015
- Ayala issues revised Manual of Corporate Governance
- Ayala Group Directors and key officers participate in corporate governance seminars in 2015
- Ayala changes name of the Board's Risk Management Committee to Risk Management and Related Party Transactions Committee
- Ayala issues annual and quarterly press statements on the financial and operating results
- Ayala details the use of proceeds generated from the sale of Preferred B Series 2 (ACPB2) shares
- Ayala declares cash dividends to outstanding common and preferred shares
- Ayala issues notices of interest payments for all outstanding corporate bonds
- Ayala issues notices of analyst briefing
- Ayala issues notice and agenda of the 2015 annual stockholders' meeting (ASM) with detailed explanation of the agenda items
- Ayala releases results of the ASM and organizational meeting of the Board of Directors
- Ayala sets the 2016 annual stockholders' meeting
- Ayala issues Certification of Independent Directors
- Ayala releases General Information Sheet for 2015
- Ayala releases Attendance of Board of Directors report in 2015

News Clarification

- Ayala prepares post-Aquino plan
- Ayala eyes ₱15-B NAIA development project
- Ayala eyes US$3.8-B rail deal with Salim
- SLTEC plans to add another 135 MW to Luzon grid by 2016
- Ayala and MPIC eye longer LRT line
- SMC, Ayala, Metro Pacific want in on PNR rehabilitation
- AC Energy eyes owning government-run hydropower plants

Policy on Insider Trading

Reporting of Transactions

Ayala has expanded the coverage of this requirement to include members of the Management Committee and all the managing directors, Controller, Chief Audit Executive, Chief Risk Officer, Treasurer, Corporate Secretary, and Assistant Corporate Secretary. All other officers and employees must submit a quarterly report on their trades of company shares to the Compliance Officer. They are required to report their acquisition or disposal, or any changes in their shareholdings in the company within three (3) trading days from the transaction date. This is two (2) days earlier than the five-day disclosure requirement of the PSE. All officers and employees must submit a quarterly report on their trades of company shares to the Compliance Officer.

Trading Blackouts

Ayala has in place a Policy on Insider Trading of stock transactions to ensure compliance with disclosure rules and to prevent the unlawful practice of stock trading to one's own advantage through having access to confidential information. The policy provides that all directors, officers, consultants, and employees of the company 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 are prohibited from trading/dealing in Ayala Corporation's shares during the trading blackout period commencing the ten trading days before and three trading days after the disclosure of quarterly and annual financial results. 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 disseminated and issued to all covered personnel via e-mail. Compliance is strictly enforced during these trading blackout periods and there have been no violations of the company's policy on insider trading for the past three years.

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 28 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 business days prior to the annual stockholders' meeting.

The company holds annual meetings with the stockholders

CHANGES IN SHAREHOLDINGS

Summarized below are the reported trades in Ayala Securities
of the directors and officers in 2015:

	SECURITY	NUMBER OF SHARES			
		As of Dec. 31, 2014	Acquired	Disposed of	As of Dec. 31, 2015
DIRECTORS					
Jaime Augusto Zobel de Ayala	Common	177,896	10,362	105,358	82,900
	Preferred B Series 1	20,000	0	0	20,000
	Voting Preferred	543,802	0		543,802
Fernando Zobel de Ayala	Common	177,896	10,362	105,358	82,900
	Voting Preferred	554,983	0	0	554,983
Yoshio Amano	Common	1	0	0	1
Delfin L. Lazaro	Common	181,119	27,788	178,100	30,807
	Voting Prefered	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	400,000	0	0	400,000
Ramon R. del Rosario, Jr.	Common	1	0	0	1
OFFICERS					
Gerardo C. Ablaza, Jr.	Common	531,833	0	0	531,833
	Preferred B Series 2	10,000	0	0	10,000
Cezar P. Consing	Common	18,594	0	0	18,594
Bernard Vincent O. Dy	Common	0	0	0	0
Arthur R. Tan	Common	276,460	10,302	27,000	259,762
Alfredo I. Ayala	Common	141,025	0	1,358	139,667
Paolo Maximo F. Borromeo	Common	12,189	0	0	12,189
John Eric T. Francia	Common	93,526	0	56,730	36,796
Solomon M. Hermosura	Common	93,392	19,699	39,260	73,831
	Voting Preferred	53,583	0	0	53,583
Jose Teodoro K. Limcaoco	Common	137,007	0	8,770	128,237
Ruel T. Maranan	Common	0	0	0	0
John Philip S. Orbeta	Common	436,147	0	0	436,147
Catherine H. Ang	Common	3,448	0	0	3,448
	Voting Preferred	5,290	0	0	5,290
Ma. Cecilia T. Cruzabra	Common	5,344	0	0	5,344
Josephine G. De Asis	Common	1,000	0	0	1,000
Dodjie D. Lagazo	Common	0	0	0	0
Charlene Mae C. Tapic-Castro	Common	0	0	0	0
Total		**4,260,647**	**78,513**	**521,934**	**3,817,226**

Each outstanding common and voting preferred shares of stock entitles the registered holder to one vote.

Since 2014, Ayala has 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 regular 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 securities regulators on time.

The Investor Relations Unit holds quarterly media and analyst briefings, supports the annual stockholders' meeting, and engages with institutional and individual investors through one-on-one meetings, conference calls, and e-mail. In 2015, four analyst briefings were held to discuss the 2014 yearend results and 2015 first quarter, first half, and first nine months financial and operating results. The briefings were made accessible to overseas analysts via a dial-in facility.

The company holds regular briefings and meetings with investment and financial analysts where they are given access to senior management. Ayala regularly updates its website to ensure that disclosures to the regulators and presentations at analyst briefings and annual stockholders' meetings are immediately made available on the web to provide easy access for the investing community.

The company holds regular media and quarterly analyst briefings on Ayala's financial and operating results during the year

Panel speakers during the inaugural Ayala Group Investor Relations Forum

The company adheres to the ideals of justice and fairness in its business and in all its dealings with its employees.

In addition, the Investor Relations Unit together with senior management regularly attend investor conferences and hold non-deal roadshows to update Ayala's local and foreign institutional investors and overseas shareholders on corporate objectives, including long-term goals and financial targets. In 2015, Ayala participated in 14 institutional investor conferences and non-deal roadshows held in Asia, Europe, the United States, and the Philippines.

Ayala continues to strengthen its investor relations framework. In 2015, the Investor Relations Unit organized a bespoke investor relations forum on the best practice, trends, and perspectives on the evolving role of investor relations. The forum was attended by senior leadership and investor relations officers of Ayala and its listed subsidiaries who listened to international speakers and panelists.

Code of Conduct and Ethics

Ayala and its directors, officers, and employees are fully committed to promote a culture of good corporate governance anchored on core values of 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 the behavior and ethical conduct of the directors, officers, and employees. The Board ensures that all directors, officers, and employees of the company adhere to the code.

Directors, officers, and 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

Integrity is one of the core values of Ayala.

The Whistleblower 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 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 a written report directly to the Office of the Compliance Officer, or by e-mail 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.

The company adheres to the ideals of justice and fairness in its business and in all its dealings with its employees. There is an established Investigation Committee and investigation process to look into reported violations of company policies, rules, and regulations. All reports are treated in confidence and discussed with the Audit Committee who monitors the resolution and closure of all reports.

In 2015, there were no reported serious issues and significant incidents regarding compliance.

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. The website also includes online versions of the Annual Report and Sustainability Report. It is updated regularly with the latest corporate disclosures. As part of our stakeholder engagement, Ayala also maintains social media accounts at Facebook.com/AyalaCorporation and Twitter @Ayala_1834.


Maybank
ATR Kim Eng
FinanceAsia
ASIA'S
Maybank
ATR Kim Eng
1


ergy
boitiz
Equity Ventures
2


CorporateGovernanceAsia
5TH
3


50th ANVIL AWARDS
ANVIL GOLD
LEGACY AWARDS
4


INSIDE
AYALA
>180
STEVIE®
AWARD
2015
5


Ayala
6


MOVE YOU
7


8

2015 AWARDS AND RECOGNITIONS

1 **FinanceAsia's Asia's Best Companies (Philippines)**
Best Managed Company, Best Corporate Governance, Runner-up Best in Investor Relations

2 **22nd ASEAN Corporate**

Sustainability Awards
Best Sustainability Report for 2013

3 **Corporate Governance Asia's 5th Asian**

Excellence Awards
Ranked among Asia's Best Corporate Social Responsiblity and Investors Relations

4 **Public Relations Society of the Philippines' 50th**

Anvil Awards
Legacy Award

5 **International Business Awards (Stevie)**

Gold Award
Inside Ayala >180 (Company History, More Than 50 Years category)

Silver Award
Ayala at 180 Anniversary Campaign (Events and Observances category)

6 **ASEAN Corporate Governance Awards**
Among ASEAN Top 50

7 **Euromoney's Best Managed Companies**
Best Managed Company (Ranked 1st)

8 **The Republic of the Philippines**
Order of Mabini, Rank of Commander Awarded to Jaime Augusto Zobel de Ayala

Reception, Ayala Corporation

FINANCIAL STATEMENTS

How we performed

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

Ayala Corporation's net income expanded 20 percent to ₱22.3 billion in 2015, beating its target a year earlier than planned. This was primarily driven by the solid performance of its real estate and telecommunications businesses and lifted by contributions from its power generation unit.

Excluding capital gains primarily from the partial sale of AC Energy's stake in North Luzon Renewables in 2015 and from the divestment of Stream Global Services in the previous year, Ayala's net earnings actually grew 24 percent year-on-year.

Consolidated Sale of Goods and Services

Sale of goods and rendering services grew 11 percent to ₱174 billion largely driven by the the double-digit growth in real estate revenues. This was boosted by higher sales in the Honda and Isuzu dealerships of Ayala Automotive. This accounted for 84 percent of total income at the end of 2015.

Real Estate

The sustained performance of its residential and office developments and commercial leasing segments drove Ayala Land's net income in 2015, which reached ₱17.6 billion, 19 percent higher year-on-year.

Revenues from the residential business expanded 12 percent to ₱58.4 billion on new bookings and project completion. Reservation sales rose 4 percent to ₱105.3 billion, of which 25 percent account for overseas Filipino buyers. New launches and higher completion of office developments fueled the 32 percent growth in office space sales, which reached ₱6.4 billion during the year.

The higher occupancy and average rental rates of its shopping centers and office spaces combined with steady improvement of its hotels and resorts portfolio lifted Ayala Land's commercial leasing revenues, which climbed 16 percent to ₱24.5 billion.

Ayala Land's sustained earnings momentum during the year was further supported by the improved margin performance across its product lines as well as efficient cost management measures with earnings before interest and taxes (EBIT) margin at 29 percent from 27 percent a year ago.

Ayala Land continued to build up its recurring income business, with malls, office, and hotels and resorts accounting for 34 percent of its net earnings in 2015.

Ayala Land's capital spending during the year reached ₱82 billion. This year, it has earmarked ₱85 billion to support its pipeline of projects.

Water

As it ramps up its businesses outside Metro Manila, Manila Water posted a 2 percent growth in consolidated net income to ₱6 billion. Revenues rose 4 percent to ₱16.9 billion backed by a 2 percent growth in billed volume.

Earnings contribution from non-East Zone investments rose 46 percent, accounting for 16 percent of Manila Water's net income during the year. Billed volume of its domestic units, which include Boracay Water, Clark Water, Laguna Water and Cebu Manila Water Development, climbed 30 percent. Manila Water's investments in Vietnam, which include bulk water companies Thu Duc Water and Kenh Dong Water and a stake in Saigon Water, contributed ₱404 million in net income, up 13 percent from the previous year.

In the East Zone, Manila Water expanded its coverage areas in Pasig, Taguig, Marikina, and Rizal, resulting in a 3 percent growth in billed volume, balancing out the impact of the tariff reduction.

Manila Water continues to expand its portfolio of businesses. In January, it signed an agreement with Ayala Land to provide water and used water services to all its developments nationwide. In addition, its 5-gallon bottled water product under the brand name Healthy Family opened three new plants in the fourth quarter of 2015 with a combined capacity of 43,000 bottles per day.

Electronics

Integrated Micro-Electronics Inc. reported a flat net income of US$28.8 million (or ₱1.3 billion) year-on-year, owing to the volatility in the foreign currency markets and weakness in China's economy, one of its largest markets. Enhanced portfolio mix and cost efficiency initiatives across IMI's operations covered for the softness in revenues.

Revenues of US$814.4 million (or ₱37 billion) dropped 4 percent from a year ago mainly due to a weak euro and downturn in the computing and telecommunications segments. Excluding the impact of changes in currency exchange, automotive revenues climbed 21 percent, while total revenues rose 2 percent.

The revenue headwinds were offset by IMI's strong volume growth in the automotive segment. IMI's China operations recorded US$279.3 million in revenues during the year, a 14 percent decline from the previous year as the 4G telecommunications network rollout in China reaches its projected volume coupled with a slowdown in the consumer electronics segment.

IMI's Europe and Mexico operations ended flat, with combined revenues of US$267.4 million as a result of weakness in the euro. IMI's electronics manufacturing services operations in the Philippines posted US$225.3 million in revenues, a 10 percent growth from a year ago due to a strong demand for automotive cameras and security and access control devices.

Power Generation

AC Energy Holdings recorded a net income of ₱2.1 billion during the year as its power generation assets came online and achieved more efficient operating levels. Furthermore, it realized gains from the partial sale of its stake in North Luzon Renewables, an 81-megawatt wind farm in Ilocos Norte.

AC Energy currently has an attributable capacity of approximately 600 megawatts in its portfolio among conventional and renewable power projects currently in operations and under construction. It expects this capacity to reach close to 1,000 MW by 2016 once the first phase of its 2x660 GN Power plant in Dinginin reaches financial close. In renewable energy, AC Energy's 18 MW solar power farm, Monte Solar Energy Inc., started commercial operations in February. In conventional energy, the second 135 MW unit of its thermal plant, South Luzon Thermal Energy Corporation in Calaca, Batangas, also started commercial operations in February. In addition, the first unit of its 4x138 GN Power plant in Kauswagan is expected to be completed in the fourth quarter of 2017.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures expanded 14 percent to ₱15 billion bolstered by higher equity in net earnings from Globe Telecom (Globe), Bank of the Philippine Islands (BPI), and wind and coal businesses of AC Energy.

Banking

Bank of the Philippine Islands reported net earnings of ₱18.2 billion in 2015, up 1.1 percent, as the bank's core lending business continued to drive growth, reducing reliance on securities trading.

BPI's total revenues rose 6.4 percent to ₱59.4 billion driven by net interest income, which grew 11 percent to ₱38.6 billion on the back of higher average asset base. Non-interest income dropped 1.2 percent to ₱20.7 billion as the bank's trading performance weathered a volatile year, with foreign exchange and securities trading posting gains of ₱2.9 billion.

Net loans expanded 9 percent to ₱872.9 billion, comprising 78 percent corporate and 22 percent retail borrowers. Deposits grew 8.5 percent to ₱1.3 trillion year-on-year. The bank registered a current and savings account ratio of 72.3 percent. Cost-to-income ratio remained at 53.7 percent, while total assets stood at ₱1.5 trillion, up 4.6 percent from a year ago.

Despite the increase in its loan portfolio, the bank maintained strong asset quality and remained well capitalized with gross 90-day non-performing loans (NPL) level at

1.6 percent of total loans in the fourth quarter of 2015 from 1.8 percent in the previous quarter. BPI's loan loss cover stood at 110.2 percent, excluding the value of collaterals. BPI ended the year with a total capital of ₱150.3 billion, net of cash dividends declared, 4.3 percent higher than the previous year. This resulted in a BASEL III capital adequacy ratio of 13.6 percent at the end of 2015.

Telecommunications

Globe Telecom posted another record year, with net income surging 23 percent to ₱16.5 billion buoyed by the solid revenue trajectory from demand for data services across mobile, broadband, and fixed line segments. The ₱1.2 billion gain from the sale of its 51 percent stake in Yondu Inc. also lifted Globe's earnings during the year. Core net income, excluding one-time adjustments, grew 4 percent.

Service revenues jumped 15 percent to ₱113.7 billion. Mobile revenues grew 9 percent to ₱85.1 billion on sustained growth in the postpaid segment, up 7 percent, coupled with faster expansion coming from the prepaid segment, up 10 percent. Similarly, mobile subscribers reached 52.9 million at the end of 2015, a 20 percent increase from the previous year. Postpaid subscribers grew 6 percent, while prepaid subscribers jumped 21 percent. As it continued to roll out infrastructure improvements in its data network, Globe mobile data revenues expanded 55 percent to ₱22.1 billion.

In its broadband business, which now includes Bayan Telecommunications, Globe's revenues and subscriber base climbed 38 percent to ₱17.5 billion and 55 percent to 4.3 million, respectively. Excluding the impact of Bayan's consolidation in the second half of 2015, Globe's full year broadband service revenues grew 27 percent year-on-year to ₱16.1 billion.

EBITDA expanded 17 percent to ₱45.8 billion, with EBITDA margin steady at 40 percent.

Globe spent about ₱32.1 billion in capital expenditures in 2015 primarily to support its data infrastructure requirements. This year, it has programmed US$700 to US$750 million in capital spending to fund its data network initiatives.

Interest Income

Interest income rose 33 percent to ₱7.3 billion during the period owing to higher investible funds and accretion income from Ayala Land's installment sales.

Other Income

Other income expanded 23 percent to ₱11.3 billion owing to strong growth in the other income of Ayala Land, Manila Water, and Ayala Automotive, lifted by the gain from AC Energy's partial divestment of its stake in its wind farm. In the previous year, Ayala's other income included the divestment gain from Stream amounting to ₱1.8 billion.

Costs and Expenses

Consolidated cost of sales increased 10 percent to ₱123 billion as a result of higher sales of the real estate and automotive groups.

Consolidated general and administrative expenses rose 14 percent to ₱18.1 billion, mainly due to combined increments in the expenses of the parent company's and Ayala Land's manpower costs, provisions and depreciation expense, Ayala Automotive's marketing costs, and AC Energy's project and business development expenses.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges grew 11 percent to ₱13.3 billion during the year on the back of higher loans secured by Ayala Land to fund its new and expansion projects.

The Ayala group's total debt increased 2 percent from its year-ago level to ₱263.3 billion at the end of 2015. The higher debt levels of Ayala Land, Ayala Automotive, and AC Energy were offset by the parent company's lower debt level, which decreased 7 percent to ₱93.6 billion at the end of 2015.

Balance Sheet Highlights

Cash and cash equivalents as of the end of the year decreased 9 percent to ₱82 billion primarily driven by the parent company's payment of loans, dividends, and placements in short-term investments. In addition, Ayala Land's funding requirements for its projects and investment in MCT Malaysia contributed to the decline, partially offsetting the divestment proceeds from AC Energy.

Current accounts and notes receivable registered a 14 percent growth to ₱82.6 billion attributed to Ayala Land's higher residential sales and rental receivable from mall merchants. This was supported by Ayala Automotive's higher vehicles sales combined with receivables from the AC Energy's partial sale of its stake in its wind farm.

Other current assets decreased 21 percent to ₱27.6 billion mainly driven by Ayala Land's redemption of UITF investments and the maturity of its other current investments and lower deposits and escrow accounts.

Ayala's balance sheet remains healthy with parent company net debt to equity ratio at 0.44 to 1 and consolidated net debt to equity ratio at 0.55 to 1.

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, 2015 and 2014, 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

JOSE TEODORO K. LIMCAOCO
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAR 10 2016 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	EC4856934	August 4, 2015 – Manila
Fernando Zobel de Ayala	EC6148225	December 8, 2015 – Manila
Jose Teodoro K. Limcaoco	EC0985685	May 2, 2014 – Manila

Doc. No. 97 ;
Page No. 21 ;
Book No. V ;
Series of 2016.

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

CHARLENE MAE C. TAPIC-CASTRO
NOTARY PUBLIC
ROLL NO. 58720
MAKATI CITY, PHILS.

CHARLENE MAE C. TAPIC-CASTRO
Notary Public - Makati City
Appt. No. 393 until December 31, 2016
Attorney's Roll No. 58720
PTR No. 5328830MD; 01-06-2016; Makati City
IBP Lifetime Roll No. 010104
MCLE Compliance No. V-0004684; 11-28-2014
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

Ayala Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2015 and 2014
And Years Ended December 31, 2015, 2014
and 2013

and

Independent Auditors' Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

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 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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, 2015 and 2014, 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, 2015, 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, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321616, January 4, 2016, Makati City

March 10, 2016

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 31, 32 and 33)	**₱82,154,542**	₱90,769,525
Short-term investments (Notes 6, 31, 32 and 33)	**2,052,288**	1,102,703
Accounts and notes receivable (Notes 7, 31, 32 and 33)	**82,595,788**	72,710,512
Inventories (Note 8)	**68,430,908**	54,962,164
Other current assets (Notes 9 and 32)	**27,617,032**	35,156,558
Total Current Assets	**262,850,558**	254,701,462
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7, 32 and 33)	**41,793,499**	32,006,450
Investments in bonds and other securities (Notes 10, 31, 32 and 33)	**3,737,816**	3,432,215
Land and improvements (Note 11)	**92,894,879**	79,959,887
Investments in associates and joint ventures (Note 12)	**162,711,420**	152,764,854
Investment properties (Note 13)	**83,669,492**	71,324,245
Property, plant and equipment (Note 14)	**39,644,489**	27,953,145
Service concession assets (Note 15)	**78,828,840**	74,836,633
Intangible assets (Note 16)	**3,909,603**	4,183,464
Deferred tax assets - net (Note 25)	**9,742,797**	8,055,020
Pension and other noncurrent assets (Note 17)	**14,291,330**	16,830,401
Total Noncurrent Assets	**531,224,165**	471,346,314
Total Assets	**₱794,074,723**	₱726,047,776
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 18, 31, 32 and 33)	**₱145,597,876**	₱126,101,836
Short-term debt (Notes 20, 31, 32 and 33)	**24,387,515**	21,084,269
Income tax payable	**1,943,217**	1,340,269
Current portion of:		
Long-term debt (Notes 20, 31, 32 and 33)	**28,153,532**	10,761,443
Service concession obligation (Notes 15, 32 and 33)	**1,255,644**	1,019,515
Other current liabilities (Notes 19, 32 and 33)	**4,629,680**	9,452,281
Total Current Liabilities	**205,967,464**	169,759,613
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 31, 32 and 33)	**210,799,647**	226,999,015
Service concession obligation - net of current portion (Notes 15, 32 and 33)	**7,538,374**	7,859,153
Deferred tax liabilities - net (Note 25)	**6,440,505**	6,742,633
Pension liabilities (Note 27)	**2,545,978**	2,179,966
Other noncurrent liabilities (Notes 21, 32 and 33)	**32,238,772**	25,640,911
Total Noncurrent Liabilities	**259,563,276**	269,421,678
Total Liabilities	**465,530,740**	439,181,291

(Forward)

	December 31	
	2015	2014
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 22)	**₱73,919,322**	₱73,571,505
Share-based payments (Note 28)	**568,847**	377,376
Remeasurement gains (losses) on defined benefit plans (Note 27)	**(1,249,716)**	(1,005,572)
Net unrealized gain (loss) on available-for-sale financial assets (Note 10)	**(554,297)**	(7,211)
Cumulative translation adjustments	**288,683**	(603,765)
Equity reserve (Note 2)	**12,402,311**	7,478,259
Equity conversion option (Note 20)	**1,113,745**	1,113,745
Retained earnings (Note 22)	**124,468,464**	107,039,814
Treasury stock (Note 22)	**(2,300,000)**	(2,300,000)
	208,657,359	185,664,151
Non-controlling interests	**119,886,624**	101,202,334
Total Equity	**328,543,983**	286,866,485
Total Liabilities and Equity	**₱794,074,723**	₱726,047,776

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		
	2015	2014	2013
INCOME			
Sale of goods (Note 31)	**₱118,285,566**	₱105,140,825	₱92,725,460
Rendering of services (Notes 13 and 31)	**55,749,425**	51,275,623	44,216,018
Share of profit of associates and joint ventures (Note 12)	**15,038,015**	13,185,147	10,091,140
Interest income (Note 31)	**7,296,799**	5,493,715	3,072,071
Other income (Note 23)	**11,296,937**	9,180,254	9,306,855
	207,666,742	184,275,564	159,411,544
COSTS AND EXPENSES			
Costs of sales (Notes 8 and 31)	**89,487,870**	77,773,560	66,539,860
Costs of rendering services (Notes 23 and 31)	**33,573,245**	34,495,682	31,486,686
General and administrative (Notes 23, 27 and 31)	**18,052,241**	15,831,000	14,613,841
Interest and other financing charges (Notes 20, 23 and 31)	**13,276,414**	11,933,781	10,511,432
Other charges (Note 23)	**5,970,474**	3,829,020	5,480,816
	160,360,244	143,863,043	128,632,635
INCOME BEFORE INCOME TAX	**47,306,498**	40,412,521	30,778,909
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	**8,847,768**	7,964,375	8,036,780
Deferred	**163,676**	173,543	(1,382,570)
	9,011,444	8,137,918	6,654,210
NET INCOME	**₱38,295,054**	₱32,274,603	₱24,124,699
Net Income Attributable to:			
Owners of the parent (Note 26)	**₱22,278,955**	₱18,609,229	₱12,777,932
Non-controlling interests	**16,016,099**	13,665,374	11,346,767
	₱38,295,054	₱32,274,603	₱24,124,699
EARNINGS PER SHARE (Note 26)			
Basic	**₱33.89**	₱29.83	₱20.53
Diluted	**₱33.38**	₱29.35	₱20.39

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2015	2014	2013
NET INCOME	**₱38,295,054**	₱32,274,603	₱24,124,699
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	**1,151,571**	463,755	2,223,630
Changes in fair values of available-for-sale financial assets	**(69,805)**	(18,337)	(79,486)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans (Note 27)	**78,152**	304,334	(566,140)
Tax effect relating to components of other comprehensive income	**(18,035)**	(35,348)	72,973
	1,141,883	714,404	1,650,977
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	**47,017**	(19,454)	112,230
Changes in fair values of available-for-sale financial assets	**(588,087)**	(204,190)	(1,346,297)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans	**(267,438)**	87,797	(104,731)
	(808,508)	(135,847)	(1,338,798)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**333,375**	578,557	312,179
TOTAL COMPREHENSIVE INCOME	**₱38,628,429**	₱32,853,160	₱24,436,878
Total Comprehensive Income Attributable to:			
Owners of the parent	**₱22,380,172**	₱19,289,618	₱12,863,794
Non-controlling interests	**16,248,257**	13,563,542	11,573,084
	₱38,628,429	₱32,853,160	₱24,436,878

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 Gains (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, 2015												
As of January 1, 2015	**₱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**
Net income	–	–	–	–	–	–	–	22,278,955	–	–	22,278,955	16,016,099	38,295,054
Other comprehensive income (loss)	–	–	(244,144)	(547,086)	892,448	–	–	–	–	–	101,218	232,158	333,376
Total comprehensive income (loss)	–	–	(244,144)	(547,086)	892,448	–	–	22,278,955	–	–	22,380,173	16,248,257	38,628,430
Exercise of ESOP/ESOWN	347,817	–	–	–	–	–	–	–	–	–	347,817	–	347,817
Cost of share-based payments	–	191,471	–	–	–	–	–	–	–	–	191,471	–	191,471
Cash dividends	–	–	–	–	–	–	–	(4,850,305)	–	–	(4,850,305)	(4,836,270)	(9,686,575)
Change in non-controlling interests	–	–	–	–	–	4,924,052	–	–	–	–	4,924,052	7,272,303	12,196,355
At December 31, 2015	**₱73,919,322**	**₱568,847**	**(₱1,249,716)**	**(₱554,297)**	**₱288,683**	**₱12,402,311**	**₱1,113,745**	**₱124,468,464**	**₱–**	**(₱2,300,000)**	**₱208,657,359**	**₱119,886,624**	**₱328,543,983**

	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

	Paid-in Capital (Note 22)	Share-based Payments (Note 28)	Remeasurement Gains (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
	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		Other Comprehensive Income										
	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

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱47,306,498**	₱40,412,521	₱30,778,909
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 23)	**13,276,414**	11,933,781	10,511,432
Depreciation and amortization (Note 23)	**9,443,089**	9,158,195	8,643,905
Cost of share-based payments (Note 28)	**373,161**	222,417	199,301
Provision for doubtful accounts (Note 23)	**264,735**	182,383	–
Provision for impairment on (Note 23):			
Inventories	**76,621**	149,077	–
Available-for-sale financial assets	**61,701**	66,834	228,580
Investments in associates and joint ventures	**546,333**	–	–
Property, plant and equipment	**88,753**	–	222
Investment properties	**–**	–	400
Intangible assets	**423,541**	335,731	31,830
Gain on sale of (Note 23):			
Investments	**(1,738,349)**	(2,633,329)	(190,296)
Other assets	**(51,936)**	(711,001)	(19,382)
Other investment income (Note 23)	**(367,491)**	(443,090)	(879,951)
Interest income	**(7,296,799)**	(5,493,715)	(3,072,071)
Share of profit of associates and joint ventures (Note 12)	**(15,038,015)**	(13,185,148)	(10,091,139)
Operating income before changes in working capital	**47,368,256**	39,994,656	36,141,740
Decrease (increase) in:			
Accounts and notes receivable - trade	**(17,404,502)**	(11,576,951)	(8,361,297)
Inventories	**(4,344,029)**	(1,534,405)	(2,285,580)
Service concession assets	**(6,609,718)**	(2,997,352)	(5,368,835)
Other current assets	**2,540,623**	(3,933,236)	(2,895,043)
Increase (increase) in:			
Accounts payable and accrued expenses	**16,638,678**	31,114,583	19,236,450
Net pension liabilities	**342,193**	479,604	169,723
Other current liabilities	**(3,827,639)**	3,814,709	4,021,260
Net cash generated from operations	**34,703,862**	55,361,608	40,658,418
Interest received	**7,363,940**	5,595,767	2,863,872
Interest paid	**(13,289,559)**	(11,966,127)	(10,056,631)
Income tax paid	**(10,192,869)**	(9,782,770)	(7,849,804)
Net cash provided by operating activities	**18,585,374**	39,208,478	25,615,855
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of available-for-sale financial assets	**826,148**	717,072	653,327
Sale/maturities of financial assets at fair value through profit or loss	**28,117,351**	40,417,857	1,046,783
Sale/redemptions of investments in associates and joint ventures	**5,782,807**	7,300,597	681,120

(Forward)

	Years Ended December 31		
	2015	2014	2013
Disposals of:			
Property, plant and equipment (Note 14)	**₱434,084**	₱1,657,058	₱101,797
Investment properties (Note 13)	**681,913**	1,538,984	131,781
Land and improvements (Note 11)	**24,449**	3,935	–
Maturities of (additions to) short-term investments	**(949,250)**	(983,358)	177,159
Additions to:			
Service concession assets (Note 15)	**(217,527)**	(666,569)	(89,054)
Investments in associates and joint ventures	**(8,767,207)**	(35,926,256)	(18,574,892)
Property, plant and equipment (Note 14)	**(15,753,861)**	(6,233,101)	(6,838,751)
Investment properties (Note 13)	**(12,706,724)**	(13,375,167)	(12,086,027)
Land and improvements (Note 11)	**(22,475,160)**	(28,841,363)	(29,446,957)
Accounts and notes receivable - non trade	**(979,350)**	(5,171,180)	(2,607,547)
Financial assets at fair value through profit or loss	**(22,357,315)**	(33,186,064)	(13,823,514)
Available-for-sale financial assets	**(1,079,053)**	(562,661)	(1,119,885)
Intangible assets (Note 16)	**319,530**	(172,452)	(175,883)
Dividends received from associates, joint ventures and available-for-sale financial assets	**8,309,970**	5,742,014	6,131,475
Acquisitions through business combinations - net of cash acquired (Note 24)	**(781,687)**	(274,932)	2,766
Decrease (increase) in other noncurrent assets	**2,749,436**	(14,730,215)	(4,906,765)
Net cash used in investing activities	**(38,821,446)**	(82,745,801)	(80,743,067)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term and long-term debt	**75,097,645**	78,310,834	76,845,127
Payments of short-term and long-term debt	**(71,223,956)**	(25,018,135)	(45,973,965)
Reissuance of treasury shares (Note 22)	**–**	13,424,121	13,256,203
Dividends paid	**(9,130,756)**	(7,581,660)	(6,640,418)
Redemption of preferred shares (Note 22)	**–**	–	(5,750,000)
Service concession obligation paid (Note 15)	**(646,815)**	(698,927)	(924,936)
Collections of subscriptions receivable	**166,127**	113,817	112,453
Issuance of common shares (Note 22)	**–**	12,237,211	–
Increase (decrease) in:			
Other noncurrent liabilities	**5,135,008**	812,972	2,044,949
Non-controlling interests in consolidated subsidiaries	**12,223,836**	(2,948,434)	7,526,493
Net cash provided by financing activities	**11,621,089**	68,651,799	40,495,906
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(8,614,983)**	25,114,476	(14,631,306)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**90,769,525**	65,655,049	80,286,355
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱82,154,542**	₱90,769,525	₱65,655,049

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Corporation (the Parent Company) is incorporated in the Republic of the Philippines on January 23, 1968. The Parent Company's registered office address and principal place of business is 32F-35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Parent Company is a publicly listed company which is 49.01% owned by Mermac, Inc., 10.18% owned by Mitsubishi Corporation and the rest by the public.

