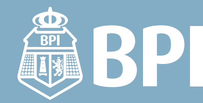
BOLDER.

2012 ANNUAL REPORT

2012 WAS ANOTHER RECORD-BREAKING YEAR FOR US.

ON TOP OF STRONG GROWTH, WE INTRODUCED VARIOUS INNOVATIONS TO SIMPLIFY AND ENHANCE THE BANKING EXPERIENCE FOR OUR CUSTOMERS.



WE SUSTAINED OUR STRONG MOMENTUM ACROSS ALL BUSINESSES ACHIEVING ALL-TIME HIGH REVENUES.

EASTERN EUROPE IS ALREADY STRENGTHENING OUR BOTTOMLINE.

WE ARE COLLABORATING TO DEVELOP GRADUATES THAT MATCH THE SKILLS REQUIRED IN TODAY'S JOB MARKET.

WE ARE WELL POSITIONED TO OPTIMIZE OPPORTUNITIES IN THE INDUSTRY GIVEN THE STRONG BRAND NAMES OF HONDA, ISUZU AND VOLKSWAGEN.

INCOME STREAMS FROM NEW BUSINESSES ARE INCREASING, COMPLEMENTING CORE REVENUES FROM EXISTING SERVICES.

WE CONTINUE TO SCALE UP NEW BUSINESSES TO DEVELOP FUTURE SOURCES OF GROWTH.

WE ARE URGING GREATER PARTICIPATION AND DEEPER ENGAGEMENT FROM DONORS, PARTNERS, BENEFICIARIES, AND OTHER STAKEHOLDERS.

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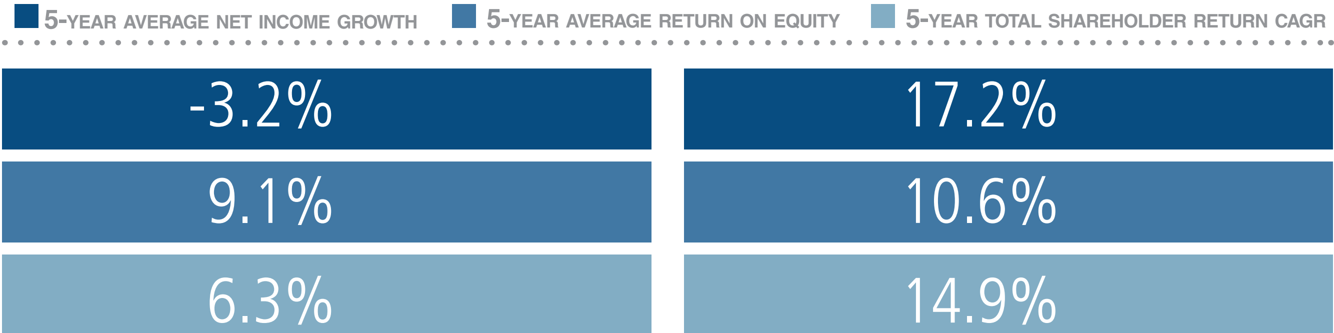
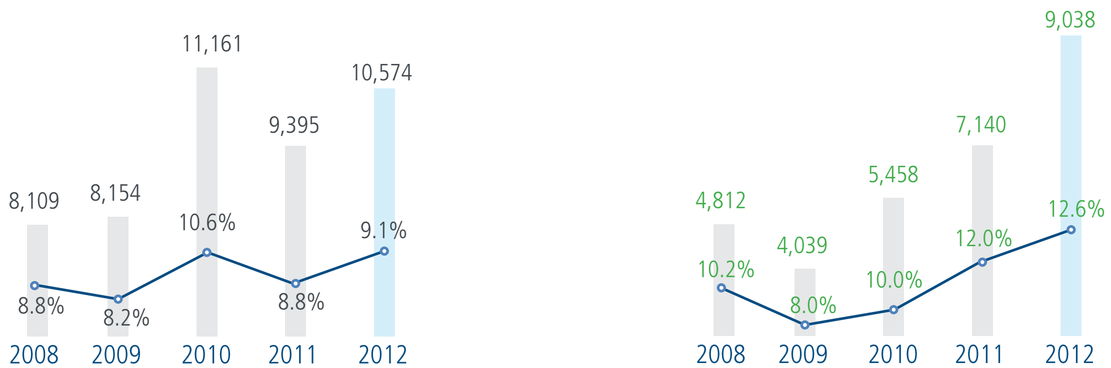
Ayala Corporation is one of the largest conglomerates in the Philippines with businesses in real estate, financial services, telecommunications, water distribution, electronics manufacturing services, automotive dealership, and business process outsourcing. Recently, it expanded into other strategic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