The Parent 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 used water services, electronics manufacturing, information technology, business process outsourcing (BPO) services, automotive, transport infrastructure, power generation, education, healthcare, international and others.

2. Group Information

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

		% of Economic Ownership Interest held by the Group	
Subsidiaries	**Nature of Business**	**2015**	2014
AC Energy Holdings, Inc. (ACEHI)	Power Generation	**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)	Consulting 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	**47.2**	48.9
AYC Finance Ltd. (AYCFL)*	Investment Holding	**100.0**	100.0
Azalea International Venture Partners Limited (AIVPL)**	BPO	**100.0**	100.0
Ayala Healthcare Holdings, Inc.(AHCHI) *(formerly Azalea Technology Investments, Inc.)*	Healthcare	**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	**50.7**	50.9
Ayala Education, Inc. (AEI) *(formerly LiveIt Global Services Management Institute, Inc.)*	Education	**100.0**	100.0
Manila Water Company, Inc. (MWC)	Water Distribution and Used water Services	**51.6**	48.5
Michigan Holdings, Inc. (MHI)	Investment Holding	**100.0**	100.0
Philwater Holdings Company, Inc. (Philwater)	Investment Holding	**100.0**	100.0
Purefoods International, Ltd. (PFIL)**	Investment Holding	**100.0**	100.0
Technopark Land, Inc. (TLI)	Real Estate	**78.8**	78.8
Water Capital Works, Inc. (WCW)	Investment Holding	**100.0**	100.0

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

Unless otherwise indicated, the principal place of business and country of incorporation of the Parent Company's investments in subsidiaries, associates and joint ventures is the Philippines.

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

The following significant transactions affected the Parent 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 Parent 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 Parent Company after the transaction.

As of December 31, 2015 and 2014, ACIFL, through its wholly-owned subsidiary, AYC Holdings Inc., owns 50.7% and 50.9% of the common shares of IMI, respectively. The fair value of IMI shares held by AYC Holdings amounted to ₱5.3 billion and ₱6.4 billion as of December 31, 2015 and 2014, respectively.

Investment in ACEHI
On various dates in 2015 and 2014, the Parent Company infused additional capital to ACEHI which amounted to ₱1.6 billion and ₱9.5 billion, respectively. The proceeds were used to finance the various renewable energy, wind and coal projects of ACEHI to complete its planned 1,000 megawatt capacity.

Investment in ALI
In January 2015 and March 2013, the Parent Company participated in the placement and subscription of 484.8 million and 399.5 million common shares of ALI with proceeds of ₱16.0 billion and ₱12.2 billion, respectively. The Parent 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. These transactions support ALI's fund raising initiatives to acquire assets for its expansion projects.

Following the transactions, the Parent Company's ownership interest in ALI's common stock was reduced from 48.9% to 47.2% as of January 2015 and from 50.4% to 48.9% as of March 2013. The Parent Company maintained the same number of common shares it held in ALI prior to the transactions.

ALI shares with carrying value of ₱301.2 million as of December 31, 2015 and 2014 were collateralized to secure the Parent Company's loan facility. The fair value of ALI shares collateralized amounted to ₱13.8 billion and ₱13.3 billion as of December 31, 2015 and 2014, respectively (see Note 20).

The fair value of ALI shares held by the Parent Company amounted to ₱238.8 billion and ₱232.9 billion as of December 31, 2015 and 2014, respectively. The voting rights held by the Parent Company in ALI is 68.9% and 70.1% in 2015 and 2014, respectively.

Investment in AIVPL
In June 2014, AIVPL repurchased its 140,865,770 shares which were issued and registered in the name of Parent 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 Parent Company after the transaction.

Investment in AHCHI
On June 18, 2015, the SEC approved the change in name of Azalea Techonology Investments, Inc. to Ayala Healthcare Holdings, Inc.

On July 15, 2015, AHCHI acquired a 50% ownership interest in the Generika Group amounting to ₱400.0 million. The Generika Group operates in the retail pharmacy industry sector focusing on the distribution of quality generic medicines in the Philippines (see Note 12).

Investment in AEI
On March 11, 2015, the SEC approved the change in name of LiveIt Global Services Management Institute, Inc. to Ayala Education Inc.

In 2015 and 2014, the Parent Company infused additional capital to AEI amounting to ₱435.1 million and ₱389.0 million, respectively, to fund AEI's operating requirements, additional investment in Affordable Private Education Center (APEC) and acquisition of 59% stake in University of Nueva Caceres (UNC) in 2015 (see Note 24).

Investment in MWC
In 2015, the Parent Company and its wholly-owned subsidiary, MHI, purchased additional 78,629,900 shares amounting to ₱1.9 billion. The transaction resulted in the Parent Company increasing its ownership interest in MWC from 32.2% to 35.3% as of December 31, 2015.

The fair value of the MWC shares held by the Parent Company amounted to ₱21.5 billion and ₱22.8 billion as of December 31, 2015 and 2014, respectively. The voting rights held by the Group in MWC is 80.4% and 79.7% as of December 31, 2015 and 2014, respectively.

Investment in BHL
On various dates in 2014, the Parent 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.

In February 2015, the Parent Company sold to ACIFL 535,294 redeemable preferred shares of BHL for a total consideration of ₱264.7 million. As of December 31, 2015, BHL remained 100% owned by the Parent Company.

Investment in AAHC
In 2015 and 2014, the Parent Company subscribed to redeemable preferred shares of AAHC amounting to ₱150.0 million and ₱450.0 million, respectively.

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.

Investment in AAC
The Parent Company infused additional capital to AAC amounting to ₱92.7 million and ₱268.7 million in 2015 and 2014, respectively. The additional capital was used to purchase new aircrafts and support working capital requirements.

Investment in AC Infra
On various dates in 2015 and 2014, the Parent Company infused additional capital to AC Infra amounting to ₱839.2 million and ₱925.0 million, respectively. The additional capital was used for operating and capital expenditures of AC Infra and investment in Light Rail Manila Holdings, Inc (see Note 12).

Investment in IMI
As of December 31, 2014, the Parent 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) dividend rate of 8.25% per annum, 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. On June 25, 2015, IMI redeemed 1,064,899,372 preferred shares from the Parent Company at a redemption price of ₱1.00 per share.

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 ₱1.6 billion ($35.9 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 Group amounted to ₱5.3 billion and ₱6.4 billion as of December 31, 2015 and 2014, respectively. The voting rights held by the Group in IMI as of December 31, 2015 and 2014 is 50.8% and 63.2%, respectively.

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

Investment in MPM Noodle Corporation (MPM)
In 2014, MPM was dissolved. The Parent 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	**2015**	2014	**2015**	2014	2013
	(In Thousands)		(In Thousands)		
ALI	**₱85,164,840**	₱68,438,083	**₱12,593,401**	₱10,454,204	₱8,150,756
MWC	**28,326,642**	27,382,229	**2,884,453**	2,678,153	2,917,444
IMI	**5,346,603**	4,849,118	**635,742**	560,988	155,840

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

2015	**ALI**	**MWC**	**IMI***
		(In Thousands)	
Statement of financial position			
Current assets	**₱166,203,595**	**₱9,948,298**	**₱17,412,901**
Noncurrent assets	**276,138,205**	**70,660,187**	**6,895,220**
Current liabilities	**146,132,855**	**12,399,813**	**11,322,711**
Noncurrent liabilities	**146,383,534**	**28,489,680**	**2,046,889**
Dividends paid to non-controlling interests	**3,279,773**	**1,397,927**	**148,379**
Statement of comprehensive income			
Revenue	**₱107,182,940**	**₱16,935,883**	**₱38,323,975**
Profit attributable to:			
Equity holders of the parent	**17,630,275**	**5,957,780**	**1,354,845**
Non-controlling interests	**3,266,612**	**176,260**	**924**
Total comprehensive income attributable to:			
Equity holders of the parent	**17,601,457**	**6,215,958**	**1,049,400**
Non-controlling interests	**3,270,687**	**176,260**	**924**

(Forward)

2015	**ALI**	**MWC**	**IMI***
		(In Thousands)	
Statement of cash flows			
Operating activities	**₱20,181,733**	**₱4,988,869**	**₱2,344,693**
Investing activities	**(48,887,550)**	**(795,528)**	**(1,659,398)**
Financing activities	**19,115,925**	**(3,795,939)**	**(1,418,880)**
Effect of changes in foreign exchange on cash and cash equivalents	**–**	**–**	**(23,754)**
Net increase (decrease) in cash and cash equivalents	**(₱9,589,892)**	**₱397,402**	**(₱757,339)**

**Translated using the exchange rate at the reporting date (US$1:₱47.06 in December 31, 2015)*

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	3,063,153	1,398,015	81,645
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	₱35,164,767	₱5,024,582	₱1,822,661
Investing activities	(51,505,233)	(359,497)	(142,914)
Financing activities	17,051,610	(4,992,312)	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	(₱327,227)	₱3,067,027

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

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, 2015 and 2014 and for each of the three years in the period ended December 31, 2015.

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 Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent 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 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 Parent 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 Parent Company.

If the Group losses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Changes in Accounting Policies and Disclosures
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, 2015. 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, 2015.

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

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 not 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 did not 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 all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be 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). This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

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. This amendment is not relevant to the Group as it does not receive any management services from other entites.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after July 1, 2014 and did not 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).

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

Effective January 1, 2016

PAS 1, *Presentation of Financial Statements – Disclosure Initiative*
The amendments to PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:

- The materiality requirements in PAS 1
- That specific line items in the statements of income and comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of income and comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have a material impact on the Group.

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 or amortize 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 a material impact to the Group.

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 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 impact to the Group.

PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
The amendments address issues that have arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to PFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to PAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on 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. 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, *Financial Instruments: Disclosures – 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 – 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 but the 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) and by the Board of Accountancy (BOA).

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 but the mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. and by the BOA.

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 by the Group.

Standards and Interpretation with Deferred Effectivity

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.

New Standards Issued by the IASB but not yet 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 January 1, 2018 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.

IFRS 16 *Leases*
On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces IAS 17, the current lease standard, and related Interpretations.

Under the new lease standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the asset and related liabilities for most of leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Lease with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual period beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either the full retrospective approach or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adapt 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.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on a current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents

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

Short-term Investments

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

Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

The Group’s financial assets and financial liabilities at FVPL pertain to government securities, other investment securities, derivatives not designated as accounting hedges and embedded derivatives.

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.

As of December 31, 2015 and 2014, the Group has no 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 exercised, 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.

Upon consolidation, 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. Transaction costs incurred in relation to the issuance of the exchangeable bonds was 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.

Derecognition of Financial Assets and Liabilities
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.

Impairment of Financial Assets
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)
Input VAT pertains to the indirect tax paid by the Group in the course of the Group's trade or business on purchase of goods or services.

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

If at the end of any reporting date, 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 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 consolidated 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.

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 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 to 40 years
Buildings	20 to 40 years

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

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

Property, Plant and Equipment

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

Construction-in-progress is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated or amortized 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), Provincial Government of Laguna (PGL), Tourism Infrastructure and Enterprise Zone Authority (TIEZA) and Clark Development Corporation (CDC) under the Intangible Asset model as the Group 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, PGL, TIEZA and CDC at the end of the concession period.

On the other hand, the concession arrangement with the Provincial Government of Cebu is 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 term of the related concession.

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

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

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

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

The estimated useful lives of intangible assets follow:

Customer relationships	7 years
Order backlog	6 months
Unpatented technology	5 years
Developed software	3 years
Licenses	3 years
Technical service agreement	3 years
Trademark	3 to 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, 2015 and 2014, 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 under "Project Development Cost" 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.

<u>Business Combinations and Goodwill</u>
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 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.

Combinations of Entities Under Common Control
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method 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.
- Comparative financial information are presented as if the entities had always been combined.

The effects of any intercompany transactions are eliminated to the extent possible.

Asset Acquisitions
If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, 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 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
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 APIC account. If APIC 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 water revenue is recognized as environmental charges. 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 for the construction 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 toll fees is recognized upon entry of vehicles in the toll road facility and receipt of cash payment. Toll fees received in advance, through transponders or magnetic cards, are included under “Accounts Payable”.

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.

Tuition and other school fees are recognized over the period of instruction. Tuition and other school fees collected during the year that are applicable in the next school year are deferred and presented under the “Others” account in the Other Noncurrent Liabilities section of the consolidates statement of financial position.

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

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

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

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

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

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

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

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

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

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

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

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

Pension Cost

Defined benefit plan

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the reporting period 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 the Parent Company 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 translation adjustments of associates and joint ventures are likewise included under the “Cumulative Translation Adjustments” account in the consolidated statement of comprehensive income.

MWC Group
As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement with MWSS, 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 ₱41.19:US$1.0 based on the last rate rebasing exercise effective on January 1, 2013;
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, the MWC Group recognizes deferred foreign currency differential adjustment (FCDA) (included as part of “Other noncurrent assets” or “Other noncurrent liabilities” 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-Regulatory Office (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 Parent Company and certain subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Parent 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 (EPS)</u>
Basic 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. The net income attributable to common equity holders is net of dividends attributable to preferred equity holders.

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 Parent 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, PGL, 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 37).

<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.

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

4. **Significant Accounting Judgments, Assumptions 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

Investment in Joint Ventures
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.

Investment in Joint Operation
The Group considers whether or not the legal form of the separate entity confers separation between the parties and the separate vehicle. Further, the Group considers whether the terms of their arrangement entitles them to the rights over the specific assets and obligations for the specific liabilities.

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements qualify under the Intangible Asset model as it receives the right (license) to charge users of public service.

On the other hand, the Group has made a judgment that the concession agreement with PGC qualifies under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from PGC.

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
The Group determines whether a property is classified as investment property or 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.
- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential or 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 properties. 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 in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external 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 adverse effect on the Group's financial position and results of operations (see Note 36).

<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. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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 doubtful accounts
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. Provision for doubtful accounts 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. Provision for doubtful accounts 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 provided 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 provided 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 provided 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 and intangible assets are provided in Notes 13, 14 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, 2015 and 2014. 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 provided in Note 13.

Deferred FCDA

Under the concession agreements entered into by the MWC Group with MWSS and TIEZA, 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.

The deferred FCDA of MWC and BIWC arises from a rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS or TIEZA, when necessary, of accrued foreign exchange gains and losses, arising from MWSS or TIEZA loans and concession loans used for capital expenditures and concession fee payments.

Further details on deferred FCDA of MWC and BIWC are provided 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 provided 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 profit and loss in the period in which such determination is made.

Further details on the carrying amount of the Group's income taxes payable are provided in Note 25.

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 Parent Company and certain subsidiaries.

Further details on the share-based payments recognized by the Group are provided in Note 28.

Defined benefit plans (pension benefits)
The cost of defined benefit pension plans 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.

In determining the appropriate discount rate, the Group 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. Further details about the fair value of financial instruments are provided in Note 33.

5. Cash and Cash Equivalents

This account consists of the following:

	2015	2014
	(In Thousands)	
Cash on hand and in banks (Note 31)	**₱22,290,705**	₱22,963,793
Cash equivalents (Note 31)	**59,863,837**	67,805,732
	₱82,154,542	₱90,769,525

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

6. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months but less than one year and earn interest ranging from 0.6% to 3.4% in 2015 and 0.5% to 2.0% in 2014.

7. Accounts and Notes Receivable – net

This account consists of the following:

	2015	2014
	(In Thousands)	
Trade:		
Real estate	**₱75,072,869**	₱57,898,143
Electronics manufacturing	**7,939,887**	8,587,953
Water distribution and wastewater services	**2,437,166**	1,991,179
Automotive	**2,313,177**	1,496,794
Information technology and BPO	**361,713**	202,829
International and others	**54,577**	5,050

(Forward)

	2015	2014
	(In Thousands)	
Advances to other companies	**₱15,980,519**	₱21,173,727
Advances to contractors and suppliers	**15,530,279**	10,389,240
Receivable from related parties (Note 31)	**3,372,424**	2,709,445
Dividend receivable	**1,153,466**	104
Receivable from officers and employees (Note 31)	**1,071,450**	731,336
Receivable from Bonifacio Water Corporation (BWC)	**529,501**	529,501
Investment in bonds classified as loans and receivables	**258,000**	450,000
Others (Note 31)	**263,591**	138,202
	126,338,619	106,303,503
Less allowance for doubtful accounts	**1,949,332**	1,586,541
	124,389,287	104,716,962
Less noncurrent portion	**41,793,499**	32,006,450
	₱82,595,788	₱72,710,512

The classes of trade receivables of the Group follow:

Real estate
Real estate receivables consist of:
- Residential development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units, economic and socialized housing units, sale of commercial lots and office units and leisure community developments
- Construction contracts - pertain to receivables from third party construction projects
- Shopping centers - pertain to lease receivables of retail spaces
- Corporate business - pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots
- Management fees and others - pertain to receivables arising from facility management services, hotel operations and other support services

The sales contracts receivable 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.

Water distribution and used water services
Water distribution and used water 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 billing date.

Automotive
Automotive receivables are 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, education 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 that have been made in consideration of project costs and purchases of land that are still subject to completion. ALI Group does not intend that these advances will be repaid, but will instead be recorded as part of the project costs upon development or as part of consideration for purchases of land. The documentation for these advances provides that these will be payable over a fixed term or on demand in order to allow for repayment of the advances when closing does not occur. Certain advances are interest bearing and subject to terms as agreed between the parties.

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.

The assigned receivable will be paid by BWC at an amount equal to 30% of the product consumed by all of BWC's customers and the tariff imposed by MWC on its customers falling under the corresponding classification pursuant to the Concession Agreement, and all amounts received by BWC as connection fees from customers, and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area.

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:

- ₱100.0 million investment in 5.88% unsecured subordinated notes of Land Bank of the Philippines (LBP) due 2022, callable in 2017. In December 2015, LBP issued an irrevocable early redemption notice wherein all of the outstanding notes will be redeemed at issue price on January 27, 2016. As of December 31, 2015, ALI's investment in the notes amounted to ₱52.0 million since ALI sold a portion of the notes at face value soon after the LBP early redemption notice.
- ₱200.0 million investment in 5.75% unsecured subordinated notes of Development Bank of the Philippines due 2022, callable in 2017.
- ₱500.0 million investment in 5.75% collateralized bonds of First Metro Investment Corp. (FMIC) due 2019, callable in 2017. ALI sold ₱350.0 million worth of bonds at carrying value with net gain of of ₱6.9 million in 2014 and the remaining balance of ₱150.0 million at a net gain of ₱4.5 million in 2015. As of December 31, 2015, ALI has no outstanding investment in FMIC bonds.

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 2016 to 2027.

In 2015 and 2014, ALI Group entered into agreements with BPI Family Savings Bank for the sale of interest bearing employee receivables amounting to ₱71.5 million and ₱105.4 million, respectively. The transaction was without recourse and did not result to any gain or loss.

Others
Other receivables include accrued interest receivable and other nontrade receivables from non-related entities which are non-interest bearing and are due and demandable. This also includes receivable from the DPWH pertaining to the additional costs incurred by the Parent Company in the construction of the Daang Hari-South Luzon Expressway (SLEX) Link Road arising from the government directive to revise the interconnection design of the road (see Note 15).

As of December 31, 2015 and 2014, nominal amounts of trade receivables from residential and office development, advances to other companies and receivables from employees aggregating ₱87.1 billion and ₱74.6 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.

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. Accordingly, allowance for doubtful accounts on these receivables were reversed.

Movements in the unamortized discount of the Group's receivables as of December 31, 2015 and 2014 follow:

	2015	2014
	(In Thousands)	
Balance at beginning of the year	**₱4,767,807**	₱4,954,778
Additions during the year	**3,893,940**	2,215,412
Accretion for the year	**(3,792,991)**	(2,402,383)
Balance at end of the year	**₱4,868,756**	₱4,767,807

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

	2015						
	Real Estate	**Electronics**	**Water Distribution and Wastewater Services**	**Automotive**	**Information Technology and BPO Services**	**Parent Company and Others**	**Total**
At January 1	**₱611,168**	**₱44,911**	**₱569,744**	**₱24,696**	**₱4,828**	**₱331,194**	**₱1,586,541**
Provisions during the year (Note 23)	**179,945**	**20,812**	**37,984**	**6,651**	**5,276**	**10,398**	**261,066**
Write-offs	**(14,701)**	**(43,225)**	**–**	**–**	**–**	**(1,001)**	**(58,927)**
Reversals / Adjustments	**10,080**	**–**	**(29,647)**	**–**	**830**	**179,389**	**160,652**
At December 31	**₱786,492**	**₱22,498**	**₱578,081**	**₱31,347**	**₱10,934**	**₱519,980**	**₱1,949,332**
Individually impaired	**373,461**	**22,498**	**40,416**	**15,947**	**–**	**178,666**	**630,988**
Collectively impaired	**413,031**	**–**	**537,665**	**15,400**	**10,934**	**341,314**	**1,318,344**
Total	**₱786,492**	**₱22,498**	**₱578,081**	**₱31,347**	**₱10,934**	**₱519,980**	**₱1,949,332**
Gross amount of loans and receivables individually determined to be impaired	**₱373,461**	**₱22,498**	**₱40,416**	**₱15,947**	**₱–**	**₱178,666**	**₱630,988**

	2014						
	Real Estate	Electronics	Water Distribution and Used water Services	Automotive	Information Technology and BPO Services	Parent Company 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
Write-offs	(33,113)	(13,357)	–	–	–	–	(46,470)
Reversals / Adjustments	–	(38,129)	–	–	(4,784)	(282,859)	(325,772)
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

8. **Inventories**

This account consists of the following:

	2015	2014
	(In Thousands)	
At cost:		
Condominium, residential and commercial units	**₱34,864,516**	₱21,937,355
Subdivision land for sale	**23,362,680**	25,948,283
Vehicles	**2,843,639**	1,704,711
Finished goods	**703,381**	769,085
Work-in-process	**732,903**	594,980
Materials, supplies and others	**3,600,111**	2,369,019
	66,107,230	53,323,433
At NRV:		
Subdivision land for sale	**936,183**	524,158
Finished goods	**112,479**	16,237
Parts and accessories	**250,386**	199,164
Materials, supplies and others	**1,024,630**	899,172
	2,323,678	1,638,731
	₱68,430,908	₱54,962,164

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

2015

	Subdivision land for sale	**Condominium, residential and commercial units**	**Total**
		(In Thousands)	
Opening balances at January 1	**₱26,472,441**	**₱21,937,355**	**₱48,409,796**
Land acquired during the year	**815,568**	**57,927**	**873,495**
Land cost transferred from land and improvements	**1,978,739**	**5,861,054**	**7,839,793**
Construction / development costs incurred	**7,773,816**	**29,104,893**	**36,878,709**
Disposals (recognized as cost of sales)	**(12,596,612)**	**(21,886,835)**	**(34,483,447)**
Transfers from / to investment properties and other assets	**(52,007)**	**–**	**(52,007)**
Other adjustments/reclassifications	**(93,082)**	**(245,169)**	**(338,251)**
Exchange differences	**–**	**35,291**	**35,291**
	₱24,298,863	**₱34,864,516**	**₱59,163,379**

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

Inventories recognized as cost of sales amounted to ₱89.5 billion, ₱77.8 billion and ₱66.5 billion in 2015, 2014 and 2013, respectively, and were included under "Costs of sales" in the consolidated statement of income.

The Group recorded provision for inventory obsolescensce amounting to ₱76.6 million, ₱149.1 million and ₱105.7 million in 2015, 2014 and 2013, respectively. The provision is included under "General and administrative expenses" in the consolidated statement of income (see Note 23).

9. Other Current Assets

This account consists of the following:

	2015	2014
	(In Thousands)	
Prepaid expenses	**₱9,939,954**	₱10,882,300
Input VAT	**6,302,441**	5,768,622
Financial assets at FVPL	**5,072,792**	10,374,780
Creditable withholding tax	**3,729,620**	2,231,651
Deposits in escrow	**2,096,089**	5,332,733
Derivative assets (Notes 32 and 33)	**241,263**	8,835
Concession financial receivable	**209,011**	76,914
Others	**25,862**	480,723
	₱27,617,032	₱35,156,558

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 carrying amount of US$38.7 million (₱1.8 billion) and US$37.7 million (₱1.7 billion) as of December 31, 2015 and 2014, 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 2015, 2014 and 2013.

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 2015 and 2014, the Group made additional investment in TRG investments amounting to US$0.9 million and US$1.6 million, respectively, representing capital call for the year.

As of December 31, 2015 and 2014, the Group's remaining capital commitment with the TRG Investments amounted to US$4.7 million and US$5.7 million, respectively.

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$150.0 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$150.0 million and US$334.0 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$334.0 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.

Unit Investment Trust Fund (UITF) investments
ALI Group invested in the BPI Short Term Fund (STF) in July 2013 and BPI Money Market Fund (MMF) in April 2015 (the Funds). The Funds, which are 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. The Funds have no minimum holding period. As of December 31, 2015 and 2014, the total Net Asset Value (NAV) of the Funds under BPI STF aggregated to ₱51,986.0 million and ₱54,207.2 million with duration of 66 days and 19 days, respectively while the NAV of the Funds under BPI MMF as of December 31, 2015 aggregated to ₱4,133.3 million. The fair value of ALI Group's total investment in the Fund amounted to ₱288.2 million and ₱5,607.8 million as of December 31, 2015 and 2014, respectively. During the year, ALI Group redeemed majority of its UITF investments as part of its strategy to manage cash.

ARCH Fund
In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (ARCH Fund I) was established. The ARCH Fund I achieved its final closing, resulting in a total investor commitment of US$330.0 million in 2007. As of December 31, 2015 and 2014, the carrying amount of the Fund amounted to US$4.3 million (₱201.9 million) and US$13.0 million (₱581.4 million), respectively.

On various dates in 2014, the ARCH Fund I made capital calls where the Group's share amounted to US$2.0 million. In 2015 and 2014, the Fund returned capital amounting to and US$10.1 million (₱489.4 million) and US$17.4 million (₱778.1 million), respectively. The proceeds from the return of capital of ARCH Fund 1 came from its real estate project called The Concordia. Phase 1 to 3 of The Concordia was fully sold and hand over of units to buyers have already started.

As of December 31, 2015 and 2014, the Group's remaining capital commitment with the ARCH Fund I amounted to US$7.0 million (₱329.4 million) and US$7.0 million (₱313.0 million), respectively.

In 2011, the Group committed to invest US$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P. (ARCH Fund II), which had its first closing on June 30, 2011. As of December 31, 2015 and 2014, the carrying amount of the ARCH Fund II amounted to US$39.9 million (₱1.9 billion) and US$36.0 million (₱1.6 billion), respectively.

On various dates in 2015 and 2014, ARCH Fund II made capital calls where the Group's share amounted to US$7.7 million (₱362.4 million) and US$48.5 million (₱2,168.9 million), respectively. In 2015 and 2014, the ARCH Fund II returned capital amounting to US$7.7 million (₱362.4 million) and US$20.0 million (₱894.4 million), respectively.

As of December 31, 2015 and 2014, the Group's remaining capital commitment with the ARCH Fund II amounted to US$0.6 million (₱28.2 million) and US$1.5 million (₱67.1 million), respectively.

On July 1, 2014, the Group 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. (ARCH Fund III). As of December 31, 2015 and 2014, the carrying amount of the investment in the ARCH Fund III amounted to US$9.3 million (₱437.7 million) and US$5.1 million (₱228.1 million), respectively. On various dates in 2015, the ARCH Fund III made capital calls where the Group's share amounted to US$4.1 million (₱192.9 million).

As of December 31, 2015 and 2014, the Group's remaining capital commitment with the ARCH Fund III amounted to US$20.1 million (₱945.9 million) and US$12.2 million (₱545.6 million), respectively.