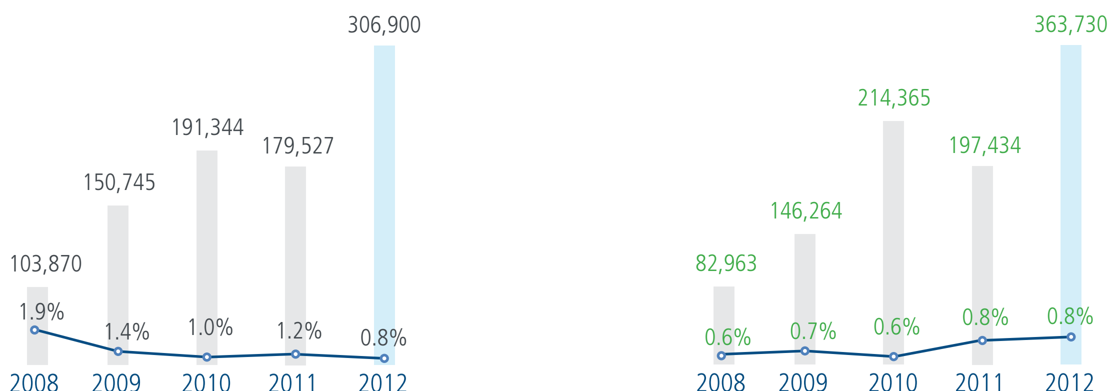
Ayala Land Inc. is the country's largest, fully integrated, and most diversified property developer, operating prime commercial spaces in the Philippines. It is engaged in the masterplanning and development of mixed-use communities, comprising of residential, retail, office, hotel, and leisure components, within growth centers across strategic areas around the country.



Net Income (In Million Pesos) and Return On Equity (%)

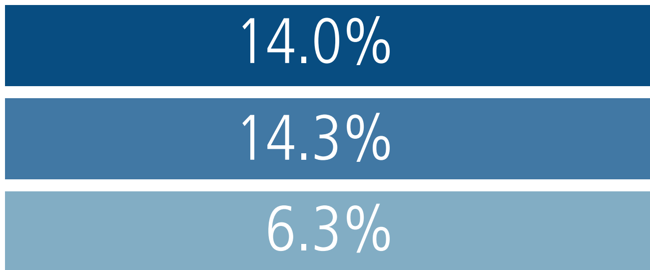


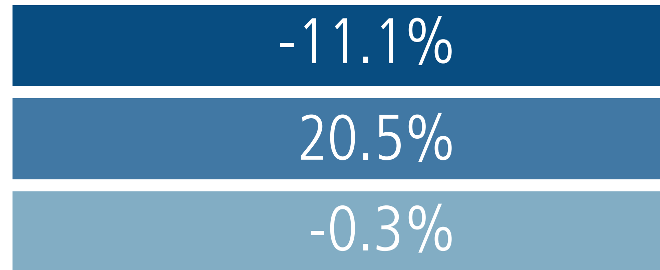
Market Capitalization (In Million Pesos) and Dividend Yield (%)