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

Input VAT
Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Deposits in escrow
Deposits in escrow pertain to the proceeds from the sale of ALI Group that have been only granted with a temporary License To Sell (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.

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

Concession financial receivable
Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between CMWD, a subsidiary of MWC, and Metropolitan Cebu Water District (MCWD) whereby the facilities constructed by CMWD shall be used for the delivery of potable and treated water to MCWD 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.

The breakdown of the concession financial receivable is as follows:

	2015	2014
	(In Thousands)	
Current	**₱209,011**	₱76,914
Noncurrent	**989,073**	899,070
	₱1,198,084	₱975,984

10. **Investments in Bonds and Other Securities**

This account consists of investments in:

	2015	2014
	(In Thousands)	
AFS financial assets		
Quoted equity investments	**₱1,635,560**	₱1,916,799
Unquoted equity investments	**1,827,706**	1,275,497
	3,463,266	3,192,296
Quoted debt investments	**274,550**	239,919
	₱3,737,816	₱3,432,215

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 and is a leading player in the infrastructure sector in Vietnam. CII has a portfolio of strategic infrastructure assets, including water treatment plants and toll roads serving Ho Chi Minh City and surrounding areas.

The carrying amount of the investment in CII amounted to US$11.1 million (₱522.4 million) and US$10.9 million (₱487.4 million) as of December 31, 2015 and 2014, 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 2015 and 2014, the Group received return on capital from TRG SOF and GOF aggregating to US$0.2 million (₱6.9 million) and US$5.5 million (₱246.0 million), respectively (see Note 23). The aggregate carrying amount of GOF and SOF amounted to US$5.0 million (₱233.9 million) and US$6.5 million (₱292.5 million) as of December 31, 2015 and 2014, respectively.

Arbor Venture Fund I L.P. (AVF)
The AVF is a private equity fund which focuses on providing funding for new ventures in the financial technology and services space. The fund has investments in companies providing big data decision making (credit scoring, identity verification), asset management, payments processing, and on-line credit linked to payment processing, HR services, and cloud based accounting. In 2015, AVF made its first capital call where the Group's share amounted to US$0.5 million (₱23.7 million).

As of December 31, 2015 the carrying amount of the investment in AVF amounted to US$0.5 million (₱23.7 million) and the Group's remaining capital commitment amounted to US$1.5 million (₱69.6 million).

Red River Holdings (Red River)
Red River is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies. The carrying amount of the investment in Red River amounted to US$5.6 million (₱263.5 million) and US$8.5 million (₱380.1 million) as of December 31, 2015 and 2014, respectively. In 2015 and 2014, Red River returned capital amounting to US$3.8 million (₱178.8 million) and US$4.7 million (₱210.2 million), respectively.

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, 2015 and 2014. The Group has a direct interest of 2.975% in The Concordia through Glory High. Income from investment amounting to US$10.6 million (₱498.8 million) and US$9.5 million (₱424.8 million) was recorded in 2015 and 2014, respectively, arising from distributions from Glory High after settling the shareholder advances in 2014. Proceeds from the distribution received came from the sale of Phase 1 to 3 of The Concordia.

Sares-Regis Multifamily Value-added Fund II LLP (Sares Regis)
Sares Regis is a real estate private equity fund managed by the Sares-Regis Group (SRG) based in California, USA. The first capital call of US$4.7 million was paid on August 6, 2015, and the second capital call of US$4.8 million was paid on September 10, 2015. As of December 31, 2015, the carrying amount of the investment in Sares Regis amounted to US$9.5 million (₱449.4 million).

<u>Quoted Debt Investments</u>
Quoted debt investments pertain to CII convertible bonds amounting to US$5.8 million (₱274.5 million) in 2015 and US$6.1 million (₱272.8 million) in 2014. 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 (see Note 33).

In 2015, BHL recorded a gain on the option component of CII convertible bonds amounting to VND 490.0 billion (₱1.0 million).

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

	2015	2014
	(In Thousands)	
Net unrealized gain on AFS financial assets of the Parent Company and subsidiaries	**₱914,004**	₱834,185
Share in the net unrealized loss on AFS financial assets of associates and joint ventures	**(1,468,301)**	(841,396)
	(₱554,297)	(₱7,211)

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

	2015	2014
	(In Thousands)	
At January 1	**₱834,185**	(₱421,595)
Changes in fair value recognized in equity	**16,309**	1,926,410
Recognized in profit and loss	**63,510**	(670,630)
At December 31	**₱914,004**	₱834,185

11. **Land and Improvements**

The rollforward analysis of this account follows:

	2015	2014
	(In Thousands)	
Cost		
At January	**₱80,470,012**	₱62,984,927
Additions	**22,552,213**	28,604,686
Transfers*	**(9,311,893)**	(11,119,540)
Donation	**(108,735)**	–
Disposals	**(25)**	(61)
At December 31	**93,601,572**	80,470,012
Allowance for decline in value		
At January	**510,125**	510,125
Provision during the year (Note 23)	**196,568**	–
At December 31	**706,693**	510,125
	₱92,894,879	₱79,959,887

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

On November 6, 2015, ALI executed a Deed of Absolute Sale (DOAS) for the acquisition of 95,620 square meter property located along Barangay Talipapa, Novaliches, Quezon City for a purchase price of ₱1.1 billion, net of capital gains tax. The acquisition is pursuant to the Terms of Reference dated March 4, 2015 between ALI and the SEC-appointed Liquidator of Rubberworld Philippines, Inc.

On October 12, 2015, ALI donated 60,000 square meters of real properties to De La Salle Santiago Zobel School which is located in Cavite amounting to ₱108.7 million.

In July 2015, Avida Land Inc., a subsidiary of ALI, entered into a contract with the Parent Company for the purchase of a parcel of land in San Antonio, Makati City for ₱644.1 million inclusive of VAT. Payments were made in two tranches, with the first one in July 2015 amounting to ₱471.6 million and the balance of ₱172.5 million in October 2015.

On June 30, 2015, the SM-ALI Group consortium, participated and won the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City. The SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc., ALI and Cebu Holdings, Inc. (a subsidiary of ALI) which will co-develop the property pursuant to a joint master plan.

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

On September 15, 2014, Alveo acquired on installment a 2,400 square meter 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.

ALI Group recorded provision for impairment amounting to ₱196.6 million in 2015.

12. Investments in Associates and Joint Ventures

This account consists of the following:

	2015	2014
	(In Thousands)	
Acquisition cost	**₱134,639,923**	₱127,252,199
Accumulated equity in earnings	**30,518,014**	27,186,995
Other comprehensive loss	**(2,446,517)**	(1,674,340)
	₱162,711,420	₱152,764,854

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**	
	2015	2014	**2015**	2014
Domestic:			(In Millions)	
Bank of the Philippine Islands (BPI)	**32.6%**	32.6%	**₱67,769**	₱65,811
Liontide Holdings, Inc. (LHI)*				
(formerly Ayala DBS Holdings, Inc.)	**73.8**	73.8	**36,978**	35,943
Globe Telecom, Inc. (Globe)*	**30.4**	30.4	**17,759**	16,321
GNPower Mariveles Coal Plant Ltd. Co (GNPower)	**17.0**	17.0	**8,203**	7,164
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**4,111**	4,113
South Luzon Thermal Energy Corp. (SLTEC)*	**50.0**	50.0	**3,792**	3,513
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,813**	1,815
Cebu District Property Enterprise, Inc. (CDPEI)*	**42.0**	42.0	**1,491**	1,492
Light Rail Manila Holdings, Inc. (LRMHI)	**50.0**	50.0	**1,469**	563

(Forward)

	Percentage of Ownership		Carrying Amounts	
	2015	2014	**2015**	2014
Bonifacio Land Corporation (BLC)	**10.0%**	10.0%	**₱1,353**	₱1,356
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**1,191**	1,142
Philippine Wind Holdings Corporation (PWHC)*	**42.9**	75.0	**1,016**	4,218
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	**49.0**	49.0	**673**	697
Alveo-Federal Land Communities, Inc.*	**50.0**	–	**572**	–
Northwind Power Development Corp.* (Note 24)	**50.0**	50.0	**496**	324
Generika Group*	**50.0**	–	**425**	–
Mercado General Hospital, Inc. (MGHI)	**33.0**	33.0	**373**	422
AF Payments, Inc. (AFPI) [*formerly Automated Fare Collections Services, Inc. (AFCSI)*]	**10.0**	10.0	**187**	144
Foreign:				
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	**49.0**	49.0	**2,402**	2,258
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	**47.4**	47.4	**2,202**	2,018
Modular Construction Technology (MCT) Bhd. (incorporated in Malaysia)	**32.9**	–	**5,999**	–
Integreon, Inc. (Integreon) (British Virgin Islands Company)*	**58.7**	58.7	**144**	961
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	**49.0**	49.0	**535**	723
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	**31.5**	31.5	**793**	686
Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water) (incorporated in Vietnam)	**24.5**	–	**326**	–
Tianjin Eco-City Ayala Land Development Co., Ltd. (incorporated in China)	**40.0**	40.0	**289**	484
Others	**Various**	Various	**350**	597
			₱162,711	₱152,765

**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 their ownership interest.

Financial information on significant associates follows:

BPI	**2015**	2014
	(In Millions, except earnings per share)	
Total resources	**₱1,516,356**	₱1,450,197
Total liabilities	**1,363,626**	1,303,518
Net interest income and other income	**60,059**	55,787
Total expenses	**40,984**	37,725
Net income	**18,375**	18,062
Other comprehensive income	**(1,616)**	(45)
Total comprehensive income	**16,759**	18,017
Net income attributable to:		
Equity holders of the bank	**18,234**	18,039
Non-controlling interests	**141**	23
Earnings per share:		
Basic and diluted	**4.64**	4.62
Dividends received from BPI	**3,239**	1,153

TDW	2015	2014
	(In Millions)	
Current assets	**₱151**	₱102
Noncurrent assets	**2,670**	2,559
Current liabilities	**381**	400
Noncurrent liabilities	**476**	261
Revenue	**742**	770
Net income	**439**	444
Dividends received from TDW	**–**	–

The conversion rate used was ₱0.0021 to VND1 as of December 31, 2015 and 2014.

KDW	2015	2014
	(In Millions)	
Current assets	**₱738**	₱655
Noncurrent assets	**2,497**	2,595
Current liabilities	**230**	346
Noncurrent liabilities	**1,798**	1,510
Revenue	**436**	465
Net income	**251**	236

The conversion rate used was ₱0.0021 to VND1 as of December 31, 2015 and 2014.

BLC	2015	2014
	(In Millions)	
Current assets	**₱15,084**	₱24,748
Noncurrent assets	**30,377**	20,183
Current liabilities	**3,629**	4,786
Noncurrent liabilities	**7,888**	4,903
Revenue	**3,640**	9,187
Cost and expenses	**(2,294)**	(5,819)
Net income	**1,346**	3,368

MCT	2015
	(In Millions)
Current assets	**₱8.40**
Noncurrent assets	**6.38**
Current liabilities	**4.40**
Noncurrent liabilities	**2.13**
Revenue	**12.56**
Cost and expenses	**(11.50)**
Net income	**1.06**

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

Globe	2015	2014
Current assets, including cash and cash equivalents amounting to ₱11.8 billion in 2015 and ₱16.8 billion in 2014	**₱47,072**	₱46,742
Noncurrent assets	**148,607**	132,765
Current liabilities including financial liabilities* amounting to ₱8.0 billion in 2015 and ₱6.1 billion in 2014	**65,530**	60,350
Noncurrent liabilities, including financial liabilities* amounting to ₱64.3 billion in 2015 and ₱59.1 billion in 2014	**70,752**	64,619

(Forward)

Globe	**2015**	2014
Revenue	**₱119,969**	₱103,236
Interest income	**519**	683
Costs and expenses		
Depreciation and amortization	**21,133**	18,123
Interest expense	**3,373**	2,566
Provision for income tax	**6,983**	6,011
Net income	**16,484**	13,372
Other comprehensive loss	**(234)**	(238)
Total comprehensive income	**16,251**	13,134
Earnings per share:		
Basic	**120.11**	100.60
Diluted	**119.92**	100.36
Dividends received from Globe	**3,349**	3,025

**excluding trade and other payables and provisions*

LHI	**2015**	2014
Current assets, including cash and cash equivalents amounting to ₱5.9 million in 2015 and ₱756.9 million in 2014	**₱760**	₱758
Noncurrent assets	**31,894**	30,528
Current liabilities	**0.1**	5,387
Total Revenue	**3,902**	3,832
Interest income	**18**	3
Costs and expenses		
General and administrative	**0.2**	0.2
Provision for income tax	**4**	1
Net income	**3,898**	3,831
Other comprehensive loss	**(257)**	(13)
Total comprehensive income	**3,642**	3,818
Dividends received from LHI	**1,670**	–

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:

	2015	2014
	(In Millions)	
Carrying amount	**₱28,249**	₱29,058
Equity in net earnings	**1,076**	545
Share in other comprehensive income	**(480)**	188

As of December 31, 2015 and 2014, the Group had total commitments relating to the Group's interests in its associates and joint ventures amounting to ₱7,885.1 million and ₱11,050.0 million, respectively (see Note 35).

As of December 31, 2015 and 2014, 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 dividends, 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 Parent Company entered into an agreement with DBS Bank, Ltd. (DBS) to Acquire the 8.69% ownership interest of DBS in BPI, equivalent to 309.3 million outstanding common shares, for a total consideration of ₱21.6 billion. As of December 31, 2015 and 2014, outstanding payable to DBS in relation to the transaction amounted to ₱3.3 billion (see Note 18).

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 Parent Company, MHI and LHI 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 Parent Company's share in the subscription of LHI was ₱4.0 billion representing 58.9 million common shares.

The fair value of the BPI shares held by the Group amounted to ₱100.2 billion and ₱112.8 billion as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the notional goodwill resulting from the difference between the share in the net assets in BPI and its carrying value amounted to ₱19.9 billion.

Investment in LHI
In December 2013, DBS divested its 46.5% remaining ownership interest in LHI of which the Parent 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 Parent Company in LHI. The total consideration paid by the Parent Company for the additional 37.6 million LHI Class B common shares amounted to ₱13.2 billion (see Note 18).

In January 2014, the Parent Company infused additional capital to LHI in the form of subscriptions which amounted to ₱4.0 billion. The proceeds was used for LHI'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, 2015 and 2014, LHI owns 837.6 million common shares of BPI representing a direct ownership interest in BPI of 21.3%. The Parent Company and GICSI, as joint venture partners, agreed to vote their BPI shares based on the common position reached jointly by them as shareholders.

The fair value of BPI shares held by LHI amounted to ₱70.2 billion and ₱78.7 billion as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the notional goodwill resulting from the difference between the share in the net assets in LHI and its carrying value amounted to ₱10.1 billion.

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 Globe shares held by the Parent Company amounted to ₱74.7 billion and ₱69.4 billion as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, 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 Parent Company also holds 60% ownership interest in Asiacom, which owns 158.5 million Globe preferred shares and 460.0 million AC preferred shares as of December 31, 2015 and 2014. The Parent Company does not exercise control over Asiacom and Globe since it is a joint venture with Singapore Telecommunications Limited (SingTel).

Investment in GNPower
On May 30, 2014 ACEHI 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 PWHC
On July 12, 2013, ACEHI, through PWHC, 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 North Luzon Renewable Energy Corp. (NLREC) 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, NLREC 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.

In 2014, the DOE issued a Certificate of Endorsement for FIT for the wind power project after it was commissioned and started commercial operations (see Note 38).

On April 13, 2015, the wind power project received their Feed-in-Tariff Certificate of Compliance (FIT COC) from the Energy Regulatory Commission (ERC). This entitled the wind power project to a feed-in-tariff (FIT) of ₱8.53 per kilowatt hour for a period of 20 years from November 11, 2014 to November 10, 2034.

In various dates in 2015, PWHC redeemed its outstanding preferred shares from ACEHI and Luzon Wind Energy Holdings B.V. (Luzon Wind), a wholly-owned subsidiary of BHL through Ayala International Holdings, Ltd. (AIHL), at par for a total redemption price of ₱1.5 billion and ₱1.1 billion, respectively.

On September 2, 2015, ACEHI sold 172,419 PWHC common shares to Luzon Wind for a total selling price of US$44.1 million. Subsequent to the transaction, AIHL sold its investment in Luzon Wind to Diamond Generating Asia, Limited (DGA) for US$58.3 million. The transaction resulted to a recognition of a net gain on sale of investments amounting to ₱1.5 billion (see Note 23). Following the transaction, ACEHI's ownership interest in PWHC decreased from 75% to 42.9%.

As of December 31, 2015 and 2014, ACEHI's total capital commitment on its investments in PWHC amounted to ₱299.0 million and ₱402.0 million, respectively.

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$90.0 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 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 2011 for 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. On April 24, 2015 Unit 1 has achieved Commercial Operations Date (COD). Upon COD, Trans-Asia will purchase all of the generated output of SLTEC through a 15-year power purchase agreement. As of December 31, 2015, Unit 2 is 99.97% complete and undergoing testing and commissioning phase and is expected to be operational by the 1st quarter of 2016.

As of December 31, 2015 and 2014, ACEHI's total capital commitment on its investment in SLTEC amounted to ₱105.0 million.

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. (CHI) and Cebu Property Ventures Development Corporation (CPVDC), respectively. CHI and CPVDC are subsidiaries of ALI.

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 MCT
On April 6, 2015, ALI, through its wholly-owned subsidiary, Regent Wise Investments Limited (Regent Wise), acquired 9.16% of the shares of MCT through a private placement for a total amount of US$43 million (₱1.9 billion). MCT is a property development company specializing in mixed-use projects which include retail, offices, hotels, and mid-to-affordable residences.

On May 12, 2015, Regent Wise entered into call option agreements with the founders and majority shareholders of MCT that will give ALI the opportunity to increase its shareholdings in MCT up to a maximum of 32.95%. The call options are exercisable for one month beginning October 7, 2015.

On October 15, 2015, Regent Wise exercised its option to acquire additional shares of MCT for a total consideration of US$92.0 million. The transaction increased the ownership interest in MCT from 9.16% to 32.95%.

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. The acquisition of WHI allowed ALI to build a strategic partnership with the Mercado Group and support MGHI's future growth. This partnership enhanced 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 AFPI
AFPI 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 AFPI.

AFPI is the project company that will develop and operate the ₱1.7 billion contactless Automated Fare Collection Systems (AFCS) project awarded by the Department of Transportation and Communications (DOTC) 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, 2015 and 2014, AC Infra's total equity investment commitment for the project amounted to ₱500.0 million.

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, 2015 and 2014, AC Infra's total equity investment commitment for the LRT 1 project amounted to ₱6.6 billion and ₱8.5 billion, respectively.

Investment in Light Rail Manila Corporation (LRMC)
On September 12, 2015, Light Rail Manila Corporation (LRMC), the concessionaire for the operations, maintenance and extension of LRT1, took over the operations and maintenance of the LRT Line 1 from the Light Rail Transit Authority and DOTC.

As of December 31, 2015 and 2014, LRMHI's total equity investment commitment amounted to ₱875.0 million and ₱567.5 million, respectively.

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 sold to TDWH its 49% interest (2.45 million 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 (VND858.0 billion). The investment in TDW include notional goodwill amounting to ₱1.4 billion.

Kenh Dong Water Supply Joint Stock Company (KDW)
On May 17, 2012, Kenh Dong Water Holdings Pte. Ltd. (KDWH), a subsidiary of MWC, 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 ₱95.9 million (VND44.5 billion). The share purchase transaction was completed on July 20, 2012 and KDWH obtained 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.

On December 31, 2015, KDWH reversed its previously recognized contingent liability amounting to ₱96.0 million (VND44.5 billion).

Investment in VinaPhil
CII and the Group have entered into an agreement to jointly invest in VinaPhil Technical Infrastructure Investment Joint Stock Company ("VinaPhil"), a corporation established under Vietnamese law to invest in infrastructure projects in Vietnam. VinaPhil is 49%-owned by the Group with the remainder owned by CII and other Vietnamese investors. VinaPhil has an initial charter capital of VND900 billion (US$43 million).

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.

In 2015, VinaPhil bought back shares proportionately to each shareholder wherein the Group's share amounted to VND15.3 billion (US$32.1 million). The share buy back did not alter the ownership structure of VinaPhil.

Saigon Water Infrastructure Joint Stock Company (SWI)
On October 8, 2013, Manila Water South Asia Holdings Pte. Ltd (MWSAH) (a subsidiary of MWC) entered into an Investment Agreement with SWI to acquire a 31.47% ownership interest. The acquisition cost of the investment amounted to ₱642.8 million (VND310.5 billion). The share subscription transaction was completed on October 8, 2013 and MWSAH obtained significant influence in SWI.

The investment in SWI includes notional goodwill amounting to ₱288.8 million as of December 31, 2015 and 2014. There were no adjustments made to the fair values of the net assets as of acquisition date.

Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water)
On October 10, 2015, MWSAH executed a Capital Transfer Agreement with SWI for the acquisition of 24.5% of the charter of Cu Chi Water in the amount of ₱318.2 million (VND154.4 billion).

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 is 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.

Generika Group of Companies
On July 15, 2015, AHCHI acquired a 50% ownership interest in the Generika Companies namely Actimed, Inc., Erikagen, Inc., Novelis Solutions, Inc., and Pharm Gen Ventures Corporation for a total consideration of ₱400.0 million.

APEC Schools
In 2014, AEI entered into a joint venture agreement with UK-based Pearson Affordable Learning Fund Limited (PAFL), an affiliate of Pearson PLC, the world's leading learning company, to roll out a chain of affordable private high schools under Affordable Private Education Center Inc. (APEC Schools). AEI owns 60% of APEC Schools and Pearson owns the balance of 40% share.

In December 2015, APEC made a capital call of US$5.0 million where AEI's share amounted to US$3.0 million. As of December 31, 2015, the additional capital infusion has not yet been made.

Others
BPI Globe BanKO (BanKO)
On August 27, 2015, the Parent Company, Globe and BPI agreed to turn over full ownership of BanKO to BPI. The transaction is still pending approval by the BSP as of December 31, 2015. In accordance with the requirement of PFRS 5, the carrying amount of the investment in BanKO amounting to ₱20.7 million as of December 31, 2015 is considered as Noncurrent and Held for Sale and included as part of "Other Current Assets" (see Note 9). Accordingly, the Parent Company wrote down its investment in BanKO.

The rollforward of accumulated equity in net earnings follow:

	2015	2014
Balance at beginning of year	**₱27,186,995**	₱24,403,130
Equity in net earnings during the year	**15,038,015**	13,185,147
Dividend income	**(11,706,996)**	(10,401,282)
Balance at end of year	**₱30,518,014**	₱27,186,995

13. **Investment Properties**

The movements in investment properties follow:

2015

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱11,642,833**	**₱71,932,682**	**₱5,936,778**	**₱89,512,293**
Additions	**2,130,718**	**6,330,850**	**6,267,913**	**14,729,481**
Additions through business combination (see Note 24)	**–**	**1,584,929**	**–**	**1,584,929**
Transfers	**(601,114)**	**2,460,708**	**(2,350,288)**	**(490,694)**
Disposals	**(566)**	**(910,067)**	**–**	**(910,633)**
Balance at end of the year	**13,171,871**	**81,399,102**	**9,854,403**	**104,425,376**
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	**26,616**	**18,161,432**	**–**	**18,188,048**
Depreciation and amortization (Note 23)	**–**	**2,790,383**	**–**	**2,790,383**
Transfer	**–**	**40,511**	**–**	**40,511**
Disposals	**–**	**(263,058)**	**–**	**(263,058)**
Balance at end of the year	**26,616**	**20,729,268**	**–**	**20,755,884**
Net book value	**₱13,145,255**	**₱60,669,834**	**₱9,854,403**	**₱83,669,492**

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

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 ₱253.2 billion in 2015 and ₱234.5 billion in 2014. The fair values of the investment properties were arrived at using the Market Data Approach and Cost Approach for land and building, respectively, and were determined by independent professionally qualified appraisers.

Under the 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.

The 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.

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 any and 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 use and benefit.

Interest capitalized amounted to ₱39.2 million, ₱76.1 million and ₱113.5 million and in 2015, 2014 and 2013, respectively. The capitalization rates are 4.75-5.32%, 5.49% and 0.5%-8.2% in 2015, 2014 and 2013, respectively.

Consolidated rental income from investment properties amounted to ₱18.9 billion in 2015, ₱16.4 billion in 2014 and ₱13.3 billion in 2013. Consolidated direct operating expenses arising from the investment properties amounted to ₱5.3 billion in 2015, ₱4.1 billion in 2014 and ₱3.3 billion in 2013, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱2.8 billion, ₱2.9 billion and ₱2.5 billion in 2015, 2014 and 2013, respectively (see Note 23).

14. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2015						
	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	**₱10,372,729**	**₱12,917,226**	**₱14,514,266**	**₱6,244,456**	**₱2,849,707**	**₱910,009**	**₱47,808,393**
Additions	**2,787,802**	**3,935,839**	**754,989**	**1,734,637**	**418,472**	**5,674,266**	**15,306,005**
Additions through business combination (Note 24)	**812,518**	**–**	**–**	**23,542**	**721,411**	**5,740**	**1,563,211**
Disposals	**(75,102)**	**(806,666)**	**(2,045)**	**(216,461)**	**(330,803)**	**(5,928)**	**(1,437,005)**
Transfers	**(808,602)**	**(54,892)**	**667**	**(54,555)**	**(6,751)**	**(29,150)**	**(953,283)**
Exchange differences	**118,246**	**111,948**	**–**	**25,848**	**392**	**(8,775)**	**247,659**
At December 31	**13,207,591**	**16,103,455**	**15,267,877**	**7,757,467**	**3,652,428**	**6,546,162**	**62,534,980**
Accumulated depreciation and amortization and impairment loss							
At January 1	**3,895,755**	**6,447,774**	**3,253,737**	**4,868,847**	**1,389,135**	**–**	**19,855,248**
Depreciation and amortization for the year (Note 23)	**741,715**	**1,743,123**	**522,673**	**790,986**	**341,318**	**–**	**4,139,815**
Impairment loss	**–**	**–**	**–**	**–**	**–**	**88,753**	**88,753**
Disposals	**(69,052)**	**(760,021)**	**(801)**	**(169,340)**	**(275,745)**	**–**	**(1,274,959)**
Exchange differences	**77,172**	**39,887**	**–**	**23,884**	**(3,273)**	**–**	**137,670**
Transfers	**–**	**–**	**(57,385)**	**1,349**	**–**	**–**	**(56,036)**
At December 31	**4,645,590**	**7,470,763**	**3,718,224**	**5,515,726**	**1,451,435**	**88,753**	**22,890,491**
Net book value	**₱8,562,001**	**₱8,632,692**	**₱11,549,653**	**₱2,241,741**	**₱2,200,993**	**₱6,457,409**	**₱39,644,489**

	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

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱4.1 billion in 2015, ₱3.1 billion in 2014 and ₱3.0 billion in 2013 (see Note 23).

The carrying values of the Group's equipment under finance lease amounted to nil and US$4.5 million (₱199.4 million) as of December 31, 2015 and 2014, respectively (see Note 30).

On August 27, 2014, IMI Group entered into an agreement relating to the sale and leaseback of a light industrial building located in Singapore with DBS Trustee Limited [in its capacity as trustee of Soilbuild Business Space REIT (SBSR)] 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 IMI 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, 2015 and 2014, the carrying value of IMI Group's pledged equipment with BNP Paribas amounted to US$1.4 million (₱65.9 million) and US$1.6 million (₱69.3 million), respectively.

On May 15, 2014, ACEHI through its joint venture, 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. (see Note 35).

15. Service Concession Assets and Obligations

Service Concession Assets

The movements in this account follow:

	2015	2014
	(In Thousands)	
Cost		
At January 1	**₱96,337,398**	₱92,222,739
Additions during the year		
Construction and rehabilitation works	**5,905,881**	4,111,135
Transfers	**1,100,467**	–

(Forward)

	2015	2014
	(In Thousands)	
Adjustments	**₱154,845**	₱–
Local component cost	**1,249**	3,524
At December 31	**103,499,840**	96,337,398
Accumulated amortization		
At January 1	**21,500,765**	18,468,332
Amortization (Note 23)	**3,170,235**	3,032,433
At December 31	**24,671,000**	21,500,765
Net book value	**₱78,828,840**	₱74,836,633

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.

The Parent Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, PGL, TIEZA and CDC. These concession agreements set forth the rights and obligations of the Parent Company and MWC Group throughout the concession period (see Note 35).

Total interest and other borrowing costs capitalized as part of SCA amounted to ₱513.2 million and ₱377.7 million in 2015 and 2014, respectively. The capitalization rates used range from 6.24% to 8.10% in 2015 and 7.01% to 8.78% in 2014.

Variation Order

On February 25, 2013, the DPWH sent a variation notice to the Parent Company to revise the interconnection of the Muntinlupa-Cavite Expressway (MCX) in order to accommodate the construction of a fifth lane for both directions at the Filinvest to Susana Heights section of the South Luzon Expressway (SLEX). Such proposal was made in accordance with the Concession Agreement which provides that in the event the DPWH initiates a variation, the Parent Company as concessionaires, shall prepare a proposal setting out the necessary details and additional cost estimates.

On April 10, 2014, the Parent Company submitted a variation proposal to the DPWH and sought for approval of (1) Direct payment of the construction cost for the works related to the provisioning for the SLEX future expansion amounting to ₱251.2 million inclusive of VAT and (2) Extension of the concession period by 3 ½ years due to the delays encountered as a result of the variation order.

On February 6, 2015, the DPWH issued a Prior Clearance to issue a Variation Notice with a cap of ₱223.0 million.

On May 27, 2015, the DPWH approved the adjusted cost of the variation order in the amount of ₱223.0 million (which was rectified by the Bureau of Construction) variation proposal and endorsed it to the National Economic and Development Authority (NEDA) for information and appropriate action. Accordingly, the Parent Company transferred the amount of ₱223.0 million from service concession account to receivables from the Government upon approval of the DPWH of the variation order (see Note 35).

As of December 31, 2015, the variation proposal is still for approval of the NEDA.

Service Concession Obligation

PGL Concession Fees

Under Laguna AAA Water Corporation's (LAWC) concession agreement with PGL, LAWC is required to pay concession fees to PGL 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 PGL was made for the said concession fees and 70% of the annual concession fees is applied against the said advances. The remaining 30% of the annual concession fees is expensed in the period they are incurred. Advances as of December 31, 2015 and 2014 amounted to ₱86.6 million and ₱102.8 million, respectively.

TIEZA Concession Fees

The aggregate concession fee pursuant to BIWC's concession agreement with TIEZA is equal to the sum of the following:

a. Servicing the aggregate peso equivalent of all liabilities of BWSS as of commencement date;

b. 5% of the monthly gross revenue of BIWC, 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, BIWC shall pay not more than ₱20.0 million, subject to annual CPI adjustments.

In addition, advance payment of ₱60.0 million was provided to BIWC which shall be offset against the annual concession fees amounting to 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 as of December 31, 2014. The advances were fully paid in 2015.

CDC Concession Fees

The aggregate concession fee pursuant to the CWC's concession agreement with CDC 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.

As a result of the extension of the Concession Agreement of CWC, payment of rental fees on the CDC existing facilities was extended by an additional 15 years from October 1, 2025 to October 1, 2040.

MWSS Concession Fees

The aggregate concession fees of MWC pursuant to the concession 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 MWC for continuation; and

e. 100% of the local component costs and cost overruns related to existing projects;

f. MWC's share in the repayment of MWSS loan for the financing of new projects; and

g. One-half of MWSS annual corporate budget.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency Denominated Loans (Translated to US Dollars)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2016	$19,043,231	₱395,714,907	₱1,291,889,358
2017	10,960,747	395,714,907	911,527,661
2018	10,836,185	395,714,907	905,665,773
2019	8,526,286	395,714,907	796,961,926
2020 onwards	53,484,891	7,122,868,322	9,639,867,292
	$102,851,340	₱8,705,727,950	₱13,545,912,010

**Peso equivalent is translated using the PDEx closing rate as of December 31, 2015 amounting to ₱47.06 to US$1.*

Estimated concession fee payments on future concession projects, excluding MWC Group's share in current operating budget is still not determinable. It is only determinable upon either loan drawdown and actual construction of the related concession projects as a percentage of revenues or as a fixed amount.

16. Intangible Assets

The movements in intangible assets follow:

	2015									
	Goodwill	**Customer Relationships**	**Order Backlog**	**Unpatented Technology**	**Developed Software**	**Licenses**	**Technical Service Agreement**	**Trademarks**	**Project Development Cost**	**Total**
					(In Thousands)					
Cost										
At January 1	**₱5,303,393**	**₱1,221,552**	**₱4,128**	**₱4,105**	**₱331,006**	**₱299,053**	**₱84,733**	**₱66,604**	**₱558,926**	**₱7,873,500**
Additions during the year	**–**	**–**	**–**	**–**	**31,050**	**1,257**	**–**	**–**	**61**	**32,368**
Additions through business combination (Note 24)	**241,243**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**241,243**
Transfers (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(104,224)**	**(104,224)**
Exchange differences	**113,362**	**14,582**	**–**	**–**	**5,803**	**6,363**	**–**	**–**	**2,549**	**142,659**
At December 31	**5,657,998**	**1,236,134**	**4,128**	**4,105**	**367,859**	**306,673**	**84,733**	**66,604**	**457,312**	**8,185,546**
Accumulated amortization and impairment loss										
At January 1	**2,024,009**	**1,065,316**	**4,128**	**4,105**	**180,141**	**253,772**	**84,733**	**54,346**	**19,486**	**3,690,036**
Amortization (Note 23)	**–**	**61,272**	**–**	**–**	**40,433**	**17,773**	**–**	**–**	**14,859**	**134,337**
Impairment (Note 23)	**296,667**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**137,755**	**434,422**
Exchange differences	**–**	**13,235**	**–**	**–**	**3,878**	**35**	**–**	**–**	**–**	**17,148**
At December 31	**2,320,676**	**1,139,823**	**4,128**	**4,105**	**224,452**	**271,580**	**84,733**	**54,346**	**172,100**	**4,275,943**
Net book value	**₱3,337,322**	**₱96,311**	**₱–**	**₱–**	**₱143,407**	**₱35,093**	**₱–**	**₱12,258**	**₱285,212**	**₱3,909,603**

	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

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):

	2015		2014	
	In US$	**In Php***	In US$	In Php*
Speedy Tech Electronics, Ltd. (STEL)	**US$45,128**	**₱2,123,724**	US$45,128	₱2,018,124
IMI USA	**657**	**30,900**	657	29,381
IMI CZ	**650**	**30,608**	650	29,068
IMI Philippines	**441**	**20,761**	441	19,722
	US$46,876	**₱2,205,993**	US$46,876	₱2,096,295

**Translated using the PDEx closing exchange rate at the statement of financial position date (US$1:₱47.06 in 2015 and US$1:₱44.72 in 2014).*

STEL Group, IMI USA, IMI CZ and PSi
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:

	2015	2014
STEL Group	**13.01%**	10.18%
IMI USA	**10.51%**	8.47%
IMI CZ	**8.79%**	10.50%
PSi	**–**	11.07%

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 (CAGR) 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 industry CAGR, customer projections and other 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 IMI 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 2015, 2014 and 2013. 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).

Sensitivity to changes in assumptions
With regard to the assessment of value in use of STEL Group, IMI USA, and IMI CZ, IMI Group management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGUs 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 2015, 2014 and 2013.

MWC and Philwater
Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million as of December 31, 2015 and 2014. The recoverable amount in 2015 and 2014 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
Goodwill from the acquisition of CWC amounted to ₱130.3 million as of December 31, 2015 and 2014. MWC's impairment tests for goodwill from the acquisition of CWC is based on value in use calculations using a discounted cash flow model. The cash flows are derived from the budget for the next 25 years and assumes a steady growth rate. MWC used the remaining concession period 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 9.72% in 2015 and 10.45% for 2014.

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:

	2015	2014
	(In Thousands)	
Wind Power	**₱411,031**	₱411,031
Hydro Power	**–**	55,424
	₱411,031	₱466,455

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 2015 and 2014 while the balance from Hydro Power CGU was impaired in 2015.

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, 2015 and 2014.

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.).

17. Pension and Other Noncurrent Assets

This account consists of the following:

	2015	2014
	(In Thousands)	
Deposits and Advances - Projects	**₱8,536,278**	₱6,654,046
Deferred charges	**3,537,483**	474,470
Concession financial receivable (Note 9)	**989,073**	899,070
Deferred FCDA	**644,429**	141,189
Leasehold rights - net	**93,467**	100,100
Pension assets (Note 27)	**66,176**	19,064
Others	**424,424**	8,542,462
	₱14,291,330	₱16,830,401

Deposits and Advances - Projects
Deposits and advances for projects include escrow deposits and security deposits on land leases, electric and water meter deposits.

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 38). ACEHI 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 ₱3.4 million and ₱2.9 million in 2015 and 2014, respectively.

As of December 31, 2015, the arbitration proceedings between the previous owners of Northwind and ACEHI has not started.

Deferred charges
Deferred charges mainly consist of prepayments for expenses that is amortized for more than one year.

Deferred FCDA
Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers of MWC Group for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains or losses from loan valuations.

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 as of December 31, 2015 and 2014 amounted to ₱33.9 million and ₱27.3 million, respectively. Amortization expense amounted to ₱6.7 million in 2015, 2014 and 2013.

Others

Others include advance rentals, long-term miscellaneous accounts and restricted cash that are not available for use by the Group (see Note 20). The restricted cash was subsequently released in 2015 and is included under Cash and Cash Equivalents. This account also includes consideration for the development rights of ALI Group by way of advance rental payments to Global Estate Resorts, Inc. (GERI) amounting to ₱294.4 million in 2015. The advances are non-interest bearing and amortized over the lease term.

18. Accounts Payable and Accrued Expenses

This account consists of the following:

	2015	2014
	(In Thousands)	
Accounts payable	**₱85,018,209**	₱70,470,671
Accrued expenses		
Project costs	**16,939,548**	17,321,785
Personnel costs	**4,964,387**	3,772,205
Rental and utilities	**3,568,090**	3,497,019
Professional and management fees	**3,123,664**	2,703,201
Repairs and maintenance	**3,070,438**	1,694,872
Advertising and promotions	**1,101,267**	2,371,634
Various operating expenses	**2,150,777**	1,071,079
Taxes payable	**10,965,789**	11,292,425
Liability for purchased land	**5,875,203**	3,069,452
Dividends payable	**3,414,356**	2,845,013
Interest payable (Note 31)	**2,456,026**	2,261,525
Related parties (Note 31)	**1,372,445**	2,458,817
Retentions payable	**1,316,087**	1,014,364
DRP Obligation	**261,590**	257,774
	₱145,597,876	₱126,101,836

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 2015 and 2014, accounts payable includes non-interest bearing liability of the Parent Company to DBS in relation to the acquisition of BPI common shares and LHI Class B common shares amounting to ₱3.3 billion (see Note 12).

Project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials.

Accrued operating expenses include accruals for postal and communication, supplies, transportation and travel, subcontractual costs, security, insurance and representation.

Liability for purchased land pertains to the current portion of the unpaid unsubdivided land acquired.

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

Development Rights Payment (DRP) obligation pertains to the liability arising from the assignment agreement between ALI's subsidiary, North Triangle Depot Commercial Corporation (NTDCC), and MRT Development Corporation for the development rights of the 8.3 hectare portion of the MRT Depot.

19. Other Current Liabilities

This account consists of:

	2015	2014
	(In Thousands)	
Customers' deposits	**₱4,204,260**	₱9,161,743
Nontrade payables	**414,585**	278,407
Installment payable	**7,064**	7,376
Derivative liability (Note 33)	**3,771**	4,755
	₱4,629,680	₱9,452,281

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. This also includes residential customers' deposit which are collections that have not reached the 10% threshold to qualify for revenue recognition.

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.

20. Short-term and Long-term Debt

Short-term debt consists of:

	2015	2014
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 1.83% to 8.00% per annum in 2015 and 2.0% to 8.0% per annum in 2014	**₱21,078,249**	₱16,919,900
Foreign currency debt - with interest rates ranging from 1.03% to 1.30% in 2015, 1.10% to 2.55% over 1 month EURIBOR in 2014	**3,309,266**	4,164,369
	₱24,387,515	₱21,084,269

Parent Company
On December 16, 2015, the Parent Company issued a promissory note to BPI amounting to ₱8.0 billion payable after 30 days with fixed interest rate of 2.75% per annum. The loan under this note was secured by an assignment of deposits belonging to AYCFL amounting to US$175.0 million (₱8.2 billion).

ALI Group
The short-term debt of ALI Group amounted to ₱10.5 billion and ₱16.3 billion as of December 31, 2015 and 2014, respectively, represent unsecured peso-denominated bank loans and dollar-denominated bank loans with various interest rates. In compliance with BSP ruling on directors, officers, stockholders and related interests, certain short-term debt with a carrying value of ₱1.7 billiion as of December 31, 2015 are secured by a real estate mortgage covering certain properties of ALI.

AAHC Group
The Philippine peso debt of AAHC Group pertains to short-term loans with various banks amounting to ₱3.4 billion and ₱2.0 billion as of December 31, 2015 and 2014, respectively. These loans are unsecured and bear interest rate of 2.6% to 2.9% per annum in 2015 and 2.7% to 2.9% per annum in 2014.

AIVPL Group
The peso-denominated and dollar-denominated debt of AIVPL Group pertains to short-term loans with various banks amounting to ₱520.8 million and ₱275.0 million as of December 31, 2015 and 2014, respectively. These loans are unsecured and bear interest rates ranging from 5.0% to 8.0% in 2015 and 6.0% to 8.0% in 2014.

BHL Group
BHL's loans are unsecured dollar-denominated bank loans amounting to nil and US$3.9 million (₱173.2 million) as of December 31, 2015 and 2014 and bear interest rates of nil and 5.0%, repectively.

IMI Group
As of December 31, 2015 and 2014, IMI Group has short-term loans aggregating to US$42.3 million (₱1,990.6 million) and US$52.1 million (₱2,329.9 million), respectively. These short-term loans have maturities ranging from 30-180 days and bear fixed interest rates ranging from 1.03% to 1.50% in 2015 and 1.75% to 2.20% in 2014.

Long-term debt consists of:

	2015	2014
	(In Thousands)	
The Parent Company:		
Bank loans - with interest rates ranging from 2.8% to 4.3% per annum in 2015 and 2.7% to 4.3% per annum in 2014 and varying maturity dates up to 2020	**₱8,084,468**	₱21,171,095
Bonds	**39,780,544**	39,733,895
Fixed Rate Corporate Notes (FXCN)	**2,985,678**	–
	50,850,690	60,904,990
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 1.20% to 2.90% in 2015, 0.50% to 6-month LIBOR plus 1.50% spread per annum in 2014 and 3 months LIBOR to 3.00% in 2013	**37,780,645**	45,284,334
Philippine peso - with interest rates ranging from 2.80% to 9.0% in 2015 and 2.02% to 10.21% in 2014 (Note 23)	**38,833,218**	42,443,993
Bonds:		
Exchangeable bonds due 2019	**13,159,894**	12,247,531
Due 2015	**–**	986,710
Due 2016	**2,182,850**	1,982,700
Due 2019	**9,304,168**	9,292,190
Due 2020	**3,973,778**	3,969,010
Due 2022	**12,555,367**	5,615,067

(Forward)

	2015	2014
	(In Thousands)	
Due 2024	**₱14,886,169**	₱14,875,092
Due 2025	**7,927,851**	7,922,131
Due 2033	**1,982,849**	1,982,330
	142,586,789	146,601,088
Floating Rate Corporate Notes (FRCNs)	**1,000,000**	1,000,000
FXCNs	**44,515,700**	29,254,380
	45,515,700	30,254,380
	238,953,179	237,760,458
Less current portion	**28,153,532**	10,761,443
	₱210,799,647	₱226,999,015

Reconciliation of carrying amount against nominal amount follows:

	2015	2014
	(In Thousands)	
Nominal amount	**₱241,223,638**	₱239,815,274
Unamortized discount	**(2,270,461)**	(2,054,816)
	₱238,953,177	₱237,760,458

The Parent Company

Generally, the Parent 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 Parent Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱13.8 billion and ₱13.3 billion as of December 31, 2015 and 2014, respectively, in accordance with BSP regulations. All credit facilities of the Parent Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

Bonds

Below is the summary of the outstanding bonds issued by the Parent Company:

Year Issued	Term	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands) 2015	2014	Features
2010	7 years	7.20%	₱10,000,000	**₱9,975,487**	₱9,957,982	Puttable on the 20th coupon payment date
2011	10 years	6.80%	10,000,000	**9,938,839**	9,925,168	20% balance puttable on the 5th anniversary of the issue date; balance puttable on the 8th anniversary issue date
2012	15 years	6.875%	10,000,000	**9,939,287**	9,930,244	Puttable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2012	7 years	5.45%	10,000,000	**9,926,931**	9,920,501	Puttable from the 4th anniversary issue until every year thereafter until the 6th anniversary issue date
			₱40,000,000	**₱39,780,544**	₱39,733,895	

Bank loans - with interest rates ranging from 2.8% to 4.3% per annum in 2015 and 2.7% to 4.3% per annum in 2014 and varying maturity dates up to 2020
In October and November 2012, the Parent 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 February 2015, the Parent Company prepaid the ₱5.0 billion loan in full, including accrued interest and penalty. First principal payment for the ₱2.0 billion loan amounting to ₱100.0 million was paid in October 2015.

In November and December 2013, the Parent 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. In December 2015, the Parent Company paid the first principal payment for the ₱4.3 billion which amounted to ₱42.5 million

On January 24, 2014, the Parent Company issued a 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 Parent Company is liable under the terms of Loan Agreement) was secured by an assignment of deposits belonging to AYCFL (see Note 17). The loan was pre-terminated by the Parent Company in October 2015.

FXCN with 5.29% interest per annum and maturity date in 2022
On August 17, 2015, the Parent Company issued a 7-year FXCN to a bank amounting to ₱3.0 billion which bears fixed interest rate of 5.2883% per annum. Principal repayments amounting to ₱30.0 million shall be made at the end of the third year until the sixth year and payment of remaining prinicipal balance amounting to ₱2.9 million at maturity date.

Subsidiaries
On December 16, 2010, AYCFL entered into a 6-year syndicated term loan facility with a foreign bank with the Parent 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 Parent Company's option. On December 16, 2015, AYCFL settled the first principal payment, including interests, amounting to US$46.1 million.

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 option of AYCFL. In September 2015, AYCFL partially paid the term loan facility amounting to US$100.0 million.

On September 28, 2012, AYCFL entered into a 3-year revolving credit facility with a foreigh bank, with the Parent 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 option of AYCFL. On September 28, 2015, AYCFL paid the loan in full.

On November 28, 2013, AYCFL, entered into a 5-year syndicated term loan with a foreign bank, with the Parent 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 option of AYCFL.

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 Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds are 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 Parent Company 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 the 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 a 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.

<u>IMI Group</u>
IMI Philippines
On August 12, 2015, IMI Philippines obtained a $20.0 million five-year term loan from a local bank payable as the end of the loan term subject to a fixed interest rate per annum equal to the 5-year Dollar Benchmark rate plus a spread of 5 bps or the rate of 2.8%, whichever is higher. Interests are payable quarterly in arrears on each interest payment date.

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.

In October 2011, IMI Philippines obtained a five-year term clean loan from a local 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%. As of December 31, 2015, the loan was reclassified to current liability.

Cooperatief
Cooperatief's long-term debt aggregating to €14.25 million ($20.4 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%.

Cooperatief had already paid €2.0million ($2.2 million) and €2.0 million ($2.6 million), respectively.

Below is the amortization schedule:

Due Dates	In EUR	In USD
2016	€2,000,000	$2,177,400
2017	2,000,000	2,177,400
2018	4,248,743	4,625,607
	€8,248,743	$8,980,407

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.

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 a carrying value of US$1.35 million.

IMI CZ
On August 14, 2015, IMI CZ obtained a new term loan facility from Citibank amounting to €2.0 million that was used to settle intercompany loans. The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus 1.20% but is not to exceed 15% per annum.

In 2013, 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.

<u>MWC Group</u>
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 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, 2015 and 2014, the carrying value of the loan amounted to JPY711.0 million (₱278.7 million) and JPY992.1 million (₱367.7 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, 2015 and 2014, the outstanding balance amounted to US$2.0 million (₱94.1 million) and US$5.9 million (₱263.8 million), respectively.

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 JPY4.0 billion. As of December 31, 2015 and 2014, outstanding balance of the LBP loan amounted to JPY2,192.9 million (₱859.6 million) and JPY2,527.9 million (₱936.8 million), respectively.

On September 25, 2012, MWC entered into a Subsidiary Loan Agreement with LBP under the Metro Manila Wastewater Management Project (MWMP) with the World Bank. The MWMP aims to improve used water 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. In 2015, MWC made a drawdown from the facility which amounted to US$22.4 million (₱1,055.6 million) as of December 31, 2015.

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 (₱650.4 million) and US$9.3 million (₱415.9 million) as of December 31, 2014. MWC prepaid 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, 2015 and 2014 amounted to US$90.6 million (₱4,263.6 million) and US$108.1 million (₱4,834.2 million), respectively.

<u>ALI Group</u>
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 and October 2015, ALI made partial prepayments on the loan in the amount of US$5.8 million (₱272.9 million) and US$12.8 million (₱572.4 million), respectively.

<u>Philippine Peso Debt</u>

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, 2015 and 2014 amounted to ₱9.8 billion.

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, 2015 and 2014 amounted to ₱4.9 billion and ₱5.0 billion, respectively.

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 MWC 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.

On September 30, 2015, MWC signed a 7-year JPY40.0 billion term loan facility with three international banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation. The proceeds of the loan will be used to finance MWC's capital expenditures. As of December 31, 2015, MWC has not made any drawdown from this facility.

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 ₱330.9 million and ₱396.6 million as of December 31, 2015 and 2014, 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, 2015 and 2014 amounted to ₱498.8 million and ₱498.7 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 ₱830.9 million and ₱830.8 million as of December 31, 2015 and 2014, respectively.

On October 23, 2015, LAWC entered into a loan agreement with Security Bank Corp. (SBC) to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.5 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The first drawdown was made in December 2015, amounting to ₱600.0 million bearing an effective interest rate of 6.03%.

BIWC
On July 29, 2011, BIWC, entered into an omnibus loan and security agreement with 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 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, 2015 and 2014 amounted to ₱474.2 million and ₱487.6 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 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, 2015 and 2014 amounted to ₱476.9 million and ₱271.4 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, 2015 and 2014 amounted to ₱741.8 million and ₱741.0 million, respectively.

ALI Group
The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2023 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 20 to 75 basis points. In compliance with BSP ruling on directors, officers, stockholders and related interests, certain credit facilities with a total carrying value of ₱11.9 billion and ₱14.5 billion as of December 31, 2015 and 2014, respectively, are secured by a real estate mortgage dated September 2, 2014 covering certain properties of ALI.

<u>Philippine Peso Homestarter Bond due 2015</u>
In October 2012, ALI issued ₱1.0 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, the highest credit rating possible on CRISP's rating scale for issuers. In 2015, ALI paid ₱767.0 million of the bonds and the remaining balance of ₱219.7 million is to be settled on January 7, 2016.

<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. The outstanding balance of the bonds amounted to ₱1,963.8 million as of December 31, 2015.

<u>Philippine Peso 7-Year and 10-year Bonds due 2019 and 2022</u>
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 Philippine Rating Services Corporation (PhilRatings) assigned a PRS "AAA", the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

<u>Philippine Peso 7-Year and 20-year Bonds due 2020 and 2033</u>
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.

<u>Philippine Peso 10-year and 6-month Bonds due 2024</u>
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.

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.

Philippine Peso 7.0 Billion Fixed Rate Bonds due 2022
In April 2015, ALI issued a total of ₱7.0 billion bonds due 2022 at a fixed rate equivalent to 4.5% p.a. The Bonds have been rated PRS “AAA” by PhilRatings.

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-,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, 2015 and 2014, outstanding balance amounted to ₱100.0 million.

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 FXCNs to various financial institutions and retail investors that 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 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 that 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. In 2014, ALI paid ₱50.8 million for the matured portion of the loan.

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. The Corporate Notes currently bear a fixed interest rate of 4.50% and will mature on the third month succeeding the tenth anniversary of the initial drawdown date.

Philippine Peso-denominated Long-term Loans
In August to September 2015, ALI assumed an aggregate of ₱15.4 billion in various long-term facilities of ALI subsdiaries from various banks. The loans bear fixed interest rates ranging from 4.5% to 4.725% p.a. and terms ranging from 4.4 years to 10.5 years.

Philippine Peso 5.0 Billion Fixed Rate Bonds due 2021
In June 2014, CHI issued a total of ₱5.0 billion bonds due 2021 at a fixed rate equivalent to 5.32% p.a. The Bonds have been rated PRS “AAA” by PhilRatings.

The loan agreements on long-term debt of the Parent 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, 2015 and 2014.

Total interest paid amounted to ₱13.3 billion in 2015, ₱12.0 billion in 2014 and ₱10.1 billion in 2013.

Interest capitalized by subsidiaries amounted to ₱629.9 million in 2015, ₱453.7 million in 2014, and ₱580.2 million in 2013. The average capitalization rate is 7.02% in 2015, 7.01% to 8.78% in 2014, and 4.16% to 7.06% in 2013.

21. Other Noncurrent Liabilities

This account consists of the following:

	2015	2014
	(In Thousands)	
Deposits and deferred credits	**₱17,027,323**	₱15,450,637
Estimated liability on property developments	**8,272,014**	3,999,529
Retentions payable	**5,122,306**	3,925,798
Provisions (Note 36)	**1,003,512**	1,013,825
Liability for purchased land	**110,475**	203,329
Others	**703,142**	1,047,793
	₱32,238,772	₱25,640,911

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 are estimates for additional project cost to be incurred for project development.

Retentions payable
Retentions payable pertains to amount withheld by the Group 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) and subscription payable. It also includes IMI Group's Subcontracting Service Agreement with a local customer. The current and noncurrent portion of the advances from the local customer follow (amounts in thousands):

	2015		2014	
	(In US$)	**(In Php)**	(In US$)	(In Php)
Total outstanding advances from the local customers	**$1,440**	₱67,784	$1,742	₱77,902
Less: Current portion	**317**	14,920	299	13,371
Noncurrent portion	**$1,123**	₱52,864	$1,443	₱64,531

**Translated using the closing exchange rate at the reporting date (US$1:₱47.06 in 2015 and US$1:₱44.72 in 2014)*

The current portion is included under "Accounts payable and accrued expenses".

22. Equity

Information about the Parent Company's common and preferred shares follow:

	Common shares		**Preferred A shares**		**Preferred B shares**		**Preferred C shares**		**Voting Preferred shares**	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	(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**	619,436	**–**	–	**47,000**	20,000	**–**	–	**200,000**	200,000
Outstanding shares										
At beginning of year	**619,436**	599,438	**–**	–	**47,000**	20,000	**–**	–	**200,000**	200,000
Issued new common shares	**–**	18,779	**–**	–	**–**	–	**–**	–	**–**	–
Issued shares on exercise of share options	**175**	451	**–**	–	**–**	–	**–**	–	**–**	–
Subscribed shares	**–**	768	**–**	–	**–**	–	**–**	–	**–**	–
Treasury stock										
Reissuance	**–**	–	**–**	–	**–**	27,000	**–**	–	**–**	–
Acquisition/ Redemption	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
At end of year	**619,611**	619,436	**–**	–	**47,000**	47,000	**–**	–	**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 Parent Company's Articles of Incorporation for the exemption of 100 million common shares from the exercise of pre-emptive rights of holders of common shares. These shares are allocated to support the financing activities of the Parent Company.

In November 2014, the Parent Company issued 18,779,100 common shares at a price of ₱660.00 per share through top-up placement. The top-up placement entails issuance by the Parent 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 Parent 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 Parent Company to support its investments in power and infrastructure projects.

<u>Preferred Shares</u>

Preferred A shares

On November 11, 2008, the Parent Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500.00 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 Parent Company under such terms that the BOD of the Parent Company 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 Parent Company starting on the fifth year.

On June 28, 2013, the BOD of Parent Company 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 Parent Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100.00 per share to be listed and traded in PSE. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Parent 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 Parent Company starting on the fifth year from the date of issuance.

On March 14, 2011, the BOD of the Parent Company 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.

Preferred B Series 1 shares

In September 2013, the BOD of the Parent Company approved and authorized the re-issuance and offering of the Preferred B Series 1 shares from its 58,000,000 authorized Class “B”preferred treasury capital for an aggregate amount of ₱10 billion. The Preferred B Series 1 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.25% per annum.

Preferred B Series 2 shares

On August 22, 2014, the BOD of the Parent Company approved and authorized the re-issuance and offering of the Preferred B Series 2 shares, which comprise a second and separate series from the Parent Company’s outstanding 5.25% Preferred B Series 1 shares, from its 58,000,000 authorized Class “B” preferred treasury share capital, for an aggregate amount of ₱13.5 billion. The Preferred B Series 2 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.575%. The reissuance resulted to the Parent 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 Parent Company under such terms that the BOD of the Parent Company may approve at the time of the issuance of the shares.

Voting Preferred shares

On March 15, 2010, the BOD of the Parent Company approved the reclassification of 4.0 million unissued common shares with a par value of ₱50.00 per share into 200.0 million Voting Preferred shares with a par value of ₱1.00 per share and the amendment of the Parent 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 Parent Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Parent 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 Parent Company under such terms that the BOD of the Parent Company 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 November 6, 2014, the Parent Company re-issued 27.0 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 Parent Company's paid-in capital follow:

2015

	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, 2015	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱30,799,997**	**₱171,810**	**₱36,115,565**	**(₱715,867)**	**₱73,571,505**
Exercise/cancellation of ESOP/ESOWN	**–**	**–**	**–**	**8,750**	**–**	**201,144**	**137,923**	**347,817**
At December 31, 2015	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱30,808,747**	**₱171,810**	**₱36,316,709**	**(₱577,944)**	**₱73,919,322**

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

The movements in the Parent Company's outstanding number of common shares follow:

	2015	2014	2013
		(In Thousands)	
At January 1	**619,436**	599,438	593,689
Exercise of ESOP/ESOWN	**175**	1,219	565
Issuance of new common shares	**–**	18,779	–
Reissuance of Treasury stock	**–**	–	5,184
At December 31	**619,611**	619,436	599,438

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities.

	Number of shares registered	Issue/offer price	Date of approval	**2015** Number of holders of securities as of December 31	2014 Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 1976	**6,791**	6,891
Preferred A shares***	12,000,000	₱100 par value; ₱500 issue price	November 2008	**–**	–
Preferred B shares	18,000,000	₱100 par value; ₱500 issue price	July 2006	**–**	–
Preferred B shares-Series 1****	20,000,000	₱100 par value; ₱500 issue price	October 2013	**18**	16
Preferred B shares-Series 2*****	20,000,000	₱100 par value; ₱500 issue price	October 2014	**9**	3
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 2010	**1,010**	1,007

**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 ₱92,897.0 million, ₱77,702.0 million and ₱64,307.3 million as of December 31, 2015, 2014 and 2013, respectively, which are not available for dividend declaration by the Parent 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 Parent Company's retained earnings available for dividend declaration as of December 31, 2015 and 2014 amounted to ₱29.3 billion and ₱27.0 billion, respectively.

Dividends consist of the following:

	2015	2014	2013
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱3,568,930**	₱2,927,822	₱2,877,477
Cash dividends per share	**5.76**	4.80	4.80
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred B shares	**1,277,625**	1,277,625	525,000
Cash dividends to Voting Preferred shares	**3,750**	3,750	3,750

Capital Management

The primary objective of the Parent Company's capital management policy is to ensure that it maintains a robust balance sheet in order to support its business and maximize shareholder value.

The Parent 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 Parent 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, 2015, 2014 and 2013.

The Parent Company monitors capital using a gearing ratio of debt to equity, net debt to equity and loan-to-value ratio. 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 Parent Company considers as capital the equity attributable to equity holders of the Parent Company.

	2015	2014
	(In Thousands)	
Short-term debt	**₱24,387,515**	₱21,084,269
Long-term debt	**238,953,179**	237,760,458
Total debt	**263,340,694**	258,844,727
Less:		
Cash and cash equivalents	**82,154,542**	90,769,525
Short-term investments	**2,052,288**	1,102,703
Restricted cash	**–**	8,273,200
Net debt	**₱179,133,864**	₱158,699,299
Equity attributable to owners of the parent	**₱208,657,359**	₱185,664,151
Debt to equity	**126.2%**	139.4%
Net debt to equity	**85.9%**	85.5%

The Parent Company is not subject to externally imposed capital requirements.