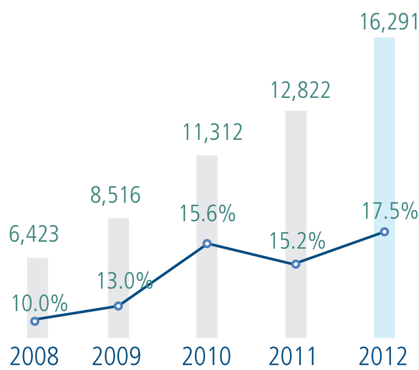


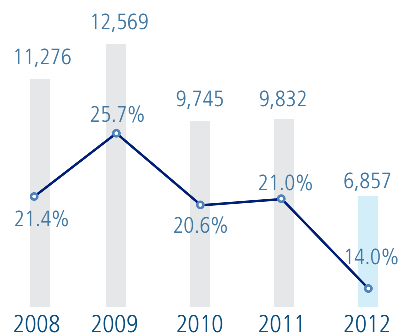
Bank of the Philippine Islands is the country's largest bank in terms of market capitalization and the third largest in terms of total assets. It has significant presence in intermediation capacity, corporate and consumer lending, remittances, and electronic banking. The bank offers peso and foreign currency deposits, corporate and consumer loans, leasing, loan syndication, securities underwriting and distribution, foreign exchange, cash management, credit cards, payments and settlements, remittances, asset management services, life and general insurance.

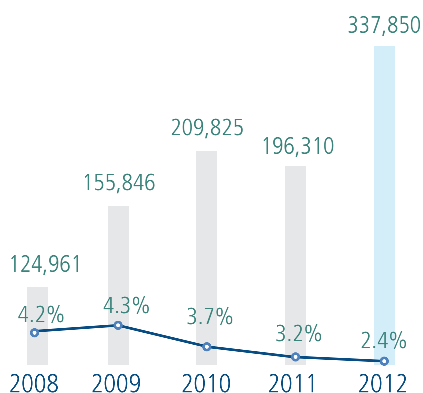
Globe Telecom Inc. is a major provider of telecommunications services in the Philippines, servicing 33.1 million mobile subscribers, 1.7 million wired and wireless broadband customers, and over 711,000 landline subscribers. Formed out of a partnership between Ayala Corporation and Singapore Telecom, the company operates one of the largest and most technologically advanced mobile, fixed line, and broadband networks in the country, and maintains a distributor and over-the-air reload network spanning over 810,000 retailers, distributors, suppliers, and business partners nationwide.