23. **Other Income and Costs and Expenses**

Other income consists of:

	2015	2014	2013
		(In Thousands)	
Revenue from rehabilitation works (Note 14)	**₱5,085,532**	₱3,285,900	₱5,160,312
Gain on sale of investments (Notes 11 and 12)	**2,377,381**	2,633,329	190,296
Connection fees	**622,013**	496,377	646,109
Collateral income on automotive sales	**552,249**	333,284	284,118
Revenue from management contracts	**437,442**	645,087	624,424
Mark to market gain on financial assets at FVPL and derivatives (Notes 9 and 31)	**243,452**	392,002	1,345,800
Dividend income	**229,362**	224,767	173,031
Foreign exchange gain/(loss) (Note 31)	**97,424**	(177,404)	113,226
Gain on sale of other assets	**76,888**	711,001	19,382
Insurance claim	**46,034**	40,131	23,891
Recoveries of accounts written off (Note 7)	**–**	49,807	404,595
Others	**1,529,160**	545,973	321,671
	₱11,296,937	₱9,180,254	₱9,306,855

"Others" mainly includes income derived from ancillary services and miscellaneous income of consolidated subsidiaries. This include, among others, marketing fees; integrated used water and other water services (e.g., sale of packaged water, septic sludge disposal and bacteriological water analysis); and income from sale of scrap. Others include gain on reversion of land from a property previously donated by the Parent Company amounting to ₱575.1 million (see Note 13).

Details of costs of rendering services included in the consolidated statement of income are as follows:

	2015	2014	2013
		(In Thousands)	
Personnel costs (Notes 27 and 30)	**₱10,301,230**	₱9,466,055	₱8,657,801
Depreciation and amortization (Notes 13, 14, 15 and 16)	**8,023,955**	7,981,039	7,526,263
Rental, utilities and supplies	**6,504,930**	6,223,666	6,468,249
Taxes and licenses	**2,272,950**	1,821,705	2,028,640
Repairs and maintenance	**2,032,569**	1,664,722	888,370
Contract labor	**1,890,244**	353,468	508,047
Professional and management fees	**1,404,319**	5,980,762	4,246,499
Transportation and travel	**290,891**	164,247	658,799
Insurance	**150,462**	230,036	212,692
Others	**701,695**	609,982	291,326
	₱33,573,245	₱34,495,682	₱31,486,686

"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:

	2015	2014	2013
		(In Thousands)	
Personnel costs (Notes 27 and 30)	**₱9,201,418**	₱8,451,329	₱7,476,239
Taxes and licenses	**1,421,262**	1,203,119	938,430
Depreciation and amortization (Notes 13, 14, 15 and 16)	**1,419,134**	1,177,156	1,117,642
Professional fees	**1,216,319**	1,171,376	1,021,964
Advertising and promotions	**794,388**	540,951	375,341
Rental and utilities	**597,187**	481,518	453,620
Contract labor	**510,354**	314,895	153,342
Transportation and travel	**408,002**	415,097	325,861
Repairs and maintenance	**282,804**	276,481	236,864
Donations and contributions	**274,036**	360,208	358,441
Provision for doubtful accounts (Note 7)	**261,066**	182,383	686,094
Entertainment, amusement and recreation	**239,625**	159,620	76,551
Postal and communication	**218,722**	203,296	207,042
Insurance	**201,168**	203,413	160,066
Supplies	**144,136**	124,169	159,782
Dues and fees	**81,979**	93,359	89,352
Provision for inventory obsolescence (Note 8)	**74,435**	149,077	105,702
Research and development	**28,534**	47,133	94,431
Others	**677,672**	276,420	577,077
	₱18,052,241	₱15,831,000	₱14,613,841

"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:

	2015	2014	2013
		(In Thousands)	
Included in:			
Costs of sales and services	**₱8,023,955**	₱7,981,039	₱7,526,263
General and administrative expenses	**1,419,134**	1,177,156	1,117,642
	₱9,443,089	₱9,158,195	₱8,643,905

Personnel costs included in the consolidated statement of income follow:

	2015	2014	2013
		(In Thousands)	
Included in:			
Costs of sales and services	**₱10,301,230**	₱9,466,055	₱8,657,801
General and administrative expenses	**9,201,418**	8,451,329	7,476,239
	₱19,502,648	₱17,917,384	₱16,134,040

Interest and other financing charges consist of:

	2015	2014	2013
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱882,759**	₱131,939	₱914,214
Long-term debt	**11,247,615**	10,439,736	7,552,952
Amortization of service concession obligations and deposits	**558,434**	576,757	613,142
Amortization of discount on long-term debt	**267,540**	313,730	274,518
Others	**320,066**	471,619	1,156,606
	₱13,276,414	₱11,933,781	₱10,511,432

"Others" include, among others, various charges such as, pretermination costs, bond offering fees, and credit card charges.

Other charges consist of:

	2015	2014	2013
		(In Thousands)	
Cost of rehabilitation works (Note 15)	**₱5,085,532**	₱3,285,900	₱5,161,312
Provision for impairment losses on:			
Intangible assets (Notes 16 and 24)	**182,298**	335,731	31,830
AFS financial assets (Note 10)	**61,701**	66,834	228,580
Property, plant and equipment (Note 14)	**88,753**	–	222
Investment in associate (Note 12)	**546,333**	–	–
Investment properties (Note 13)	**–**	–	400
Write offs and other charges	**–**	2,080	–
Others	**5,857**	138,475	58,472
	₱5,970,474	₱3,829,020	₱5,480,816

"Others" include cost and expenses relating to income derived from ancillary services of subsidiaries as shown in other income.

24. Business Combinations and Transactions with Non-controlling Interests

2015 Acquisitions

University of Nueva Caceres
On July 28, 2015, AEI acquired 59% ownership interest in the shares of stock of UNC amounting to ₱450.0 million. UNC is located in Naga, Camarines Sur and was founded in 1948 as the first university in Southern Luzon outside Manila. UNC has around 7,000 students, with many well-recognized programs in arts and sciences, business and accountancy, computer studies, criminal justice, education, engineering and architecture, graduate studies, law, nursing and basic education (K-10).

The purchase price allocation was determined using the June 30, 2015 financial information resulting into zero goodwill. The purchase price has been allocated based on management's estimates after considering independent appraisals of the fair values of the acquired identifiable assets and assumed liabilities at the date of acquisition as follows (amount in thousands):

Assets	
Cash	₱148,550
Receivables	50,680
Prepaid expense and other current assets	1,170
Properties and equipment	836,060
Other noncurrent assets	4,360
	1,040,820
Liabilities	
Accounts payable and accrued expenses	57,870
Income tax payable	18,780
Special funds and deposits payable	157,490
Pension liability	27,860
Deferred income	22,580
	284,580
Net assets	756,240
Goodwill	–
Non-controlling interest	307,660
Acquisition cost	₱448,580

The gross amount and fair value of the receivables amounts to ₱66.4 million and ₱50.7 million, respectively. From the date of acquisition, the Group's share in the revenue and net income of UNC amounted to ₱85.7 million and ₱23.3 million, respectively.

Monte Solar Energy, Inc.
On September 8, 2015, AC Energy signed the Subscription and Shareholder's Agreement with Bronzeoak Philippines, Inc. for the development, construction and operation of a solar power farm in Bais City, Negros Oriental. The project will be owned and operated by Monte Solar Energy, Inc., (Monte Solar) a special purpose vehicle, and shall be undertaken in two phases. The first phase is for an 18MW solar power plant with total project cost of ₱1.3 billion and is targeted for completion by March 2016. The second phase is for the expansion of the initial 18MW solar power farm to up to 40MW.

AC Energy acquired 96.0% economic interest in Monte Solar. Below is a summary of the fair value of assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Assets	
Cash	₱304
Input VAT	306
Properties and equipment - net	5,740
Security deposits	134
	6,484
Liabilities	
Trade and other payables	1,628
Advances from affiliates	5,757
	7,385
Net liability	(901)
Goodwill	1,585
Non-controlling interest	36
Acquisition cost	₱720

Cash on acquisition is as follows (in thousands):

Cash acquired from Monte Solar Energy, Inc.	₱304
Cash paid	(720)
Net cash flow	(₱416)

ALO Prime Realty Corporation (APRC) *formerly Aegis People Support Realty Corporation*
On April 8, 2015, ALI purchased all of the 8,200,000 common shares of Equinox Technoparks Ltd, Inc. in APRC, which is a PEZA-registered entity, owns the Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 square meters and is largely occupied by Teleperformance under a long-term lease.

The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. The following are the preliminary fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱15,580
Trade and other receivables	305,070
Other current assets	5,740
Investment properties	1,584,929
Other noncurrent assets	4,095
	1,915,414
Liabilities	
Accounts and other payables	1,336,692
Other current liabilities	56,962
Deferred tax liabilities	8,083
	1,401,737
Net asset	513,677
Goodwill	–
Acquisition cost	₱513,677

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 April 8 to December 31, 2015, ALI's share in APRC's revenue and net income amounted to ₱141.1 million and ₱72.3 million, respectively. If the combination had taken place at the beginning of 2015, ALI's share in APRC's total revenue and net income would have been ₱189.8 million and ₱94.8 million, respectively.

Island Transvoyager, Inc. (ITI)
On December 1, 2015, ALI Capital Corp. (formerly Varejo Corp.), a wholly owned subsidiary of ALI, acquired 100% ownership interest in ITI following the purchase of all outstanding shares from existing shareholders, in the amount of ₱15.0 million.

ITI was incorporated on October 2, 2002 with the primary purpose of carrying on the general business of a common carrier and/or private carrier. It was granted the Air Carrier Operating Certificate by the Air Transportation Office to enable it to operate as a scheduled domestic air transportation service provider.

ITI is the only airline commercially flying from Manila to Lio in El Nido, Palawan. On November 26, 2015, ITI launched "AirSwift" as its new brand and introduced its new Cebu-El Nido-Cebu route. As of end-2015, it currently operates a fleet of two (2) ATR 42-500 that can seat a maximum of 50 passengers each, and operates 3x-4x daily flights to El Nido. It is also expected to be a key player in the industry as it flies to more tourism destinations not serviced by the bigger commercial airlines.

If the combination had taken place at the beginning of 2015, ALI's share in ITI's total revenue and net income would have been ₱434.8 million and ₱0.2 million, respectively.

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 (AEGC), 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 on 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 increased ₱4.4 million and net income would have decreased ₱21.2 million.

In 2015, ACEHI finalized the purchase price allocation and there were no changes to fair market value of the assets acquired and liabilities assumed.

Transactions with Non-controlling Interest

Parent Company
MWC
In 2015, the Group acquired 77,629,900 MWC shares amounting to ₱1.9 billion. The transaction increased the ownership interest of the Group in MWC from 32.2% to 35.3% as of December 31, 2015.

The difference between the fair value of the consideration paid and the amount of which the controlling interest is adjusted amounting to ₱675.4 million is recognized in equity under "Equity Reserve".

ALI Group
North Triangle Depot Commercial Corporation (NTDCC)
On December 10, 2014, ALI purchased its proportionate share in Anglo Philippine Holdings Corporation's (APHC) 15.79% ownership interest in NTDCC for ₱738.3 million which consists of 539,249 common shares and 2,265,507 preferred shares. This increased ALI's ownership interest 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.

On December 22, 2014, ALI purchased the shares of Allante Realty and Development Corporation (ARDC) and DBH Incorporated (DBH) in NTDCC for ₱211.2 million which comprises of 154,287 common shares and 648,196 preferred shares for each company. This resulted to an increase in ALI's ownership interest in NTDCC from 49.29% to 63.82% of the total outstanding capital stock of NTDCC.

On February 6, 2015, ALI purchased the remaining interest of APHC in NTDCC consisting of 382,072 common shares and 1,605,169 preferred shares amounting to ₱523.0 million. The transaction increased ALI's ownership interest from 63.82% to 70.36% of the total outstanding capital stock of NTDCC.

ALI subsequently purchased the combined remaining interest of ARDC and DBH in NTDCC consisting of 167,548 common shares and 703,904 preferred shares amounting to ₱229.0 million which increased ALI's ownership interest in NTDCC from 70.36% to 73.24% of the total outstanding capital stock of NTDCC. This acquisition is aligned with ALI's thrust of expanding its leasing business.

Philippine Intergrated Energy Solutions, Inc. (PhilEnergy)
ALI acquired Mitsubishi Corporation's (MC) 40% equity ownership interest 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 ₱322.3 million.

Asian Conservation Company, Inc. (ACCI)
On November 19, 2013, AyalaLand Hotels and Resorts Corporation (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 ALI 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 interests 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 January 9, 2013, pursuant to the second amendment to the Investors' Agreement, the parties received the exercise notice which is one of the conditions for the completion of the sale and purchase of the option shares.

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.

Details of the transactions are as follows (amounts in thousands):

	2014		2013	
Change in ownership interest	83.25% to 100%		55.78% to 83.25%	
Non-controlling interests acquired	($3,145)	(₱140,644)	($4,541)	(₱201,598)
Consideration paid to non-controlling shareholders	$500	₱22,360	$125[a]	₱5,549
Value of the option exercised	–	–	2,857	126,837
Total consideration	500	22,360	2,982	132,386
Total amount recognized against "Equity Reserves"	($3,645)	₱163,004	($7,523)	₱333,984

[a] *Share of the Parent Company in the exercise price*

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	₱8,974
Consideration paid to the non-controlling shareholder	(138)	(6,211)
Total amount recognized in "Equity Reserves"	US$62	₱2,763

**Translated using the exchange rate at the reporting date (US$1:₱47.06 in December 31, 2015).*

25. Income Tax

The components of the Group's deferred taxes are as follows:

Net deferred tax assets

	2015	2014
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱5,334,046**	₱4,054,553
Accrued expenses	**1,492,455**	89,224
Allowance for probable losses	**1,208,469**	1,051,452
Service concession obligation	**891,967**	855,050
Retirement benefits	**420,325**	1,593,628
Unrealized foreign exchange loss	**63,012**	47,028
Allowance for doubtful accounts	**24,917**	36,013
Fair value adjustment on property, plant and equipment	**20,538**	23,743
Allowance for inventory obsolescence	**19,498**	18,339
Advanced rental	**4,620**	130,745
Remeasurement Loss	**182,319**	30,588
Others	**621,310**	684,781
	10,283,476	8,615,144
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(532,862)**	(557,149)
Unrealized foreign exchange gain	**–**	(2,305)
Others	**(7,817)**	(670)
	(540,679)	(560,124)
Net deferred tax assets	**₱9,742,797**	₱8,055,020

Net deferred tax liabilities

	2015	2014
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱298,848**	₱131,721
NOLCO	**189,630**	42,006
Fair value adjustments on:		
Long-term debt	**125,060**	193,834
AFS financial asset	**1,116**	1,116
Allowance for probable losses	**89,213**	71,020
Unrealized foreign exchange loss	**27,662**	–
Retirement benefits	**26,106**	39,396
Advanced rental	**8,849**	25,891
Others	**21,569**	27,369
	788,053	532,353
Deferred tax liabilities on:		
Fair value adjustments on:		
Service concession assets	**(4,294,580)**	(4,498,258)
Land and improvements	**(625,490)**	(625,490)
Property, plant and equipment	**(239,778)**	(472,395)
Service concession obligation	**(34,091)**	(34,091)
Customers' guaranty and other deposits	**(18,691)**	(18,691)
Difference between tax and book basis of accounting for real estate transactions	**(1,423,376)**	(1,258,928)
Prepaid expenses	**(119,525)**	(134,665)
Concession finance receivable	**(68,677)**	(67,874)
Capitalized interest and other expenses	**(64,450)**	(63,801)
Unrealized gain on AFS financial assets	**(15,989)**	(84,375)
Unrealized foreign exchange gain	**(11,819)**	(4,141)
Unrealized fair value gain less costs to sell of biological assets	**(6,938)**	(7,142)
Service concession obligation	**(4,823)**	(2,495)
Others	**(300,331)**	(2,640)
	(7,228,558)	(7,274,986)
Net deferred tax liabilities	**(₱6,440,505)**	(₱6,742,633)

The Group has NOLCO amounting to ₱14.6 billion and ₱13.1 billion in 2015 and 2014, respectively, on which deferred tax have not been recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱46.6 million in 2015 and ₱83.1 million in 2014, 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, 2015, 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)	
2013	2016	₱4,076,216	₱32,167
2014	2017	5,767,695	28,670
2015	2018	4,923,841	19,606
		₱14,767,752	₱80,443

As of December 31, 2015 and 2014 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 ₱3.7 billion and ₱5.1 billion as of December 31, 2015 and 2014, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2015	2014	2013
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nontaxable share of profit of associates and joint ventures	**(9.54)**	(9.79)	(9.84)
Nondeductible expenses	**0.78**	1.44	–
Interest income and capital gains subjected to lower rates	**(0.72)**	(2.03)	(1.61)
Income under income tax holiday	**(0.17)**	(0.31)	(0.48)
Others	**(1.31)**	0.83	3.55
Effective income tax rate	**19.04%**	20.14%	21.62%

The income tax on profits of overseas subsidiaries 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, 2015, 2014, and 2013.

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 Parent Company:

	2015	2014	2013
	(In Thousands, except EPS figures)		
Net income attributable to the owners of the Parent Company	**₱22,278,955**	₱18,609,229	₱12,777,932
Less dividends on preferred stock	**1,281,375**	622,828	528,750
	20,997,580	17,986,401	12,249,182
Less profit impact of assumed conversions of potential ordinary shares of investees	**225,795**	205,014	16,342
	₱20,771,785	₱17,781,387	₱12,232,840
Weighted average number of common shares	**619,562**	603,060	596,591
Dilutive shares arising from stock options	**2,637**	2,751	3,399
Adjusted weighted average number of common shares for diluted EPS	**622,199**	605,811	599,990
Basic EPS	**₱33.89**	₱29.83	₱20.53
Diluted EPS	**₱33.38**	₱29.35	₱20.39

27. Defined Benefit Plan

The Parent 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 a certain minimum lump-sum guarantee of effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱817.4 million, ₱839.3 million and ₱651.5 million in 2015, 2014 and 2013, respectively.

The Parent 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 Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent 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. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

For the subsidiaries, the funds are generally administered by a trustee bank under the supervision of the Board of Trustees of the plan for each subsidiary. 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.

Existing regulatory framework in the Philippines 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 statement of income follow:

	2015	2014	2013
		(In Thousands)	
Current service cost	**₱704,928**	₱768,166	₱592,284
Past service cost	**28,458**	6,903	644
Net interest cost on benefit obligation	**84,832**	64,070	49,542
Loss (gain) on curtailment and settlements	**(791)**	114	9,009
Total pension expense	**₱817,427**	₱839,253	₱651,479

The remeasurement effects recognized in other comprehensive income (included in Equity under “Remeasurement gains/(losses) on defined benefit plans”) in the consolidated statement of financial position follow:

	2015	2014	2013
		(In Thousands)	
Return (loss) on plan assets (excluding amount included in net interest)	**₱87,456**	₱193,384	(₱172,247)
Actuarial loss (gain) due to liability assumption changes – demographic	**(150,092)**	(300,898)	315,393
Actuarial loss (gain) due to liability assumption changes – financial assumptions	**(15,516)**	(196,820)	422,994
Remeasurements in other comprehensive income	**(₱78,152)**	(₱304,334)	₱566,140

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan as of December 31, 2015 and 2014, as follows:

	2015	2014
	(In Thousands)	
Benefit obligations	**₱9,442,829**	₱9,167,101
Plan assets	**(6,963,028)**	(7,006,199)
Net pension liability position	**₱2,479,801**	₱2,160,902

As of December 31, 2015 and 2014 pension assets (included under “Pension and Other Noncurrent Assets”) amounted to ₱66.2 million, and ₱19.1 million (see Note 17), respectively, and pension liabilities amounted to ₱2.5 billion and ₱2.2 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

	2015	2014
	(In Thousands)	
Balance at beginning of year	**₱9,167,101**	₱9,171,938
Current Service Cost	**704,928**	768,166
Past service cost	**28,458**	6,903
Interest cost	**295,396**	374,887

(Forward)

	2015	2014
	(In Thousands)	
Loss (gain) on curtailment and settlements	**(₱791)**	₱114
Benefits paid from plan assets	**(591,813)**	(674,104)
Remeasurements in other comprehensive income:		
Actuarial changes arising from changes in demographic	**(148,248)**	(300,668)
Actuarial changes arising from experience adjustments	**(15,516)**	(196,820)
Transfers	**9,445**	8,595
Foreign currency exchange difference	**(6,131)**	8,090
	₱9,442,829	₱9,167,101

Fair value of plan assets

	2015	2014
	(In Thousands)	
Balance at beginning of year	**₱7,006,199**	₱6,657,386
Contributions	**359,060**	532,480
Interest income on plan assets	**210,564**	310,817
Return on plan assets (excluding amount included in net interest)	**(87,456)**	(193,154)
Benefits paid	**(524,791)**	(303,266)
Transfers	**5,034**	6,229
Foreign currency exchange difference	**(5,582)**	(4,293)
	₱6,963,028	₱7,006,199

The fair value of plan assets by each classes as at the end of the reporting period are as follow:

	2015	2014
	(In Thousands)	
Assets		
Cash and Cash Equivalents	**₱243,009**	₱334,639
Debt investments	**3,150,587**	3,474,513
Equity Investments	**3,312,254**	3,149,663
Other Assets	**192,454**	46,980
	6,898,304	7,005,795
Liabilities		
Trust fee payable	**(2,337)**	(9,798)
Unamortized tax on premium	**–**	(60,219)
Other liabilities	**(5,011)**	(609)
	(7,348)	(70,626)
Net Asset Value*	**₱6,890,956**	₱6,935,169

*The difference of ₱72.0 million and ₱71.0 million in the fair value of plan assets as of December 31, 2015 and 2014, 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:

	2015	2014
Discount rates	**2.0% to 5.3%**	4.0% to 5.0%
Future salary increases	**3.0% to 8.0%**	4.0% to 8.0%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

		2015	2014
	Increase (decrease)	Net Pension Liabilities	
		(In Thousands)	
Discount rates	1%	**(₱554,323)**	(₱602,308)
	-1%	**640,094**	771,273
Future salary increases	1%	**623,851**	749,728
	-1%	**(530,083)**	(596,164)

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 45.7% of debt instruments, 48.0% of equity instruments and 6.3% other assets.

The Group expects to contribute ₱775.0 million to the defined benefit pension plan in 2016.

The average duration of the defined benefit obligation at the end of the reporting period is 5.3 to 27.1 years in 2015 and 5.3 to 26.8 years in 2014.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2015 (amounts in thousands):

Less than 1 year	₱1,022,280
More than 1 year to 5 years	3,094,977
More than 5 years to 10 years	2,475,135
More than 10 years	8,487,384
	₱15,079,776

As of December 31, 2015 and 2014, the plan assets include shares of stock of the Parent Company with total fair value of ₱559.3 million and ₱862.2 million, respectively

The fund includes investment in securities of its related parties. Details of the investment per type of security are as follows (in thousands):

2015	**Carrying Value**	**Fair Value**	**Unrealized Gains**
		(In Thousands)	
Equity securities	**₱917,694**	**₱1,046,696**	**₱129,002**
Debt securities	**935,928**	**957,698**	**21,770**
Unit investment trust funds	**428,229**	**426,330**	**(1,899)**
	₱2,281,851	**₱2,430,724**	**₱148,873**

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

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 Parent 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 Parent Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

ESOP

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 Parent 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.

Movements in the number of stock options outstanding under ESOP are as follows:

	2015		2014		2013	
	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	**1,621,606**	**₱301.80**	2,893,368	₱249.13	3,940,680	₱177.46
Exercised	**(282,913)**	**(301.17)**	(666,299)	(231.63)	(766,450)	(177.61)
Grants	**–**	**–**	–	–	445,064	500
Cancelled	**–**	**–**	(605,463)	(127.32)	(725,926)	(89.41)
Outstanding, at end of year	**1,338,693**	**(₱301.51)**	1,621,606	₱301.80	2,893,368	₱249.13

The options have a contractual term of 10 years. As of December 31, 2015 and 2014, the weighted average remaining contractual life of options outstanding is 7 years and 7.3 years, respectively, and the range of exercise prices amounted from ₱227.50 to ₱500.00, 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
Weighted average share price	₱640.00	₱352.08	₱303.70
Exercise price	₱500.00	₱316.87	₱273.03
Expected volatility	42.40%	41.21%	41.31%
Option life	10 years	10 years	10 years
Expected dividends	0.54%	0.86%	0.92%
Risk-free interest rate	3.04%	6.64%	8.56%

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 full to the shares awarded to them based on the discounted market price that was determined by the Personnel and Compensation Committee as the 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.

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. This option is no longer provided on the 2015 ESOWN. Movements in the number of options outstanding under ESOWN as of December 31, 2015 and 2014 follow:

	2015		2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At January 1	**61,154**	**₱296.17**	120,244	₱260.22
Granted	**–**	**–**	8,344	480.00
Exercised/cancelled	**–**	**–**	(67,434)	275.77
At December 31	**61,154**	**₱296.17**	61,154	₱273.06

In 2015, the Parent Company introduced a revised ESOWN plan wherein grantees are given one (1) month from the time an allocation is awarded to subscribe in full. Partial subscription is not a feature of the 2015 ESOWN plan. Share options granted totaling 533,350 were unsubscribed as of December 31, 2015.

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:

	December 23, 2015*	April 11, 2014	April 30, 2012	April 30, 2009
Number of unsubscribed shares	533,350	8,344	50,229	17,788
Fair value of each option	₱444.59	₱619.00	₱259.97	₱112.87
Weighted average share price	₱718.88	₱673.96	₱434.47	₱263.38
Exercise price	₱611.05	₱480.00	₱322.00	₱180.13
Expected volatility	38.23%	42.13%	41.78%	49.88%
Dividend yield	0.67%	0.74%	0.74%	1.59%
Interest rate	4.81%	4.38%	5.59%	7.49%

**The grant of ESOWN shares was approved by the Personnel and Compensation Committee on December 23, 2015 and was subsequently ratified by the Parent Company's Board of Directors on January 19, 2016.*

Total expense arising from share-based payments of the Parent Company (included under "General and administrative expenses") in the consolidated statement of income amounted to ₱373.2 million, ₱222.4 million and ₱199.3 milllion in 2015, 2014 and 2013, respectively.

ALI

ALI has stock option plans for key officers (ESOP) and employees (ESOWN) covering 2.5% of 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

	2015	**Weighted average exercise price**	2014	Weighted average exercise price
At January 1	**2,858,360**	**₱4.58**	10,377,981	₱4.58
Exercised	**(2,858,360)**	**4.26**	(5,624,981)	4.26
Cancelled	**–**	**–**	(1,894,640)	–
At December 31	**–**	**₱5.63**	2,858,360	₱4.58

The options exercised had a weighted average exercise price of ₱5.63 per share or ₱16.1 million in 2015, and ₱4.26 per share or ₱23.96 million in 2014.

The average fair market value of the shares at the exercise date was ₱36.53 per share or about ₱104.4 million in 2015 and ₱31.46 per share or about ₱177.0 million in 2014.

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.

<u>ESOWN</u>
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, 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:

	2015	**WAEP**	2014	WAEP
At January 1	**12,279,280**	**₱15.61**	12,683,257	₱14.19
Granted	**14,632,157**	**–**	12,640,541	–
Subscribed	**(17,856,271)**	**26.16**	(12,330,426)	21.10
Cancelled availment	**727,385**	**–**	279,632	–
Cancelled	**(1,048,131)**	**–**	(993,724)	–
At December 31	**8,734,420**	**₱16.96**	12,279,280	₱15.61

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, 2015	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	₱16.03	₱12.60	₱12.07	₱6.23	₱7.27	₱8.88
Weighted average share price	₱36.53	₱31.46	₱30.00	₱21.98	₱15.5	₱13.00
Exercise price	₱29.58	₱22.55	₱21.45	₱14.69	₱13.2	₱9.74
Expected volatility	31.99%	33.50%	36.25%	33.00%	36.25%	43.57%
Dividend yield	1.02%	1.42%	1.93%	0.90%	1.01%	0.48%
Interest rate	4.11%	3.13%	2.78%	5.70%	5.60%	5.95%

	Grant Date			
	April 30, 2009	May 15, 2008	September 20, 2007	June 5, 2006
Number of unsubscribed shares	5,418,619	15,057,840	494,400	5,270,333
Fair value of each option	₱4.05	₱6.77	₱6.93	₱7.33
Weighted average share price	₱6.40	₱10.50	₱15.00	₱13.00
Exercise price	₱4.96	₱9.74	₱12.00	₱10.35
Expected volatility	37.45%	32.04%	34.67%	46.03%
Dividend yield	0.85%	0.49%	0.41%	1.56%
Interest rate	5.94%	8.53%	6.93%	10.55%

Total expense (included under “General and administrative expenses”) recognized in 2015, 2014 and 2013 in the consolidated statement of income arising from share-based payments of ALI amounted to ₱213.6 million, ₱196.1 million and ₱232.7 million, respectively.

IMI

IMI Group has an ESOWN, which is a privilege extended to IMI Group’s eligible managers and staff whereby IMI Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Compensation Committee of IMI.

- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1st Anniversary	5.0%
2nd Anniversary	7.5%
3rd Anniversary	10.0%
Over the remaining years	75.0% balance

- Holding period:

40%	after one (1) year from subscription date
30%	after two (2) years from subscription date
30%	after three (3) years from subscription date

On August 5, 2015, the Executive Committee of IMI approved the grant of ESOWN to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of IMI's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the IMI Group.

On October 13, 2014, the Executive Committee of IMI approved the grant of stock options (ESOWN) to qualified executives covering up to 35,900,000 shares at a subscription price of ₱5.91 per share, equivalent to the average closing price of IMI's common shares, at the PSE for 20 consecutive trading days ending September 24, 2014, net of 15% discount. Out of the total shares granted, 31,797,958 shares were subscribed by 38 executives of IMI Group, of which 7,821,848 shares are from unissued shares and 23,976,110 shares were issued from ESOWN Trust Account where all the previously cancelled ESOWN subscriptions were held.

Movements in the number of shares outstanding under ESOWN in 2015, 2014 and 2013 follow:

	2015		2014		2013	
	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	**135,902,428**	**₱6.71**	107,380,812	₱6.95	110,405,814	₱6.95
Forfeitures	**(2,555,329)**	**6.37**	(3,276,342)	6.95	(3,025,002)	6.95
Subscriptions	**10,393,394**	**5.11**	31,797,958	5.91	–	–
Balances at December 31	**143,740,493**	**₱6.69**	135,902,428	₱6.71	107,380,812	₱6.95

Total expense arising from share-based payments of IMI (included under "General and administrative expenses") in the consolidated statement of income amounted to US$1.5 million (₱72.0 million), US$0.2 million (₱7.5 million), and US$0.01 million (₱0.4 million) in 2015, 2014 and 2013, respectively.

MWC

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP and ESOWN

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. In computing for the stock option value for the 2015 grant, MWC assumed 26.53%, 2.55% and 3.79% as the volatility, dividend yield and risk-free interest rate, respectively.

For the unsubscribed shares, the employee still has the option to subscribe within 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				
	February 10, 2015	November 19, 2013	October 5, 2012	September 19, 2011	April 30, 2009
Number of shares granted	7,281,647	6,627,100	4,772,414	5,073,000	9,241,025
Number of unsubscribed shares	884,873	351,680	460,000	992,000	1,442,000
Fair value of each option	₱11.58	₱10.58	₱11.76	₱8.68	₱5.90
Weighted average share price	₱21.35	₱23.00	₱26.24	₱19.80	₱13.50
Exercise price	₱26.00	₱22.92	₱24.07	₱17.38	₱9.63
Expected volatility	26.53%	24.90%	30.66%	33.68%	44.66%
Dividend yield	2.55%	3.47%	2.56%	2.68%	2.92%
Risk-free interest rate	3.79%	2.99%	4.57%	4.76%	8.53%
Expected life of option	4 years	4 years	4 years	4 years	4 years

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:

Year	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:

	2015	**Weighted average exercise price**	2014	Weighted average exercise price
At January 1	**4,193,347**	**₱22.92**	6,791,736	₱22.92
Granted	**7,281,647**	**26.00**	–	–
Exercised	**(6,396,774)**	**26.00**	(2,528,708)	22.92
Cancelled	**(81,627)**	**–**	(69,681)	–
At December 31	**4,996,593**	**₱23.49**	4,193,347	₱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 ₱68.7 million, ₱63.1 million, and ₱50.8 million in 2015, 2014 and 2013, respectively.

On January 6, 2015, the Remuneration Committee of MWC approved the grant to the qualified executives, officers and employees of MWC, pursuant to the ESOWN, of stock options covering up to 7,281,647 common shares at a subscription price of ₱26.00 per share which is equivalent to the average closing price of MWC’s common shares at the Philippine Stock Exchange for 20 consecutive trading days ending November 26, 2014, net of 10% discount.

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.

29. **Operating Segment Information**

For management purposes, the Group is organized into the following business units:

- Parent Company - represents operations of the Parent Company including its financing entities such as ACIFL, AYCFL, PFIL and MHI.
- Real estate and hotels - planning and development of large-scale fully integrated mixed-used communities that become thriving economic centers in their respective regions. This include 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 - commercial banking operations with expanded banking license. These include diverse services such as deposit taking and cash management (savings and time deposits in local and foreign currencies, payment services, card products, fundtransfers, international trade settlement and remittances from overseas workers); lending (corporate, consumer, mortgage, leasing and agri-business loans); asset management (portfolo management, unit funds, trust administration and estate planning); securities brokerage (on-line stock trading); foreign exchange and capital markets investments (securities dealing); corporate services (corporate finance, consulting services); investment banking (trust and investment services); a fully integrated bancassurance operations (life, non-life, pre-need and reinsurance services); and other services (internet banking, foreign exchange and safety deposit facilities).

- Telecommunications (Telecoms) - provider of digital wireless communications services using a fully digital network; domestic and international long distance communication services or carrier services; broadband internet and wireline voice and data communication services; also licensed to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services. In recent years, operations include developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes.

- Water distribution and used water 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, distribution services, pipeworks, used water management and management services.

- Electronics - global provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services with manufacturing facilities in Asia, Europe, and North America. It serves diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, and consumer electronics industries. Committed to cost-effective and innovative customized solutions (from design and product development to manufacturing and order fulfillment), the company's comprehensive capabilities and global manufacturing presence allow it to take on specific outsourcing needs.

- Energy - unit that will build a portfolio of power generation assets using renewable and conventional technologies which in turn will operate business of generating, transmission of electricity, distribution of electricity and supply of electricity, including the provision of related services.

- Information technology and BPO services - venture capital for technology businesses and emerging markets; onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, full-service creative and marketing, human capital management solutions, and full-service accounting.

- Automotive and Others - includes operations of Automotive unit (manufacturing, distribution and sale and providing repairs and services for passenger cars and commercial vehicles); International unit (investments in overseas property companies and projects); Aviation (air-chartered services); consultancy, agri-business and other operating companies. This business segment group also includes the start-up companies like Infrastructure (development arm for its transport infrastructure investments); education and health services.

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, 2015 and 2014 and revenue and income information for each of the three years in the period ended December 31, 2015 (amounts in millions):

2015

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Distribution and Used water Services	Electronics	Information Technology and BPO Services	Energy	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱52	₱100,266	₱–	₱–	₱15,867	₱36,958	₱2,047	₱–	₱18,845	₱–	₱174,035
Intersegment	153	395	–	–	163	–	7	–	435	(1,153)	–
Share of profit of associates and joint ventures	–	(140)	8,856	4,899	403	–	(252)	1,026	246	–	15,038
Interest income	867	5,980	–	–	318	30	51	15	36	–	7,297
Other income	1,424	683	–	–	6,220	(81)	28	1,794	1,703	(474)	11,297
Total income	2,496	107,184	8,856	4,899	22,971	36,907	1,881	2,835	21,265	(1,627)	207,667
Operating expenses	3,605	72,099	–	–	14,443	35,152	2,145	893	20,210	(1,464)	147,083
Operating profit (loss)	(1,109)	35,085	8,856	4,899	8,528	1,755	(264)	1,942	1,055	(163)	60,584
Interest and other financing charges	4,259	7,334	–	–	1,402	124	32	13	104	9	13,277
Provision for (benefit from) income tax	90	6,854	–	–	1,631	271	39	(48)	168	7	9,012
Net income (loss)	(₱5,458)	₱20,897	₱8,856	₱4,899	₱5,495	₱1,360	(₱335)	₱1,977	₱783	(₱179)	₱38,295
Other information											
Segment assets	₱69,090	₱416,909	₱–	₱–	₱96,401	₱24,398	₱2,834	₱10,517	₱20,958	(₱19,486)	₱621,621
Investments in associates and joint ventures	121,430	17,522	–	–	5,724	(83)	1,592	13,501	3,025	–	162,711
Deferred tax assets	246	7,912	–	–	925	72	43	108	71	365	9,743
Total assets	₱190,766	₱442,343	₱–	₱–	₱103,050	₱24,387	₱4,469	₱24,126	₱24,054	(₱19,121)	₱794,075
Segment liabilities	₱103,839	₱290,734	₱–	₱–	₱40,952	₱13,449	₱1,026	₱4,260	₱7,550	(₱2,720)	₱459,090
Deferred tax liabilities	89	1,782	–	–	4,393	64	–	47	27	39	6,441
Total liabilities	₱103,928	₱292,516	₱–	₱–	₱45,345	₱13,513	₱1,026	₱4,307	₱7,577	(₱2,681)	₱465,531
Segment additions to property, plant and equipment and investment properties	₱310	₱23,339	₱–	₱–	₱726	₱1,653	₱113	₱5,536	₱1,446	(₱4,662)	₱28,461
Depreciation and amortization	₱219	₱4,247	₱–	₱–	₱3,468	₱1,054	₱158	₱10	₱282	₱5	₱9,443
Non-cash expenses other than depreciation and amortization	₱611	₱156	₱–	₱–	₱53	₱104	₱18	₱271	₱95	₱154	₱1,462
Cash flows provided by (used in):											
Operating activities	(₱12,736)	₱21,175	₱–	₱–	₱4,927	₱2,580	(₱214)	₱1,055	₱713	₱1,085	₱18,585
Investing activities	₱21,443	(₱48,946)	₱–	₱–	(₱622)	(₱1,659)	(₱30)	(₱3,705)	(₱2,136)	(₱3,166)	(₱38,821)
Financing activities	(₱11,401)	₱18,583	₱–	₱–	(₱3,705)	(₱1,403)	₱246	₱4,707	₱2,515	₱2,079	₱11,621

2014

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Distribution and Used water Services	Electronics	Information Technology and BPO Services	Energy	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱730	₱88,422	₱–	₱–	₱15,412	₱37,558	₱1,770	₱5	₱12,520	₱–	₱156,417
Intersegment	106	–	–	–	110	–	–	–	318	(534)	–
Share of profit of associates and joint ventures	–	647	8,482	4,017	357	–	(368)	(85)	135	–	13,185
Interest income	454	4,778	–	–	186	9	49	5	16	(3)	5,494
Other income	391	709	–	–	4,054	647	2,127	(11)	1,499	(236)	9,180
Total income	1,681	94,556	8,482	4,017	20,119	38,214	3,578	(86)	14,488	(773)	184,276
Operating expenses	3,263	65,092	–	–	11,755	36,527	1,915	150	13,766	(539)	131,929
Operating profit (loss)	(1,582)	29,464	8,482	4,017	8,364	1,687	1,663	(236)	722	(234)	52,347
Interest and other financing charges	4,553	5,602	–	–	1,548	125	25	9	72	–	11,934
Provision for (benefit from) income tax	4	6,092	–	–	1,621	272	28	26	95	–	8,138
Net income (loss)	(₱6,139)	₱17,770	₱8,482	₱4,017	₱5,195	₱1,290	₱1,610	(₱271)	₱555	(₱234)	₱32,275
Other information											
Segment assets	₱156,790	₱373,281	₱–	₱–	₱88,111	₱24,718	₱2,367	₱2,557	₱15,195	(₱97,791)	₱565,228
Investments in associates and joint ventures	119,244	10,963	–	–	4,961	(78)	2,150	₱13,716	1,809	–	152,765
Deferred tax assets	149	7,202	–	–	881	80	39	–	75	(371)	8,055
Total assets	₱276,183	₱391,446	₱–	₱–	₱93,953	₱24,720	₱4,556	₱16,273	₱17,079	(₱98,162)	₱726,048
Segment liabilities	₱124,832	₱264,761	₱–	₱–	₱39,823	₱13,725	₱713	₱310	₱4,199	(₱15,924)	₱432,439
Deferred tax liabilities	84	1,967	–	–	4,593	64	2	4	28	–	6,742
Total liabilities	₱124,916	₱266,728	₱–	₱–	₱44,416	₱13,789	₱715	314	₱4,227	(₱15,924)	₱439,181
Segment additions to property, plant and equipment and investment properties	₱646	₱15,782	₱–	₱–	₱376	₱1,091	₱120	₱379	₱1,027	₱187	₱19,608
Depreciation and amortization	₱119	₱4,363	₱–	₱–	₱3,312	₱1,021	₱125	₱3	₱208	₱7	₱9,158
Non-cash expenses other than depreciation and amortization	₱113	₱139	₱–	₱–	₱36	₱457	₱28	₱–	₱85	(₱28)	₱830
Cash flows provided by (used in):											
Operating activities	(₱1,621)	₱34,747	₱–	₱–	₱5,028	₱1,817	₱293	(₱20)	(₱1,842)	₱807	₱39,209
Investing activities	(₱14,860)	(₱51,505)	₱–	₱–	(₱397)	(₱251)	₱6,335	(₱8,952)	(₱760)	(₱12,356)	(₱82,746)
Financing activities	₱53,691	₱17,052	₱–	₱–	(₱5,359)	₱1,517	(₱6,907)	₱9,430	₱2,543	(₱3,315)	₱68,652

2013

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Distribution and Used water Services	Electronics	Information Technology and BPO Services	Energy	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱122	₱77,770	₱–	₱–	₱14,503	₱31,661	₱1,519	₱5	₱11,361	₱–	₱136,941
Intersegment	216	51	–	–	140	–	–	–	161	(568)	–
Share of profit of associates and joint ventures	(95)	550	8,321	1,612	293	–	(322)	(37)	(231)	–	10,091
Interest income	665	2,115	–	–	173	9	68	5	419	(18)	3,436
Other income	668	1,039	–	–	6,621	134	389	13	753	(674)	8,943
Total income	1,576	81,525	8,321	1,612	21,730	31,804	1,654	(14)	12,463	(1,260)	159,411
Operating expenses	2,372	57,795	–	–	13,177	31,089	1,770	109	12,474	(665)	118,121
Operating profit (loss)	(796)	23,730	8,321	1,612	8,553	715	(116)	(123)	(11)	(595)	41,290
Interest and other financing charges	3,900	4,774	–	–	1,630	122	25	11	67	(18)	10,511
Provision for (benefit from) income tax	114	4,656	–	–	1,655	195	19	11	29	(25)	6,654
Net income (loss)	(₱4,810)	₱14,300	₱8,321	₱1,612	₱5,268	₱398	(₱160)	(₱145)	(₱107)	(₱552)	₱24,125
Other information											
Segment additions to property, plant and equipment and investment properties	₱81	₱16,035	₱–	₱–	₱275	₱926	₱319	₱2	₱1,094	₱4,067	₱22,799
Depreciation and amortization	₱92	₱3,892	₱–	₱–	₱3,329	₱935	₱162	₱2	₱48	(₱100)	₱8,360
Non-cash expenses other than depreciation and amortization	₱275	₱4	₱–	₱–	₱55	₱956	₱3	₱–	₱1,303	₱–	₱2,596
Cash flows provided by (used in):											
Operating activities	(₱5,110)	₱27,239	₱–	₱–	₱4,286	₱880	₱11	(₱384)	(₱1,077)	(₱229)	₱25,616
Investing activities	(₱10,151)	(₱64,432)	₱–	₱–	₱359	(₱751)	(₱137)	(₱3,098)	(₱135)	(₱2,398)	(₱80,743)
Financing activities	₱3,685	₱33,054	₱–	₱–	(₱3,564)	(₱258)	₱273	₱3,397	₱1,281	₱2,628	₱40,496

Geographical Segments

	Income			Total Assets		Investment Properties and Property, Plant and Equipment Additions		
	2015	2014	2013	**2015**	2014	**2015**	2014	2013
Philippines	**₱170,628**	₱143,309	₱128,554	**₱767,974**	₱701,273	**₱27,229**	₱18,746	₱16,473
Japan	**681**	3,180	2,944	**17**	12	**–**	1	–
USA	**10,816**	12,027	8,927	**2,909**	2,356	**290**	362	63
Europe	**19,451**	18,680	14,759	**5,644**	4,878	**459**	291	519
Others (mostly Asia)	**6,091**	7,080	4,228	**17,531**	17,528	**483**	231	267
	₱207,667	₱184,276	₱159,412	**₱794,075**	₱726,047	**₱28,461**	₱19,631	₱17,322

30. **Leases**

<u>Finance leases - as lessee</u>
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:

	2015		2014	
	Minimum Payments	**Present values of payments**	Minimum Payments	Present values of payments
	(In Thousands)			
Within one year	**₱52,293**	**₱49,639**	₱51,377	₱45,727
After one year but not more than five years	**120,299**	**118,120**	114,284	108,690
Total minimum lease payments	**172,592**	**167,759**	165,661	154,417
Less amounts representing finance charges	**470**	**–**	10,313	–
Present value of minimum lease payments	**₱172,122**	**₱167,759**	₱155,348	₱154,417

<u>Operating lease commitments - as lessee</u>
ALI Group
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 ALI Group follows:

	2015	2014
	(In Thousands)	
Within one year	**₱659,677**	₱592,404
After one year but not more than five years	**3,001,038**	1,869,779
More than five years	**16,189,004**	11,211,843
	₱19,849,719	₱13,674,026

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 Group has various operating lease agreement in respect of plant facilities, office spaces and land. These lease agreements have terms ranging from 5 to 15 years, fixed payment subject to escalation clauses, renewal option and early termination penalties.

Future minimum rentals payable under operating leases of IMI Group as of December 31, 2015 and 2014 follow:

	2015	2014
	(In Thousands)	
Within one year	**₱277,875**	₱215,024
After one year but not more than five years	**550,717**	516,840
More than five years	**269,537**	366,954
	₱1,098,129	₱1,098,818

Operating leases - as lessor
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.

Future minimum rentals receivable under noncancellable operating leases of ALI Group are as follows:

	2015	2014
	(In Thousands)	
Within one year	**₱3,648,626**	₱4,019,617
After one year but not more than five years	**10,790,610**	8,895,438
More than five years	**12,179,151**	8,719,812
	₱26,618,387	₱21,634,867

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.

The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

i. As of December 31, 2015 and 2014, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2015	2014
Cash in bank	**₱13,722,080**	₱14,878,169
Cash equivalents	**42,852,439**	36,759,229
Short-term investments	**1,415,451**	–
Financial assets at FVPL	**288,229**	6,264,569
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 ₱331.8 million and ₱79.4 million as of December 31, 2015 and 2014, respectively. Interest income earned amounted to ₱650.4million in 2015, ₱586.5 million in 2014 and ₱648.7 million in 2013.

The Group also has short-term and long-term debt payable to BPI amounting to ₱28.9 billion and ₱38.0 billion as of December 31, 2015 and 2014, respectively. These short-term and long-term debts are interest bearing with varying rates, have various maturities starting 2016 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 ₱30.7 million and ₱190.6 million as of December 31, 2015 and 2014, respectively. Interest expense incurred from the debt amounted to ₱250.3 million in 2015, ₱402.7 million in 2014 and ₱145.2 million in 2013.

b. Outstanding balances of related party transaction follow (amounts in thousands):

	Receivables		Payables	
	2015	2014	**2015**	2014
Associates:				
BPI	**₱614,607**	₱435,123	**₱97,710**	₱257,238
CDPEI	**114,993**	–	**–**	–
Honda Cars Philippines, Inc.(HCP)	**67,586**	112,522	**346,041**	152,457
Milestone Group Pty, Ltd.	**11,785**	–	**–**	–
First Gen Northern Energy (FGNEC)	**5,531**	5,531	**–**	–
Bonifacio Land Corp. (BLC)	**–**	374	**212,696**	212,696
	814,502	553,550	**656,447**	622,391
Joint ventures:				
Integreon	**694,864**	543,836	**–**	–
Globe	**620,093**	165,419	**62,202**	2,409
GNPower Dinginin Ltd. Co.	**206,218**	–	**–**	–
LHI	**–**	10,883	**–**	–
Lagoon Development Corporation (Lagoon)	**–**	828	**20,000**	–
Asiacom	**–**	–	**94**	13,617
	1,521,175	720,966	**82,296**	16,026
Other related parties:				
DGA NLREC B.V.	**685,900**	–	**–**	–
Bestridge Investment Limited	**90,591**	–	**–**	–
Isuzu Philippines Corporation (IPC)	**75,645**	–	**254,574**	193,537
Fort Bonifacio Development Corporation (FBDC)	**38,207**	394,026	**47,403**	403,297
Sonoma Services Inc.	**123**	–	**–**	33,617
Columbus Holdings, Inc. (Columbus)	**–**	888,953	**267,355**	1,156,308
Others	**146,281**	151,950	**64,370**	33,641
	1,036,747	1,434,929	**633,702**	1,820,400
	₱3,372,424	₱2,709,445	**₱1,372,445**	₱2,458,817

i. Receivable from BPI includes trade receivables on vehicles sold by AAHC and accrued interest receivables on short-term placements by the Group.
ii. Receivables from FGNEC are advances made for working capital requirements which are non-interest bearing and demandable.
iii. Receivable from Integreon represents a convertible promissory note entered into in February 2010 with a principal of US$7.3 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 ₱45.6 million, ₱38.9 million and ₱37.2 million in 2015, 2014 and 2013, respectively.
iv. Receivable from Columbus represents non-interest bearing advance for future acquisition of shares in BLC.
v. Receivable from FBDC largely pertains to management fees which are included under "Other income."
vi. 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.
vii. Payable to Columbus and BLC represent non-interest bearing advances for stock redemption.
viii. 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.
ix. 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.
x. 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.
xi. Allowance for doubtful accounts on amounts due from related parties amounted to ₱135.1 million and ₱135.4 million as of December 31, 2015 and 2014, respectively. Provision for doubtful accounts amounted to ₱0.3 million, ₱0.3 million and ₱0.8 million in 2015, 2014 and 2013, respectively.
xii. In 2014, Alveo acquired a 6,986 sq. m. property located along Valero St., Salcedo Vill., Makati City 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 2016 to 2026.
d. The fair value of the Group's total investment in the BPI Fund amounted ₱282.2 million and ₱5.6 billion, as of December 31, 2015 and 2014, respectively.

e. Revenue and expenses from related parties follow:

	Revenue			Expenses		
	2015	2014	2013	**2015**	2014	2013
			(In Thousands)			
Associates:						
BPI	**₱852,681**	₱558,814	₱702,699	**₱ 264,997**	₱427,263	₱143,582
PPI	**–**	60	417	**–**	–	–
Stream	**–**	–	21,715	**–**	–	–
	852,681	558,874	724,831	**264,997**	427,263	143,582
Joint ventures:						
Globe	**82,733**	101,381	72,739	**120,172**	124,563	115,809
Integreon	**45,716**	38,973	37,226	**–**	–	–
Asiacom	**191**	613	1,154	**–**	–	–
	128,640	140,967	111,119	**120,172**	124,563	115,809
Other related parties:						
FBDC	**₱–**	₱176,194	₱221,483	**₱–**	₱155,099	₱129,175
Lagoon	**–**	49,135	41,143	**–**	1,315	–
6750 Ayala Avenue	**–**	17,697	46,511	**–**	–	–
Others	**5,412**	25,921	27,405	**5,075**	–	28,351
	5,412	268,947	336,542	**5,075**	156,414	157,526
	₱986,733	₱968,788	₱1,172,492	**₱390,244**	₱708,240	₱416,917

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:

	2015	2014	2013
		(In Thousands)	
Short-term employee benefits	**₱1,652,622**	₱1,369,942	₱1,242,543
Post-employment benefits (Note 27)	**230,264**	69,079	139,933
Share-based payments (Note 28)	**125,641**	37,957	63,571
	₱2,008,527	₱1,476,978	₱1,446,047

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 Parent Company seeks to effectively contribute to better decision making, enhance performance, and satisfy compliance demands.

The Parent Company defines financial risks as risk that relates to the Parent 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 Parent 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 Parent Company's profit and loss accounts.

The Parent Company maintains a strong focus on its funding strategy to help provide access to sufficient funding to meet its business needs and financial obligations throughout business cycles. The Parent Company's plans are established within the context of our annual strategic and financial planning processes. The Parent Company also take into account capital allocations and growth objectives, including dividend pay-out. As a holding company, the Parent Company generates cash primarily on dividend payments of its subsidiaries, associates and joint ventures and other sources of funding.

The Parent Company also establishes credit policies setting up limits for counterparties that are reviewed quarterly and monitoring of any changes in credit standing of counterparties.

In 2014, the Parent Company formalized the foreign exchange and interest rate risk management policy. The Parent Company actively monitors foreign exchange exposure and interest rate changes. And in addition, the Parent Company ensures that all loan covenants and regulatory requirements are complied with.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk.

The Group also 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 Parent 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, 2015 and 2014, with all variables held constant.

Cash flow interest rate risk

	Change in basis points	Effect on profit before tax 2015	2014
		(In Thousands)	
Parent Company -			
Floating rate			
Borrowings	+100	**(₱126,750)**	(₱58,542)
	-100	**126,750**	58,542
Subsidiaries -			
Floating rate			
Borrowings	+100	**(₱304,900)**	(₱420,388)
	-100	**304,900**	420,388

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 follows: (amounts in thousands)

December 31, 2015

	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	**₱82,109,964**	**₱82,109,964**	**₱–**	**₱–**	**₱82,109,964**
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	**2,052,288**	**2,052,288**	**–**	**–**	**2,052,288**
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	**10,430,306**	**10,008,836**	**163,470**	**258,000**	**10,430,306**
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	**274,550**	**–**	**274,550**	**–**	**274,550**
			₱94,867,108	**₱94,171,088**	**₱438,020**	**₱258,000**	**₱94,867,108**
Parent Company							
Short-term debt	Fixed at 2.75%	1 month	**₱8,000,000**	**₱8,000,000**	**₱–**	**₱–**	**₱8,000,000**
Long-term debt							
Fixed							
	Fixed at 6.70% to 8.40%	7 years	**20,000,000**	**–**	**19,914,326**	**–**	**19,914,326**
	Fixed at 6.75% to 6.80%	10 years	**10,000,000**	**–**	**–**	**9,939,287**	**9,939,287**
	Fixed at 6.88%	15 years	**10,000,000**	**–**	**–**	**9,926,281**	**9,926,281**
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	**11,107,500**	**152,843**	**8,021,844**	**2,896,108**	**11,070,795**
Subsidiaries							
Short-term debt	Ranging from 2.00% to 8.00%	Monthly, quarterly	**3,309,266**	**3,309,266**	**–**	**–**	**3,309,266**
	Ranging from 1.10% to 2.55%	Monthly, quarterly	**13,078,249**	**13,078,249**	**–**	**–**	**13,078,249**
Long-term debt							
Fixed							
Peso and foreign currency	Fixed at 0.50% to 10.21%	3,4,5,7,10 and 15 years	**123,700,359**	**17,162,143**	**45,602,586**	**60,497,617**	**123,262,346**
Dollar							
Exchangeable bond	Fixed at 0.50%	5 years	**13,159,894**	**–**	**–**	**13,159,894**	**13,159,894**
Floating							
	Variable at Libor+1.50% to 3.50%	3 months, semi-annual	**53,950,710**	**2,791,000**	**43,909,472**	**4,979,777**	**51,680,249**
			₱266,305,978	**₱44,493,501**	**₱117,448,228**	**₱101,398,964**	**₱263,340,693**

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	₱99,646,358	₱7,471,623	₱8,366,350	₱115,484,331
Parent 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	4,164,369	–	–	4,164,369
	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	₱31,865,154	₱117,329,231	₱109,650,342	₱258,844,727

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the PHP against other currencies. The Group's consolidated statements of income can be affected significantly by movements in the USD and other currencies versus the PHP. In 2015 and 2014, 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, IMI Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2015 and 2014, 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 47% and 50% of the Group's sales for the years ended December 31, 2015 and 2014, respectively, and 39% and 49% of costs for the years ended December 31, 2015 and 2014, 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 33% and 34% of debt as of December 31, 2015 and 2014, 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, 2015		December 31, 2014	
	US$	**Php Equivalent***	US$	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	**US$51,036**	**₱2,401,762**	US$44,199	₱1,976,586
Short-term investments	**8,001**	**376,513**	1,247	55,766
Accounts and notes receivables	**24,585**	**1,156,954**	6,804	304,275
Other current assets	**257**	**12,080**	375	16,770
Total assets	**83,879**	**3,947,309**	52,625	2,353,397
Liabilities				
Accounts payable and accrued expenses	**23,586**	**1,109,934**	576	25,759
Short-term debt	**22,375**	**1,052,958**	37,154	1,661,527
Long-term debt	**155,046**	**7,296,443**	281,747	12,599,730
Other noncurrent liabilities	**76,892**	**3,618,567**	78,020	3,489,039
Total liabilities	**277,899**	**13,077,902**	397,497	17,776,055
Net foreign currency denominated liabilities	**(US$194,020)**	**(₱9,130,593)**	(US$344,872)	(₱15,422,658)

**Translated using the exchange rate at the reporting date (US$1:₱47.06 in December 31, 2015 and US$1: ₱44.72 in December 31, 2014).*

	December 31, 2015		December 31, 2014	
	JPY	**Php Equivalent***	JPY	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY38,281**	**₱14,968**	JPY25,781	₱9,578
Accounts and notes receivable	**81,597**	**31,904**	175,708	65,274
Other noncurrent assets	**2,411**	**942**	2,491	925
Total assets	**122,289**	**47,814**	203,980	75,777
Liabilities				
Accounts payable and accrued expenses	**232,081**	**90,742**	373,082	138,596
Other current liabilities	**3,933**	**1,538**	–	–
Long-term debt	**2,903,907**	**1,138,332**	5,274,985	1,954,909
Other noncurrent liabilities	**1,249,435**	**489,778**	1,288,651	477,574
Total liabilities	**4,389,356**	**1,720,390**	6,936,718	2,571,079
Net foreign currency denominated liabilities	**(JPY4,267,067)**	**(₱1,672,576)**	(JPY6,732,738)	(₱2,495,302)

**Translated using the exchange rate at the reporting date (JPY1:₱0.3920 in December 31, 2015 and JPY1:₱ 0.3706 in December 31, 2014).*

	December 31, 2015		December 31, 2014	
	RMB	**Php Equivalent***	RMB	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB150,318**	**₱1,090,586**	RMB141,839	₱1,036,358
Accounts and notes receivables	**487,404**	**3,536,202**	459,909	3,360,369
Total assets	**637,722**	**4,626,788**	601,748	4,396,727
Liabilities				
Accounts payable and accrued expenses	**245,661**	**1,782,316**	269,156	1,966,614
Net foreign currency denominated assets	**RMB392,061**	**₱2,844,472**	RMB332,592	₱2,430,113

**Translated using the exchange rate at the reporting date (RMB1: ₱7.26 in December 31, 2015 and RMB1: ₱7.30 in December 31, 2014).*

	December 31, 2015		December 31, 2014	
	EUR	**Php Equivalent***	EUR	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**EUR20,655**	**₱1,068,064**	EUR 8,651	₱471,336
Receivables	**34,563**	**1,787,260**	37,540	2,045,274
Total assets	**55,218**	**2,855,324**	46,191	2,516,610
Liabilities				
Accounts payable and accrued expenses	**16,525**	**854,489**	13,733	748,200
Short term debt	**2,687**	**138,969**	2,299	125,245
Long-term debt	**13,331**	**689,370**	14,199	773,600
Other noncurrent liabilities	**566**	**29,268**		
Total liabilities	**33,109**	**1,712,096**	30,231	1,647,045
Net foreign currency denominated assets	**EUR22,109**	**₱1,143,228**	EUR15,960	₱869,565

**Translated using the exchange rate at the reporting date (EUR1: ₱51.71 in December 31, 2015 and EUR1: ₱54.48 in December 31, 2014)*

	December 31, 2015		December 31, 2014	
	VND	**Php Equivalent***	VND	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**VND62,123,859**	**₱129,219**	VND35,133,686	₱75,055
Liabilities				
Accounts payable and accrued expenses	**489,817**	**781**	–	–
Net foreign currency denominated assets	**VND61,634,042**	**₱128,438**	VND35,133,686	₱75,055

**Translated using the exchange rate at the reporting date (VND1:₱0.0021 in December 31, 2015 and VND1:₱ 0.0021 in December 31,2014).*

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).

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax	
		2015	2014
US$	₱1.00	**(₱194,020)**	(₱344,872)
	(1.00)	**194,020**	344,872
JPY	1.00	**(4,267,067)**	(6,732,738)
	(1.00)	**4,267,067**	6,732,738
RMB	1.00	**392,061**	332,592
	(1.00)	**(392,061)**	(332,592)
EUR	1.00	**22,109**	15,960
	(1.00)	**(22,109)**	(15,960)
VND	1.00	**61,634,042**	35,133,686
	(1.00)	**(61,634,042)**	(35,133,686)

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)
2015	PSEi	**5%**	**₱342,754**
		(5%)	**(342,754)**
2014	PSEi	5%	₱425,527
		(5%)	(425,527)

Liquidity risk
Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

ALI Group
ALI Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. ALI Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

MWC Group
MWC Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, leases and hire purchase contracts. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through cash collections.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2015 and 2014, based on contractual undiscounted payments.

	December 31, 2015				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	**₱85,017,853**	**₱356**	**₱–**	**₱–**	**₱85,018,209**
Project costs	**16,939,548**	**–**	**–**	**–**	**16,939,548**
Accrued expenses	**12,995,614**	**18,621**	**–**	**–**	**13,014,235**
Related parties	**1,372,445**	**–**	**–**	**–**	**1,372,445**
Retentions payable	**1,316,087**	**–**	**–**	**–**	**1,316,087**
Dividends payable	**3,414,356**	**–**	**–**	**–**	**3,414,356**
Personnel costs	**4,964,387**	**–**	**–**	**–**	**4,964,387**
Derivative liability	**3,771**	**–**	**–**	**–**	**3,771**
Service concession obligation	**1,255,644**	**4,787,287**	**–**	**1,686,916**	**7,729,847**
Customers' deposit	**4,204,260**	**–**	**–**	**294,884**	**4,499,144**
Short-term debt	**24,387,515**	**–**	**–**	**–**	**24,387,515**
Long-term debt	**55,326,886**	**18,283,830**	**40,730,055**	**124,612,408**	**238,953,179**
Other noncurrent liabilities	**4,541,435**	**16,456,868**	**1,765**	**11,238,704**	**32,238,772**
Interest payable	**9,581,040**	**25,755,474**	**10,206,066**	**46,411,392**	**91,953,972**
	₱225,320,841	**₱65,302,436**	**₱50,937,886**	**₱184,244,304**	**₱525,805,467**

	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	₱70,470,671	₱–	₱–	₱–	₱70,470,671
Project costs	17,321,785	–	–	–	17,321,785
Accrued expenses	11,337,805	–	–	–	11,337,805
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	8,799,678	–	–	362,065	9,161,743
Short-term debt	21,084,269	–	–	–	21,084,269
Long-term debt	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
	₱161,033,222	₱43,425,559	₱73,478,188	₱198,520,326	₱476,457,295

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.

Given the Group's diverse base of counterparties, the Group's not exposed to large concentrations of credit risk.

The maximum exposure to credit risk for the components of the consolidated statement of financial position is equal to the carrying values.

<u>ALI Group</u>
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. ALI Group also undertakes supplemental credit review procedures for certain installment payment structures. ALI 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 ALI Group (e.g. security deposits and advance rentals) which helps reduce ALI Group's credit risk exposure in case of defaults by the tenants. For existing tenants, ALI 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 IMI Group's exposure to bad debts is not significant.

MWC Group
It is MWC 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.

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2015

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
	(In Thousands)								
Trade:									
Real estate	**₱63,661,364**	**₱3,001,888**	**₱1,709,490**	**₱966,002**	**₱962,125**	**₱3,985,508**	**₱10,625,013**	**₱373,461**	**₱74,659,838**
Electronics manufacturing	**6,779,757**	**894,685**	**165,693**	**9,238**	**13,235**	**54,781**	**1,137,632**	**22,498**	**7,939,887**
Water distribution and used water services	**1,859,085**	**–**	**–**	**–**	**–**	**–**	**–**	**40,416**	**1,899,501**
Automotive	**844,268**	**723,664**	**312,916**	**242,236**	**86,788**	**71,958**	**1,437,562**	**15,947**	**2,297,777**
Information technology and BPO	**256,687**	**41,875**	**14,619**	**14,506**	**23,092**	**–**	**94,092**	**–**	**350,779**
International and others	**53,992**	**453**	**132**	**–**	**–**	**–**	**585**	**–**	**54,577**
Advances to other companies	**15,158,874**	**226,814**	**84,612**	**59,143**	**14,956**	**162,300**	**547,825**	**120,905**	**15,827,604**
Receivable from related parties	**3,250,071**	**53,310**	**28,196**	**3,473**	**3,651**	**6,107**	**94,737**	**16,730**	**3,361,538**
Dividend receivable	**1,153,466**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,153,466**
Receivable from BWC	**529,501**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**529,501**
Concession financial receivable	**1,198,084**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,198,084**
Receivable from officers and employees	**1,040,625**	**5,426**	**3,684**	**1,802**	**2,030**	**16,981**	**29,923**	**902**	**1,071,450**
Investment in bonds classified as loans and receivables	**258,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**258,000**
Others	**263,593**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**263,593**
Total	**₱96,307,367**	**₱4,948,115**	**₱2,319,342**	**₱1,296,400**	**₱1,105,877**	**₱4,297,635**	**₱13,967,369**	**₱590,859**	**₱110,865,595**

December 31, 2014

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	₱54,076,618	₱493,629	₱514,089	₱346,998	₱417,839	₱1,437,802	₱3,210,357	₱297,191	₱57,584,166
Electronics manufacturing	7,048,571	951,639	93,569	98,768	89,672	260,823	1,494,471	38,760	8,581,802
Water distribution and used water services	1,421,435	–	–	–	–	–	–	42,010	1,463,445
Automotive	1,462,348	20,612	–	–	–	–	20,612	13,346	1,496,306
Information technology and BPO	113,817	48,191	9,821	3,853	19,454	2,866	84,185	2,358	200,360
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	149,211	21,153,727
Receivable from related parties	2,514,597	19,479	17,522	44,226	49	107,158	188,434	6,413	2,709,444
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 asloans 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	₱89,715,202	₱1,874,415	₱697,044	₱523,948	₱550,383	₱2,108,830	₱5,754,620	₱549,606	₱96,019,428

The table below shows the credit quality of the Group's financial assets as of December 31, 2015 and 2014 (amounts in thousands):

December 31, 2015

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱82,154,542	₱–	₱–	₱82,154,542	₱–	₱–	₱82,154,542
Short-term investments	2,052,288	–	–	2,052,288	–	–	2,052,288
FVPL financial assets	5,280,678	–	–	5,280,678	–	–	5,280,678
Other noncurrent assets	4,925,214	–	–	4,925,214	–	–	4,925,214
Accounts and notes receivables							
Trade							
Real estate	46,140,127	9,467,751	8,053,486	63,661,364	10,625,013	373,461	74,659,838
Electronics manufacturing	339,368	6,353,216	87,173	6,779,757	1,137,632	22,498	7,939,887
Water distribution and used water services	1,580,165	278,920	–	1,859,085	–	40,416	1,899,501
Automotive	148,331	695,937	–	844,268	1,437,562	15,947	2,297,777
Information technology and BPO	256,687	–	–	256,687	94,092	–	350,779
International and others	51,483	2,509	–	53,992	585	–	54,577
Advances to other companies	14,200,172	894,535	64,167	15,158,874	547,825	120,905	15,827,604
Receivable from related parties	2,720,458	308,092	221,521	3,250,071	94,737	16,730	3,361,538
Dividend receivable	1,153,466	–	–	1,153,466	–	–	1,153,466
Receivable from BWC	–	529,501	–	529,501	–	–	529,501
Concession financial receivable	1,198,084	–	–	1,198,084	–	–	1,198,084
Receivable from officers employees	970,319	68,080	2,226	1,040,625	29,923	902	1,071,450
Investments in bonds classified as loans and receivables	258,000	–	–	258,000	–	–	258,000
Other receivable	263,593	–	–	263,593	–	–	263,593
AFS Investments							
Quoted shares of stocks	1,635,560	–	–	1,635,560	–	–	1,635,560
Unquoted shares of stocks	1,827,706	–	–	1,827,706	–	–	1,827,706
Quoted debt investments	274,550	–	–	274,550	–	–	274,550
	₱167,430,791	₱18,598,541	₱8,428,573	₱194,457,905	₱13,967,369	₱590,859	₱209,016,133

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	297,191	57,584,166
Electronics manufacturing	522,677	6,525,188	706	7,048,571	1,494,471	38,760	8,581,802
Water distribution and used water services	1,406,532	14,903	–	1,421,435	–	42,010	1,463,445
Automotive	1,183,041	195,118	84,189	1,462,348	20,612	13,346	1,496,306
Information technology and BPO	–	113,817	–	113,817	84,185	2,358	200,360
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	149,211	21,173,727
Receivable from related parties	1,767,865	334,792	411,940	2,514,597	188,434	6,413	2,709,444
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
	₱184,177,316	₱14,707,294	₱4,775,350	₱203,659,960	₱5,754,620	₱549,606	₱209,984,186

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 used water 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, 2015 and 2014 (amounts in thousands):

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL				
Held for trading	**₱5,072,792**	**₱5,072,792**	₱10,374,780	₱10,374,780
Derivative assets				
Embedded	**238,151**	**238,151**	8,835	8,835
Freestanding	**3,112**	**3,112**	–	–
Total financial assets at FVPL	**5,314,055**	**5,314,055**	10,383,615	10,383,615
LOANS AND RECEIVABLES				
Accounts and notes receivables				
Trade receivables				
Real estate	**65,833,104**	**67,103,996**	50,410,593	50,567,423
Nontrade receivables				
Receivable from officers and employees	**1,071,450**	**1,083,631**	731,336	738,089
Investment in bonds classified as loans and receivables	**258,000**	**264,973**	450,000	463,407
Concession financial receivable	**1,198,084**	**2,140,700**	975,984	1,881,765
Total loans and receivables	**68,360,638**	**70,593,300**	52,567,913	53,650,684
AFS FINANCIAL ASSETS				
Quoted equity investments	**1,635,560**	**1,635,560**	1,916,799	1,916,799
Unquoted equity investments	**1,827,706**	**1,827,706**	1,275,497	1,275,497
Quoted debt investments	**274,550**	**274,550**	239,919	239,919
Total AFS financial assets	**3,737,816**	**3,737,816**	3,432,215	3,432,215
Total financial assets	**₱77,412,509**	**₱79,645,171**	₱66,383,743	₱67,466,514
FINANCIAL LIABILITIES AT FVPL				
Derivative liabilities				
Embedded	**₱3,274**	**₱3,274**	₱4,755	₱4,755
Freestanding	**497**	**497**	–	–
	3,771	**3,771**	4,755	4,755
OTHER FINANCIAL LIABILITIES				
Noncurrent other financial liabilities				
Service concession obligation	**8,794,018**	**11,701,046**	8,878,668	11,806,727
Other noncurrent liabilities	**22,963,246**	**32,238,747**	18,441,386	18,940,040
Long-term debt	**210,799,647**	**233,090,903**	226,999,015	276,149,199
Total other financial liabilities	**242,556,911**	**277,030,696**	254,319,069	306,895,966
Total financial liabilities	**₱242,560,682**	**₱277,034,467**	₱254,323,824	₱306,900,721

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.

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 1.40% to 5.47% in 2015 and 8.0% to 13.25% in 2014.

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.

Other financial liabilities - 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 0.23% to 7.75% in 2015 and 1.82% to 6.13% in 2014 while the discount rates used for the foreign currency-denominated loans ranged 0.02% to 3.10% in 2015 and 1.86% to 5.17% in 2014.

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, 2015 and 2014 (amounts in thousands):

2015

	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	**₱–**	**₱288,564**	**₱4,784,228**	**₱5,072,792**
Derivative assets				
Embedded	**–**	**–**	**238,151**	**238,151**
Freestanding	**–**	**–**	**3,112**	**3,112**
AFS financial assets				
Quoted equity investments	**1,635,560**	**–**	**–**	**1,635,560**
Unquoted equity investments	**–**	**1,424,033**	**403,673**	**1,827,706**
Quoted debt investments	**–**	**–**	**274,550**	**274,550**
	₱1,635,560	**₱1,712,597**	**₱5,703,714**	**₱9,051,871**
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	**₱–**	**₱–**	**₱68,452,600**	**₱68,452,600**
Concession financial receivable	**–**	**–**	**2,140,700**	**2,140,700**
	₱–	**₱–**	**₱70,593,300**	**₱70,593,300**
Recurring financial liabilities measured at fair value				
Derivative liabilities				
Embedded	**₱–**	**₱–**	**₱3,274**	**₱3,274**
Freestanding	**–**	**–**	**497**	**497**
	₱–	**₱–**	**₱3,771**	**₱3,771**
Recurring financial liabilities for which fair values are disclosed:				
Noncurrent other financial liabilities				
Service concession obligation	**₱–**	**₱–**	**₱11,701,046**	**₱11,701,046**
Other noncurrent liabilities	**–**	**–**	**32,238,747**	**32,238,747**
Long-term debt	**–**	**–**	**233,090,903**	**233,090,903**
	₱–	**₱–**	**₱277,030,696**	**₱277,030,696**
Nonfinancial assets for which fair values are disclosed:				
Investments in associates and joint ventures*	**₱174,960,463**	**₱–**	**₱–**	**₱174,960,463**
Investment properties	**–**	**–**	**252,993,700**	**252,993,700**
	₱174,960,463	**₱–**	**₱252,993,700**	**₱427,954,163**

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

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	₱–	₱5,607,837	₱4,766,942	₱10,374,779
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
	₱1,916,800	₱6,622,219	₱5,276,811	₱13,815,830
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	₱–	₱–	₱51,768,919	₱51,768,919
Concession financial receivable	–	–	1,881,765	1,881,765
	₱–	₱–	₱53,650,684	₱53,650,684
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*

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:

	2015	2014
At January 1	**₱4,766,942**	₱5,117,416
Additions	**639,297**	1,380,725
Disposals/redemptions	**(642,398)**	(1,979,074)
Recognized in statement of income	**20,387**	247,875
At December 31	**₱4,784,228**	₱4,766,942

Derivatives

	2015	2014
Derivative Assets		
Conversion option of BHL	**₱207,886**	₱–
Prepayment option of ACEHI	**30,265**	–
Currency forward of IMI	**3,112**	–
Conversion option of AIVPL	**–**	8,835
	₱241,263	₱8,835
Derivative Liabilities		
Conversion option of AIVPL	**₱3,274**	₱4,755
Currency forwards of IMI	**497**	–
	₱3,771	₱4,755

Free standing derivatives
IMI Philippines and IMI BG entered into various short-term currency forwards with an aggregate notional amount of $11.0 million and €16.3 million ($14.8 million) in 2015 and $17.0 million in 2014. As of December 31, 2015 and 2014, the outstanding forward contracts have a net positive fair value of $0.1 million and nil, respectively. The changes in fair value of currency forwards recognized in 2015 and 2014 amounted to $0.2 million and $0.3 million, respectively (see Note 23).

Embedded derivatives
AIVPL Group
Note A
In conjunction with the transactions contemplated by the Subscription Agreement among Integreon, LiveIt Investments Limited (LIL) and Actis (Lender) 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 $7.3 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, the fair value of the compound embedded derivatives representing the Conversion Option and the Term Extension Option amounted to $0.2 million (₱8.9 million).

In 2015, AIVPL management performed an assessment on the embedded derivatives and concluded that the prepayment option is clearly and closely related, while the equity conversion is not, thus requiring bifurcation and valuation.

The derivative asset amounting to $0.20 million previously recognized was reversed and charged as other expense in 2015 since the strike price is significantly higher than the theoretical stock price. As of December 31, 2015, the carrying value of the derivative is nil.

On January 9, 2015, AIVPL made shareholder advances to Integreon amounting to $1.5 million, under the following terms:

a) Final Maturity Date on January 31, 2017.
b) The Borrower is liable for the principal sum of $1.5 million due to AIVPL plus accrued interest at the rate of nine percent (9%) p.a.
c) The Borrower is liable for 12% penalty on both principal and accrued interest if not paid on maturity.
d) With option to convert both principal and accrued interest during an equity financing transaction to raise capital with the requisite corporate approvals.
e) Closing and completion of the sale and purchase of the conversion shares shall take place in accordance with the terms of any transactional documents entered into in connection with such equity financing transaction.

<u>ACEHI</u>
Prepayment option
The onshore and offshore loan agreements of ACEHI have embedded prepayment options subject to a 3% prepayment penalty. The embedded derivative for Tranch A onshore dollar loan is assessed to be not closely related to the host contract, and thus, bifurcated and accounted for separately.

As of December 31, 2015, the value of the derivative asset related to the embedded prepayment option amounted to ₱30.3 million. The fair value changes of the derivative asset recognized as "Mark-to-market losses" for the year ended December 31, 2015 amounted to ₱4.1 million.

BHL

Convertible bonds

In June 2014, BHL invested VND113billion (equivalent to USD5.3million) in CII convertible bonds through its wholly owned subsidiary, VIP. These bonds have a maturity of 5 years, and a coupon rate of 5% p.a. VIP has not converted any bonds as at 31 December 2014.

Fair Value Changes on Derivatives

The net movements in fair values of the Group's derivative instruments as of December 31, 2015 follow (amounts in thousands):

Derivative Assets

	2015	2014
Balance at beginning of year	**₱8,835**	₱456,768
Initial value of long call option	**–**	29
Balance upon bifurcation	**34,366**	–
Fair value of currency forwards	**11,458**	–
Fair value of convertible bonds	**217,294**	–
Net changes in fair value of derivatives	**(4,101)**	8,777
	267,852	465,574
Fair value of settled instruments	**(26,589)**	(456,739)
Balance at end of year	**₱241,263**	₱8,835

Derivative Liabilities

	2015	2014
Balance at beginning of year	**₱4,755**	₱3,470
Fair value of currency forwards	**862**	–
Net changes in fair value of derivatives	**(1,481)**	3,088
	4,136	6,558
Fair value of settled instruments	**(365)**	(1,803)
Balance at end of year	**₱3,771**	₱4,755

No other financial assets or liabilities are carried at fair value as of December 31, 2015 and 2014.

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 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:

2015

- Transfers from land and improvements to inventories amounted to ₱9,253 million.
- Transfer from land and improvements to investment properties amounted to ₱1.7 million.
- Transfer from land and improvements to other assets amounted to ₱56.9 million.
- Transfers from inventories to investment properties amounted to ₱52.0 million
- Transfer from investment properties to property, plant and equipment amounted to ₱53.9 million.
- In July 2015, donated property to YMCA and PCPI was returned to the Parent Company. The total consideration was recognized as gain on reversion of land amounting to ₱575.1 million.

2014

- Transfers from land and improvements to inventories amounted to ₱11.0 billion.
- Transfer from inventories to property, plant and equipment amounted to ₱138.8 million.
- Transfers from investment properties to inventories amounted to ₱827.2 million.
- Transfer from investment properties to property, plant and equipment amounted to ₱2.3 million.
- Transfers from property, plant and equipment to other assets amounting ₱239.8 million.
- Transfer from investment properties to other assets amounted to ₱8.6 million.
- Transfer from property, plant and equipment to investment property amounting to ₱33.1 million in 2014.
- Transfer from other assets to property, plant 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.
- Capitalization of machinery and facilities equipment under finance lease amounted to $3.8 million (₱168.6 million).

2013

- Conversion of subscription and advances of the Parent Company from ACEHI amounting to ₱3.4 billion into 33.9 million common shares in 2013.
- 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 ADHI arising from this transaction amounted to ₱9.9 billion.
- 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, plant and equipment amounting to ₱26.1 million in 2013.
- Transfers from investment properties to property, plant and equipment amounting to ₱157.4 million.
- Transfers from property, plant and equipment to other assets amounting to ₱2.2 billion.

35. Commitments

Parent Company
The Parent 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, 2015	**2015**	2014
			Outstanding balance as of December 31	
		(Amounts in thousands)		
US$229.2 million transferable term loan facility	December 16, 2010	US$229,200	**US$183,385**	US$229,200
US$150 million transferable term loan facility	March 28, 2011	150,000	**50,000**	150,000
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**	225,000
US$100 million transferable loan facility	March 28, 2014	Undrawn	**–**	–
US$200 million term loan facility	May 9, 2014	Undrawn	**–**	–
			US$458,385	US$624,200

The Parent Company unconditionally guaranteed the due and punctual payment of advances if, for any reason AYCFL does not make timely payment. The Parent Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies. The Parent 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 Parent 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 Parent 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 Parent 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 BPI, 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. The note was pre-terminated by the Parent Company in October 2015.

ALI Group
Upon the completion of certain closing conditions based on the Agreement to Subscribe dated August 13, 2015, ALI Group is committed to subscribe to the common shares of Prime Orion Philippines, Inc. (POPI) which will represent 51.36% of the total outstanding shares of stock of POPI. On February 24, 2016 a Deed of Subscription and a Supplement to the Deed of Subscription was executed by ALI and POPI (see Note 39).

On August 11, 2015, ALI won the bid for the Integrated Transport System Project – South Terminal (ITS South Project). ALI will be awarded by the DOTC with a 35-year concession agreement to build and operate the ITS South Project and will likewise have the right to develop and operate commercial leasing facilities on the same 5.57 hectare former Food Terminal Inc. property on which the future transport terminal will be built. The site of the ITS South Project is right next to ARCA South, where ALI is developing an integrated mixed-use estate. It is estimated that up to 4,000 buses and 160,000 passengers will feed into ITS South from SLEX every day. Construction will begin by May 2016 and is expected to be completed and ready for operation by October 2017.

On June 30, 2015, ALI, through SM-ALI Group consortium, participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963. SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc. (SMPHI), ALI and CHI (collectively referred to as the ALI Group). The SM-ALI Group will co-develop the property pursuant to a joint master plan.

On August 8, 1997, an Assignment Agreement was executed between Metro Rail Transit Corporation (Metro Rail) and MRT Development Corporation (MRTDC) whereby MRTDC agreed to be bound by all obligations in respect of the Development Rights and make payments to DOTC.

On February 21, 2002, MRTDC and NTDCC entered into an assignment agreement wherein the development rights of MRTDC over an 8.3 hectare portion of the MRT Depot (inclusive of project development costs incurred in relation thereto) was assigned to NTDCC in exchange for 32,600,000 shares of stock to be issued out of the increase in the authorized capital stock of NTDCC, each share with a par value of ₱10, or an aggregate par value of ₱326.0 million. The amount of development rights in excess of the aggregate par value of the shares subscribed was credited to additional paid-in capital.

On January 13, 2006, the deed of assignment between MRTDC and NTDCC was acknowledged by the DOTC making MRTDC and NTDCC jointly and severally liable for the DRP and all other obligations attached thereto. NTDCC has been paying rent to DOTC in behalf of MRTDC since January 1, 2006.

On March 21, 2007, DOTC, National Housing Authority (NHA), MRTDC, and NTDCC entered into a MOA whereby DOTC assigns, transfers and conveys to NHA, its successors or assigns, the right to demand and collect the Depot DRP Payable and Depot DRP. In the MOA, DOTC authorizes MRTDC/NTDCC to remit the Depot DRP Payable and the Depot DRP to NHA directly which shall be credited by DOTC in favour of MRTDC/ NTDCC as payment for the DRP.

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, Subic Bay Town Center, Inc. (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 December 17, 2014, Arvo Commercial Corporation signed a Deed of Absolute Sale with the Philippine National Bank for a parcel of land with an area of 6,003 sqm located at No. 460 Quirino Highway, Brgy. Talipapa, Novaliches, Quezon City.

On November 7, 2014, ALI, SMPHI, the Francisco Ortigas Group (FOG) and the Rafael Ortigas Group (ROG) have signed an agreement to cause the termination of all cases relating to the ownership and management of OCLP Holdings, Inc. (OHI), which owns Ortigas and Company Limited Partnership (OCLP). The agreement establishes a partnership that will further enhance the properties in the Ortigas area and create maximum value for their various stakeholders.

On June 4, 2014, AHRC has signed a long-term management agreement with the Mandarin Oriental Hotel Group to develop and operate luxury hotel in Makati City. Set to open its doors by 2020, the new Mandarin Oriental Manila will be featuring 275 spacious rooms complemented by an extensive range of modern amenities including premium selection of restaurants and a signature spa. ALI Group is committed to pay $5 million (₱223.6 million) to Manila Mandarin Hotel, Inc. upon the opening of the New Hotel or June 30, 2017, whichever is earlier.

On May 12, 2014, ALI has signed the terms of reference with Sureste Properties, Inc. (SPI), a wholly owned subsidiary of Bloomberry Resorts Corp. (BLOOM) for the retail area to be opened in the new Phase 1-A of Solaire Resort & Casino. ALI will be the leasing and marketing agent of the said area with gross leasable area of more than 5,000 sqm.

Parent Company's Concession Agreement
In 2012, the Parent Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari – SLEX Link Road, now known as the Muntinlupa-Cavite Expressway(MCX) [the Project]. Under the concession agreement, the Parent Company will:

a. Purchase the advance works on Segment I of the Project 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 Parent 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 Parent 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 Parent Company shall be entitled to either of the following:

a. Compensation from the DPWH of the toll income forgone by the Parent Company which shall be calculated based on a prescribed computation under the concession agreement.
b. Extension of the concession period to compensate the Parent Company for the forgone toll income which shall be mutually agreed by the Parent Company and the DPWH.

The Parent 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.

Interoperability Agreement
In December 2013, the Parent Company signed a MOA on the Interoperability of the Project with Manila Toll Expressway Systems, Inc. (MATES) and South Luzon Tollway Corporation (SLTC). SLTC is the concessionaire for SLEX and MATES is the SLEX facility operator. The interoperability agreement provides the framework that governs the interface and integration of the technical operations and toll collection systems between the Project and SLEX to ensure seamless travel access for users of the toll roads.

In December 2014, MATES and MCX Tollway, Inc. (MTI) (a subsidiary of AC Infra) executed a Toll Collection Services Agreement, under which, MATES was appointed as sub-contractor of MTI for the provision of toll collection services. MTI is the appointed Facility Operator of the Project under a 7-year operation and maintenance agreement with the Parent Company.

MWC Group

MWC's Concession Agreement (the "Agreement")

On February 21, 1997, MWC entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of MWC throughout a 25-year concession period. The MWSS Regulatory Office (MWSS-RO) monitors and reviews the performance of each of the Concessionaires – MCWC and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants MWC (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of 25 years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While MWC has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by MWC during the Concession remains with MWC until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, MWC officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in MWC's project plans, operational commercial capacity will be attained upon substantial completion of the rehabilitation work.

Under the Agreement, MWC is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
c. Foreign Currency Differential Adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12, 2001 (see Notes 2, 9 and 14); and
d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
    i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and
    ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five.

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 the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by MWC for water and sewerage services as follows:

1. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by MWC (subject to interim adjustments) are set out in the Concession Agreement.

2. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit MWC to recover, over the 25-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and MWC's loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees passed Resolution No. 2009-072 approving the 15-year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the office of the President of the Republic of the Philippines, on October 19, 2009. The significant commitments under the Extension follow:

a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.
b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.
c. To increase the total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for MWC's investment is now extended by another 15 years from 2022 to 2037.

In March 2012, MWC submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. The MWSS 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, the MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on MWC's 2012 average basic water rate of ₱24.57 per cubic meter shall be implemented in 5 equal tranches of negative 5.894% per charging year. MWC objected to the 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, through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for MWC's Standard Rates including FCDA until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, MWC received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

a. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
d. Exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with MWC's Concession Agreement with MWSS.

On December 10, 2015, MWC filed a Notice of Arbitration with the Permanent Court of Arbitration against the National Government. The Notice of Arbitration was filed with respect to a Notice of Claim made on the National Government on April 23, 2015 and reiterated on August 13, 2015 and October 20, 2015. The Notice of Claim was made under the Letter of Undertaking of the National Government, which was dated July 31, 1997 and issued through the DOF, and was subsequently reiterated in the DOF Letter dated October 19, 2009 (the "Sovereign Undertaking"). These were issued to guarantee the obligations of the MWSS under its Concession Agreement with MWC executed on February 21, 1997.

In the Sovereign Undertaking, the National Government, through the DOF, undertook to indemnify MWC against any loss caused by any action on the part of the National Government and/or the MWSS resulting in the reduction of the standard rates "below the level that would otherwise be applicable in accordance with the Concession Agreement", thereby denying MWC the rate of return "allowed from time to time to operators of long term infrastructure concession agreement in other countries having a credit standing similar to the Philippines" pursuant to Section 9.4 of the Concession Agreement. As a result of certain actions by the MWSS and the National Government, which are covered by the provisions of the Sovereign Undertaking, MWC demanded indemnification from the National Government by reimbursing its losses in operating revenues to be realized for each remaining year of the Concession as such losses are realized.

The MWSS Board of Trustees approves the FCDA adjustment quarterly. The FCDA has no impact on the net income of MWC, as the same is a recovery or refund mechanism of foreign exchange losses or gains. During 2015, the following FCDA adjustments and their related foreign exchange basis took effect.

Approval Date	FCDA Adjustment	Foreign Exchange Rate Basis
January 5, 2015	₱0.36 per cubic meter	USD1: ₱44.80 / JPY1: ₱0.42
September 9, 2015	₱0.05 per cubic meter	USD1: ₱45.26 / JPY1: ₱0.38
December 10, 2015	₱0.15 per cubic meter	USD1: ₱46.36 / JPY1: ₱0.39

The significant commitments of MWC under the Concession 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$70.00 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$70.00
Second (January 1, 2003 - December 31, 2007)	70.00
Third (January 1, 2008 - December 31, 2012)	60.00
Fourth (January 1, 2013 - December 31, 2017)	60.00
Fifth (January 1, 2018 - December 31, 2022)	50.00
Sixth (January 1, 2023 - December 31, 2027)	50.00
Seventh (January 1, 2028 - December 31, 2032)	50.00
Eighth (January 1, 2033 - May 6, 2037)	50.00

Within 30 days from the commencement of each renewal date, MWC Company 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.

MWC is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the Concession.

<u>LAWC's Concession Agreement</u>
On April 9, 2002, LAWC entered into a concession agreement (as amended on March 31, 2004 and July 22, 2009) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, the PGL grants LAWC (as contractor and as agent for the exercise of certain rights in Laguna) 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 water services to specific areas for an operational period of 25 years which commenced on October 20, 2004.

While LAWC has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by LAWC in the performance of its obligations under the agreement remains with LAWC and shall not pass to PGL until the end of the concession period at which time, LAWC will transfer, or if the ownership is vested in another person, cause the transfer to PGL. LAWC has the exclusive rights to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services.

Seventy percent (70%) of the concession fees are applied against any advances made by LAWC to PGL. The remaining thirty percent (30%) of the concession fees are payable annually 30 days after the submission of the audited financial statements by LAWC, from the start of the operational period.

On June 30, 2015, LAWC and the PGL signed an amendment to the concession agreement which expands the concession area to cover all cities and municipalities in the province of Laguna, as well as the service obligation to include the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

The significant commitments of LAWC under its concession agreement with PGL are as follows:

a. To pay PGL 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 PGL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

On June 30, 2015, PGL and MWPV signed an amendment to their joint venture agreement dated November 10, 2000. Simultaneously, and consequent to the amendment of the joint venture agreement of LAWC, LAWC signed an amendment to its concession agreement with the PGL which includes the following:

a) Expansion of its concession area to cover all cities and municipalities in the PGL; and

b) Inclusion in the service obligations of Laguna Water the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

<u>BIWC's Concession Agreement</u>
On December 17, 2009, BIWC entered into a concession agreement with TIEZA, formerly Philippine Tourism Authority (PTA). The concession agreement sets forth the rights and obligations of BIWC as concessionaire throughout the 25-year concession period. The TIEZA Regulatory Office will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants BIWC the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the entire Boracay Island. The legal title to all fixed assets contributed to the existing TIEZA system by BIWC during the concession remains with BIWC until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

As part of the agreement, BIWC advanced concession fees to TIEZA amounting to ₱60.0 million, which will be applied as payment of, and shall be offset against the annual concession fees payable to TIEZA equivalent to 5% of the annual gross revenue of BIWC.

Under its concession agreement, BIWC is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer CPI;
b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession 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 commenced on January 1, 2010 and ended 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.

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 BIWC to seek conformity from the DOF before it could be incorporated.

In January 14, 2013, TIEZA approved the Rebasing Convergence adjustment for BIWC which is equivalent to an increase from its existing rates of 35% to be implemented on a staggered basis for a period of four years with a 10.10% increase in 2013; 9.18% in 2014; 8.40% in 2015; and 7.75% in 2016, effective starting 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.

For 2015, the rate rebasing adjustment was implemented plus the catch-up CPI adjustment of 3.70% pertaining to 2013. In September 2015, BIWC also implemented the FCDA downward adjustment of 14.34% together with two CPIs of 2.70% and 4.40% pertaining to years 2014 and 2015, respectively.

The Agreement also provides a general rate setting policy for rates chargeable by BIWC for water and sewerage services as follows:

a. For the period through the second rate rebasing date (January 1, 2016), the maximum rates chargeable by BIWC (subject to interim adjustments) are set out in the Agreement; and
b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit BIWC to recover, over the 25-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

Also part of the concession agreement, BIWC assumed certain property and equipment of BIWC Sewerage System (BWSS), as well as its outstanding loan from Japan International Cooperation Agency (JICA), considered as part of its TIEZA loans under the concession agreement, and regulatory costs.

As a result of the above terms of the concession agreement, BIWC recognized a total of ₱986.9 million service concession assets on commencement date. It includes the JICA loan assumed by BIWC, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees.

The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. To pay concession fees, subject to the following provisions:

   i. Assumption of all liabilities of the BWSS as of commencement date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Boracay Island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;

   ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;

   iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable semi-annually 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 adjustment

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 concession agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US$2.50 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$2.50
Second	2.50
Third	1.10
Fourth	1.10
Fifth	1.10

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.

CWC's Concession Agreement
On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling 25 years thereafter or as may be extended by the terms of the concession agreement. As the implementing arm of the Bases Conversion Development Authority and the regulatory and development body for the CFZ, CDC has the power and authority to regulate and monitor the performance and compliance of VWPI, or its assignee, with its obligations under the concession agreement.

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to CWC by virtue of an assignment and assumption agreement between VWPI and CWC. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, CWC pays CDC an annual franchise fee of ₱1.50 million. 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.

On September 29, 2000, CDC leased in favor of CWC the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of CWC and CDC under the concession agreement. Under the lease agreement, CWC was required to make a rental deposit amounting to ₱2.8 million equivalent to six months lease rental and a performance security amounting to ₱6.7 million to ensure the faithful compliance of CWC with the terms and conditions of the lease agreement. CWC pays semi-annual rental fees of ₱2.8 million amounting to a total of ₱138.3 million for the entire concession period. The lease term shall be co-terminus with the concession period unless sooner terminated for any of the reasons specified in the concession agreement.

On August 15, 2014, CWC and CDC signed an amendment agreement to the concession agreement 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 ₱4.0 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original concession agreement amounted to ₱3.0 billion and the amended concession agreement required an additional of ₱2.0 billion. Initial investment prior to the amendment of the concession agreement amounted to ₱1.0 billion.
- Introduction of a 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, subject to the Extraordinary Price Adjustment.
- Increase in tariff rates by:
  - ₱0.41/m^3 (from Php24.63/m^3 to Php25.04/m^3) in 2018;
  - ₱0.42/m^3 (from Php25.04/m^3 to Php25.45/m^3) in 2019;
  - ₱0.42/m^3 (from Php25.45/m^3 to Php25.87/m^3) in 2020; and
  - ₱0.43/m^3 (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 ₱56.58 million. Further, the recovery period of the CWC's investment is now extended by another 15 years from 2025 to 2040.

On July 28, 2014, CWC's BOD approved and authorized the equity restructuring of CWC. CWC converted 700 issued and outstanding common stock to redeemable preferred stock with par value of ₱100.00 per share. Subsequently, on September 29, 2014, CWC redeemed all issued and outstanding preferred stock.

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 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) 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 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 CWC; 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 like assisting locator of relocating of pipes and assess internal leaks;

f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

On August 15, 2014, the CWC and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:

a. Extension of the original concession period for another 15 years up to October 1, 2040;

b. Additional investment of ₱4.0 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original concession agreement amounted to ₱3.0 billion and the amended concession agreement required an additional investment of ₱2.0 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.0 billion;

c. Introduction of rate rebasing mechanism for every four years starting 2014;

d. Reduction in tariff rates by 3.9% (from ₱25.63/m^3 to P₱24.63/m^3) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   - ₱0.41/m3 (from ₱24.63/m^3 to ₱25.04/m^3) in 2018
   - ₱0.42/m3 (from ₱25.04/m^3 to ₱25.45/m^3) in 2019
   - ₱0.42/m3 (from ₱25.45/m^3 to ₱25.87/m^3) in 2020
   - ₱0.43/m3 (from ₱25.87/m^3 to ₱26.30/ 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 CWC's investment is now extended by another 15 years from 2025 to 2040.

On July 28, 2014, CWC's BOD approved and authorized the equity restructuring of CWC. CWC converted 700 issued and outstanding common stock to redeemable preferred stock with par value of ₱100.00 per share. Subsequently, on September 29, 2014, CWC redeemed all issued and outstanding preferred stock.

On August 15, 2014 CWC and CDC signed an amendment agreement to their Concession Agreement dated March 16, 2000 (the Amendment). The Amendment provides for, among others, the (a) extension of the original concession period for another fifteen years; (b) additional investment by CWC of ₱5.0 billion for the entire concession period, as extended, to be spent for the further improvement and expansion of water and wastewater services in the service area; and (c) the introduction of rebasing mechanism that will enable CWC to recover its investment at a reasonable tariff to the locators and residents of CDC in the service area.

MW Consortium Agreement with the Provincial Government of Cebu (PGC)
On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51% and 49% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.0 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is 30 years starting March 2012 and renewable for another 25 years. MW Consortium and the PGC incorporated Cebu Manila Water Development, Inc. (CMWDI), with an ownership of 51% and 49%, respectively, pursuant to the joint investment agreement.

On December 13, 2013, CMWDI received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). On December 18, 2013, CMWDI and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18.0 million liters per day of water for the first year and 35.00 million liters per day of water for years 2 up to 20. CMWDI delivered its initial 18.0 million liters per day bulk water supply to MCWD on January 5, 2015. CMWDI will increase its bulk water delivery to 35.0 million liters per day in 2016.

Memorandum of Understanding (MOU) with Yangon City Development Committee (YCDC)
On March 17, 2014, MWC and Mitsubishi Corporation, signed a MOU with the YCDC in Yangon City, Myanmar for the development of a proposed NRW project for Yangon City. YCDC is an administrative body of the city government in Yangon in charge of the water, infrastructure, business licenses and city property management, among others.

As of December 31, 2015, MWC, through its subsidiary, Manila Water Asia Pacific Pte. Ltd. (MWAP), is in the process of laying down the groundwork for its pilot NRW reduction project in Yangon.

ZWCI's Concession Arrangement
On December 19, 2014, MWC received a notice from the Zamboanga City Water District (ZCWD) awarding the project for non-revenue water reduction (NRW) reduction activities in Zamboanga City, Zamboanga. On January 30, 2015, MWC and ZCWD signed and executed a joint venture agreement in relation to the NRW reduction project in Zamboanga City.

On June 2, 2015, Zamboanga Water Company, Inc.(ZWCI), the joint venture company which is 70% owned by MWC, entered into a Non-revenue Water Reduction Service Agreement (NRWSA) with ZCWD. Under the NRWSA, ZCWD grants the ZWCI the right to implement Network Restructuring and Non-Revenue Water Reduction Programs for ZCWD's water distribution system.

The project will run for 10 year period, beginning June 2, 2015, with 3 phases namely:
a. Network Improvement Program (DMA Formation) and NRW Reduction Program (Service Line and Meter Replacement, Active Leak Detection and Repair) – from Year 1 to 5
b. Maintenance Period – in Year 6
c. Technical Assistance and Consultancy – from Year 7 to 10

In consideration of the above, ZCWD shall pay ZWCI the following:
a. Fixed Fees of ₱16.0 million (VAT inclusive, subject to annual inflation adjustment), payable quarterly in equal amounts of ₱4.0 million.
b. Performance Fees of ₱11.00 per cubic meter volume recovered (VAT inclusive, subject to annual inflation adjustment), payable quarterly

The annual fixed fees shall cover for the total cost of the Network Restructuring Program (from Year 1 to 5) and overhead and miscellaneous costs (from Year 1 to 10).

Joint Venture for NRW Reduction Activities by Asia Water Network Solutions Joint Stock Company (Asia Water) and Saigon Water Infrastructure Corporation (Saigon Water)
On April 22, 2015, Asia Water was granted the Investment Certificate from the Department of Planning and Investment of Ho Chi Minh City, Vietnam. Asia Water is a joint venture between MWSAH and Saigon Water which aims to carry out activities such as NRW reduction management, waste system design and construction, and operation and management of distribution system and network. MWSAH, a wholly owned subsidiary of MWC, effectively owns a 64.71% stake in Asia Water as of December 31, 2015.

Joint Venture for the Tagum City Bulk Water Supply Project with Tagum Water District (TWD)
On July 28, 2015, the TWD awarded the Tagum City Bulk Water Supply Project to the consortium of MWC and iWater, Inc. On October 15, 2015, Davao del Norte Water Infrastructure Company, Inc. (Davao Water), the joint venture company of MWC and iWater, Inc., signed and executed a joint venture agreement with the TWD. Under the said agreement, Davao Water and the TWD shall cause the incorporation of a joint venture company which shall implement the Bulk Water Supply Project for 15 years from the operations start date as defined in the joint venture agreement. Tagum Water, the joint venture company, which is 90% and 10% owned by Davao Water and TWD, was registered with the SEC on December 15, 2015. Tagum Water will develop supplemental surface water resources that will deliver potable bulk water to TWD.

MWSAH Capital Transfer Agreement with Saigon Water
On November 3, 2015, MWSAH completed the execution of a Capital Transfer Agreement with Saigon Water for the acquisition of 24.5% of the charter capital of Cu Chi Water in the total amount of VND154.35 billion. Pursuant to the capital transfer agreement, Saigon Water entered into a put option agreement with MWSAH and VIAC (No 1) Limited Partnership.

MWAP MOU with the PDAM Tirtawening Kota Bandung (PDAM Bandung)
On November 6, 2015, MWAP signed a MOU with the PDAM Bandung in Bandung City, West Java, Indonesia. PDAM Bandung is a water utility company owned and controlled by the Regional Government of Bandung City.

Pursuant to the MOU, MWAP shall conduct a Demonstration Project for NRW reduction in Bandung City, Indonesia as the first step in the implementation of other cooperation schemes for the development of PDAM Bandung services in accordance with the prevailing Indonesian laws and regulations. MWAP and PDAM Bandung intend to cooperate to undertake the Demonstration Project towards the successful realization of the cooperation scheme. The execution of the MOU is in line with the MWC Group’s strategic objective to pursue expansion projects and investments outside of the East Zone business area.

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.

On August 19, 2014, the management contract with SAWACO expired. In 2014, total revenue from the Vietnam Project amounted to ₱25.5 million. Total costs related to the Vietnam Project amounted to ₱51.9 million, ₱54.3 million and ₱96.2 million in 2015, 2014 and 2013, respectively. Costs arising from the management contract in 2015 pertain to maintenance, manpower and other administrative expenses arising from the winding down of the project which is expected to be finalized by February 2016.

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 MOA 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 September 9, 2015, Conergy Asia & Me Pte. Ltd. and Monte Solar Energy entered into an offshore supply contract for the development of 18 MW solar power plant in Bais, Negros Oriental.

On May 15, 2014, 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

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, GNPK, ACEHI and Citicorp International Limited, in its capacity as Offshore Collateral Agent for the secured parties, signed an equity subscription undertaking whereby GNPK 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 Kauswagan, 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.

AEI
Cooperation Agreements with Universities
As of December 31, 2015, AEI has cooperation agreements with Arellano University, Emilio Aguinaldo College and Jose Rizal University for various junior college and college programs.

36. 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 assessed MWC and Maynilad Water Services, Inc. (jointly, the Concessionaires) 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 ₱357.1 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 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.

Total provisions amounted to ₱718.6 million as of December 31, 2015 and 2014.

37. 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.

In 2015, MWC engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by MWC as of 2014, based on the asset registry as of December 31, 2013. Total reproduction cost as of December 31, 2015 amounted to ₱123.5 billion with a sound value of ₱69.1 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 ₱18.5 million, ₱16.9 million and ₱17.0 million in 2015, 2014 and 2013, respectively. These are included under "Rental and utilities" in the consolidated statement of income.

In March 2015, MWC and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by MWC as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2015 amounted to ₱170.5 million.

PGL
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 PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to PGL in its then condition at no charge to PGL or LAWC.

In 2014, LAWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2.1 billion with a sound value of ₱1.6 billion.

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 ₱618.2 million.

38. 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

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.

On November 11, 2014, commercial operations of the wind farm projects started in accordance with the COE. On April 13, 2015, the FIT COC was subsequently issued for both the 19-MW wind farm expansion in Bangui under Northwind and the 81-MW wind farm in Caparispisan, Pagudpud under NLREC for a period of 20 years. The FIT rate covers the period October 10, 2014 to October 9, 2034 for Northwind's 19MW Phase III wind farm and November 11, 2014 to November 10, 2034 for NLREC's 81MW project.

For the period from November 11, 2014 to December 31, 2014, the Northwind generated 30.07 million kilowatt-hours of electricity from the Wind Farm Project which was entirely sold to Wholesale Electricity Sport Market (WESM). Such generation resulted to revenue (earned from WESM) amounting to Php 75.21 million (Ph2.50/kWh) from November 11 to December 31, 2014. The Actual FIT Differential amounted to Php 183.02 million.

On June 5, 2015, NorthWind and NLREC collected the first FIT differential payment from Transco.

39. **Events after the Reporting Period**

Parent Company

a) On March 10, 2016, the BOD of the Parent Company approved the application with the SEC of a ₱20.0 billion Shelf Registration with a validity of three (3) years to finance the Parent Company's funding requirements in 2016-2017.

AYC Finance, Ltd.

a) In March 2016, AYC Finance, Ltd. undertook the following transactions:
   i. Increased the existing Bilateral Term Loan Facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd from up to US$100.0 million to up to US$200.0 million with interest rates at certain basis points over LIBOR and maturing in September 2022. The loan facility is guaranteed by the Parent Company.
   ii. Conversion of the US$200.0 million Club Term Loan facility into Revolving Credit facility with Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation with interest rates at certain basis points over LIBOR and maturing in March 2020. The loan facility is guaranteed by the Parent Company.

ALI Group

a) On January 12, 2016, ALI entered into a partnership with Manila Water Philippine Ventures, Inc, a wholly owned subsidiary of MWC for the waterworks of ALI's projects nationwide. The MOA was signed by ALI and its subsidiaries and affiiates Cebu Holdings, Inc. and Cebu Property Ventures and Development Corp.

b) ALI and LT Group, Inc. entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City.

c) On March 8, 2016, the SEC approved the application for registration of the ₱50.0 billion bond due 2026 with an initial tranche of ₱8.0 billion at a fixed rate equivalent to 4.85% per annum. The bonds are set to be issued on March 23, 2016 upon receipt of the Permit to Sell Securities to the Public from the SEC.

d) In February 2016, ALI purchased additional 1,078,500 common shares of CHI from BPI Securities totaling ₱4.1 million. This brings ALI's ownership from 56.36% to 56.67% of total outstanding capital stock of CHI.

e) On February 24, 2016, ALI and POPI executed a Deed of Subscription and Supplement to the Deed of Subscription. These agreements are for ALI's acquisition of 2.5 billion common shares of POPI for ₱2.25 per share or a total subscription price of ₱5.6 billion which represents 51.06% ownership in POPI.

f) On February 26, 2016, the BOD of ALI approved the declaration of the following cash dividends:
   i. ₱0.238 per share on the outstanding common shares; and
   ii. ₱0.0047 per share or 4.74786% per annum on the unlisted voting preferred shares.

   The dividends on common shares will be paid on March 23, 2016 to stockholders of record as of March 11, 2016 and the dividends on the unlisted preferred shares will be paid on June 29, 2016 to stockholders of record as of June 15, 2016.

g) On February 26, 2016, the BOD of ALI granted to qualified executives covering up to 17,958,997 common shares at a subscription price of ₱26.27 per share, equivalent to the average closing price of ALI's common shares at the PSE for 30 consecutive trading days ending February 24, 2016, net of 15% discount.

h) On March 1, 2016, SIAL Specialty Retailers, Inc. (SIAL), a joint venture company of ALI and SSI Group, Inc., entered into a Deed of Absolute Sale with Metro Retail Stores Group, Inc. to sell fixed assets in SIAL's department stores located at Fairview Terraces and UP Town Center.

IMI Group

a) On January 20, 2016, a fire broke out in one of the operations buildings at IMI's facility in Jiaxing, China. The estimated financial effect is yet to be determined by the Group.

b) On February 9, 2016, the BOD of IMI approved the declaration of cash dividend of $0.0046 (₱0.2204) per share to all outstanding common shares as of record date of February 26, 2016 payable on March 10, 2016.

MWC Group

a) On February 26, 2016, Tagum Water and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years from the operations start date. Tagum Water will have the sole and exclusive right and responsibility during the term of the agreement to:
   - Develop raw surface water sources in Hijo River;
   - Plan, develop, design, build and test the facilities;
   - Implement the project;
   - Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and
   - Supply treated water to TWD for distribution to its network.

b) On February 26, 2016, the BOD of MWC approved the declaration of the following cash dividends for the first semester of 2016:
   i. ₱0.4167 per share on the outstanding common shares; and
   ii. ₱0.04167 per share on the outstanding participating preferred shares.

   The dividends are payable on March 23, 2016 to shareholders of record as of March 11, 2016.

ACEHI Group

a) On February 26, 2016, Unit 2 of the 135 MW power plant of SLTEC in Calaca, Batangas started its commercial operations.

b) In February 2016, Monte Solar completed and energized the initial 18MW solar power farm located near the Cebu-Negros undersea cable. Monte Solar has met all the requirements set forth by the Department of Energy and the National Grid Corporation of the Philippines and has since been dispatching the full 18MW to the grid.

AC Infra Group

a) On February 12, 2016, LRMC signed the following:
   i. Engineering, Procurement and Construction agreement with Bouyges Travaux Publics and Alstom Transport for the LRT 1 Cavite Extension project.
   ii. 15-year Omnibus Loan and Security Agreement with various local banks aggregating to ₱24.0 billion to be used for LRT 1 Cavite Extension project and rehabilitation of the existing LRT 1 system in the amount of ₱15.3 billion and ₱8.7 billion, respectively.

Globe

a) On February 5, 2016, the BOD of Globe approved the declaration of cash dividends of ₱22.00 per share on the outstanding common shares. The dividends will be paid on March 4, 2016 to shareholders of record as of February 22, 2016.

BPI

a) On January 4, 2016, the BOD of BPI approved the grant to qualified participants about 3.275 million shares for ESOP 2015 and about 8.0 million shares for Executive Stock Purchase Plan (ESPP) 2015.

40. **Approval of the Consolidated Financial Statements**

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2015, 2014 and 2013 and for each of the three years in the period ended December 31, 2015 were endorsed for approval by the Audit Committee on March 3, 2016 and authorized for issue by the Board of Directors (BOD) on March 10, 2016.

GLOSSARY

Basel III
Comprehensive set of reform measures, developed by the Basel* Committee on Banking Supervision, to strengthen the regulation, supervision, and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source; improve risk management and governance; and strengthen banks' transparency and disclosures. Source: http://www.bis.org/bcbs/basel3.htm

CAR
Capital Adequacy Ratio of the bank's qualifying capital to its risk weighted assets. Banking regulators require banks to maintain a minimum CAR to ensure they could absorb a reasonable amount of loss.

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 or total equity

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

EQUITY EARNINGS
Share in the income or losses of investee companies

ROCE
Return on common equity (net income to owners of the parent less dividends on preferred shares) / (average common equity attributable to owners of the parent)

ROE
Return on equity (net income attributable to equity holders/ average stockholders' equity)

TSR CAGR
Compounded annual growth rate of total shareholder return

LTV
Loan to value is the ratio of (AC Parent) Net Debt to Investments valued at market for listed investments and book value or carrying value whichever is lower (but minimum value of zero) for non-listed investments

**Basel City, Switzerland*

CORPORATE DIRECTORY

REAL ESTATE

AYALA LAND INC.
30F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, 1226 Philippines
Tel (632) 908 3000
Fax (632) 848-5336
www.ayalaland.com.ph

FINANCIAL SERVICES

BANK OF THE PHILIPPINE ISLANDS
6768 Ayala Avenue
Makati City, 1226 Philippines
Tel (632) 818 5541
Express Phone Banking (632) 89 100
Fax (632) 845 5267
www.bpiexpressonline.com

TELECOMMUNICATIONS

GLOBE TELECOM
The Globe Tower, 32nd Street corner 7th Avenue
Bonifacio Global City, 1634 Taguig, Philippines
Landline: (632) 730 2000 (Trunk Line)
(632) 730 1000 (Customer Care)
(632) 730 1010 (Sales)
(632) 730.1300 (Loyalty)
Mobile: 211
Website: www.globe.com.ph

WATER AND USED WATER SERVICES

MANILA WATER COMPANY INC.
MWSS Administration Building
489 Katipunan Road, Balara
Quezon City, 1105 Philippines
Tel (632) 917 5900
Hotline (632) 1627
Fax (632) 928 2450
www.manilawater.com

ELECTRONICS

INTEGRATED MICRO-ELECTRONICS INC.
North Science Avenue, Special Export Processing Zone
Laguna Technopark, Biñan, Laguna
4024 Philippines
Tel (632) 756 6840
Fax (6349) 544 0311
www.global-imi.com

AUTOMOTIVE

HONDA CARS MAKATI, INC.
1 Pres. Sergio Osmeña Highway
Magallanes, Makati City, 1232 Philippines
Tel (632) 902 9393
Fax (632) 852 6593
www.hondamakati.com.ph

ISUZU AUTOMOTIVE DEALERSHIP INC.
Alabang-Zapote Road corner Acacia Avenue
Ayala Alabang, Muntinlupa City
1780 Philippines
Tel (632) 807 1788
Fax (632) 807 6011
www.isuzuautodealer.com.ph

AUTOMOBILE CENTRAL ENTERPRISE INC.
11F Bonifacio One Technology Tower
3030 Rizal Drive West corner 31st Street
Bonifacio Global City, Taguig City
1634 Philippines
Tel (632) 459 4555
www.volkswagen.com.ph

POWER GENERATION

AC ENERGY HOLDINGS, INC.
33F Tower One Ayala Triangle
Ayala Avenue, Makati City
1226 Philippines
Tel (632) 908 3321
Fax (632) 751 6511

TRANSPORT INFRASTRUCTURE

AC INFRASTRUCTURE HOLDINGS CORPORATION

33F Tower One Ayala Triangle
Ayala Avenue, Makati City
1226 Philippines
Tel (632) 908 3320
Fax (632) 751 6511

BUSINESS PROCESS OUTSOURCING

LIVEIT INVESTMENTS LTD.

33F Tower One Ayala Triangle
Ayala Avenue, Makati City
1226 Philippines
Tel (632) 908 3455
Fax (632) 892 5112

INTERNATIONAL

AG HOLDINGS LIMITED

250 North Bridge Road
#32-03A Raffles City Tower
Singapore 179101
Tel (65) 6311 5151
Fax (65) 6311 5160

HEALTHCARE

AYALA HEALTHCARE HOLDINGS INC.

3F Makati Stock Exchange Bldg.
6767 Ayala Avenue, Makati City, 1226 Philippines
Tel (632) 754 8027
info@ayalahealth.ph
www.ayalahealth.ph

EDUCATION

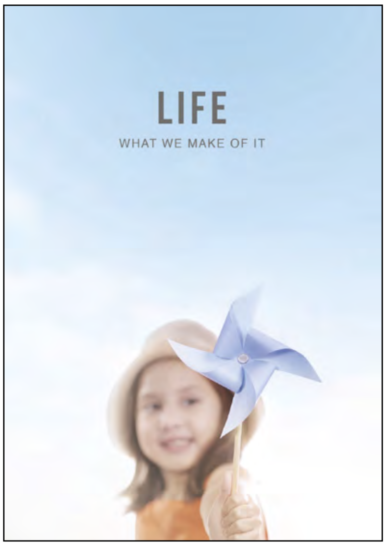
AYALA EDUCATION INC.

33F Tower One Ayala Triangle
Ayala Avenue, Makati City
1226 Philippines
Tel (632) 908 3455
Fax (632) 892 5112

SOCIAL COMMITMENT

AYALA FOUNDATION, INC.

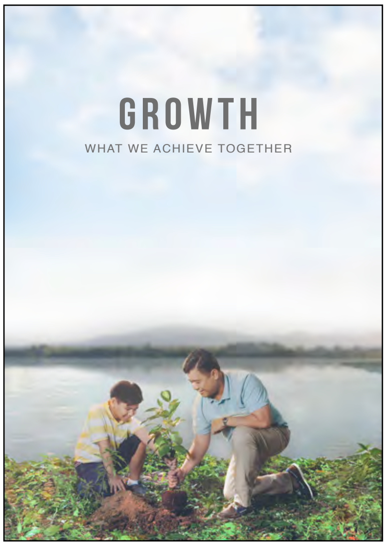
8F 111 Paseo Building
Paseo de Roxas corner Legaspi Street
Legaspi Village, Makati City, 1229 Philippines
Tel (632) 717 5800
Fax (632) 813 4488
www.ayalafoundation.org

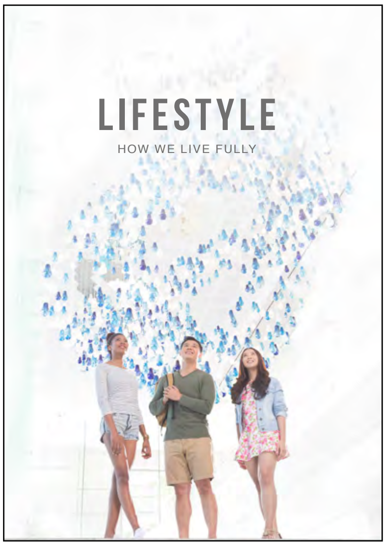


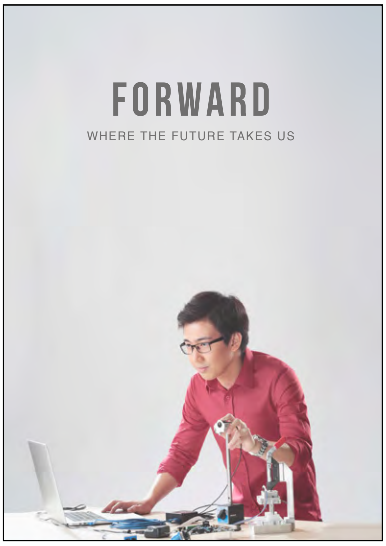
LIFE

When we transform industries, we redefine life for the Filipino.

Ayala creates innovations that shape lives. We provide opportunities as we push toward progress—enabling a bright future for you and our nation.







CORPORATE INFORMATION

34F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City, 1226 Philippines
Tel (632) 908 3000 • Fax (632) 848 5846
www.ayala.com.ph

Stakeholder inquiries

Ayala Corporation welcomes inquiries from analysts, the financial community, institutional investors, customers, media, and the general public. Please contact:

Careers	careersatayala@ayala.com.ph
Customers	acquery@ayala.com.ph
Governance	corporatesecretary@ayala.com.ph
Investors	investorrelations@ayala.com.ph
Media	corpcomm@ayala.com.ph
Sustainability	sustainability@ayala.com.ph

Shareholder services and assistance

For inquiries regarding dividend payments, change of address and account status, and lost or damaged stock certificates, please write or call:

BPI Stock Transfer Office
16F BPI Building
6768 Ayala Avenue
Makati City, 1226 Philippines
Tel (632) 816 9067 and 68
(632) 816 9321
(632) 816 9898
Fax (632) 845 5515
rjcarpio@bpi.com.ph
mjmachado@bpi.com.ph

100% Post-consumer Recycled Fiber
FSC The mark of responsible forestry
equipment CO_2 neutral HEIDELBERG www.heidelberg.com/CO2 • 100000

This report is printed on paper certified by the Forest Stewardship Council using a Heidelberg carbon neutral print product.

Developed and produced by Ayala - Investor Relations and Corporate Communications

Concept, design, and layout by Medium3

Portraits by Francisco Guerrero
Cover and operational photos by Wig Tysmans
Additional photography from Ayala Group of Companies

We achieved a number of milestones
as a group in the past year,
with most of our businesses performing well.
We are pleased to report that
we surpassed our 2016 net income target
a year earlier than planned.

Fernando Zobel de Ayala
President and Chief Operating Officer

AYALA CORPORATION
34F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City,1226 Philippines
Tel (632) 908 3000 • Fax (632) 848 5846
www.ayala.com.ph