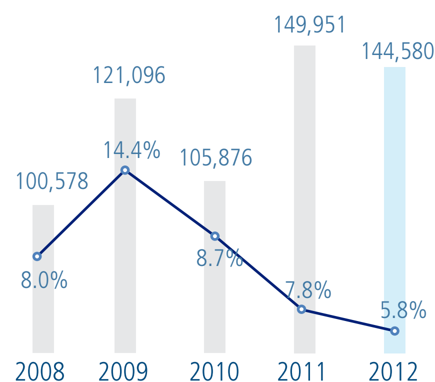


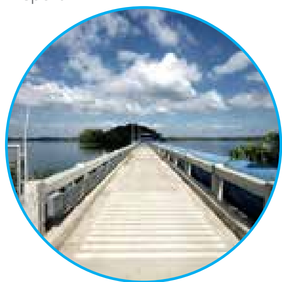






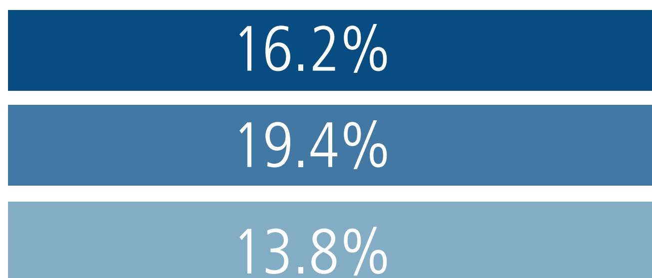




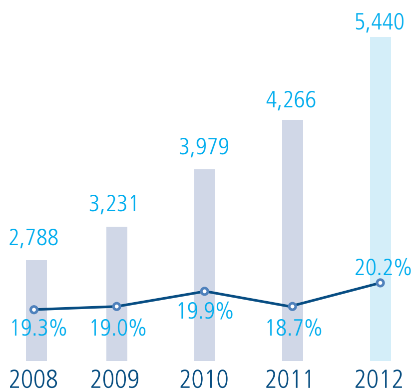


Manila Water Company Inc. is the sole provider of water and wastewater services to more than six million people in the East Zone of Metro Manila, which includes Pasig, Mandaluyong, Makati, San Juan, Taguig, Pateros, Antipolo, Taytay, Jala-Jala, Baras, Angono, San Mateo, Rodriguez, Marikina, most of Quezon City, and parts of Manila. Building on its success in the East Zone, Manila Water now has existing operations in Boracay, Clark, and Laguna in the Philippines, and Ho Chi Minh City in Vietnam.

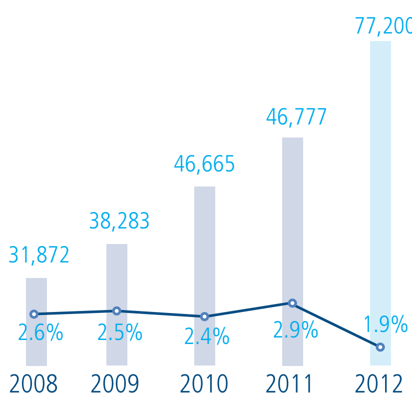
- 5-Year Average Net Income Growth
- 5-Year Average Return on Equity
- 5-Year Total Shareholder Return CAGR



Net Income (In Million Pesos) and Return On Equity (%)

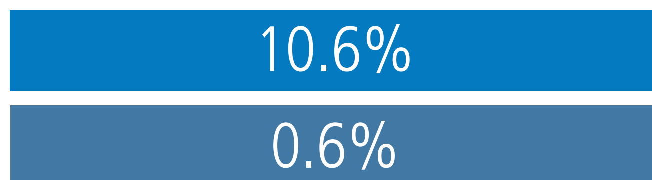


Market Capitalization (In Million Pesos) and Dividend Yield (%)

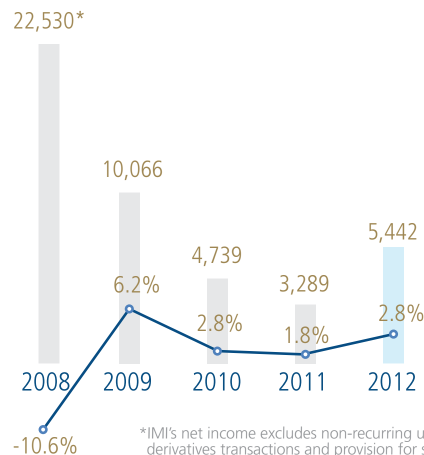


Integrated Micro-Electronics Inc. is a leading provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS) with manufacturing facilities in Asia, Europe, and North America. It serves diversified markets that include those in the automotive, industrial, medical, telecommunications, infrastructure, storage device, renewable energy, and consumer electronics industries. Committed to top-quality and innovative solutions, IMI has become the preferred partner of leading global original equipment manufacturers (OEMs).

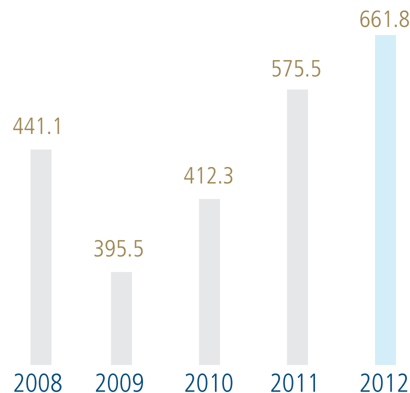
- 5-Year Average Revenue Growth
- 5-Year Average Return on Equity



Net Income (in '000 US$) and Return On Equity (%)



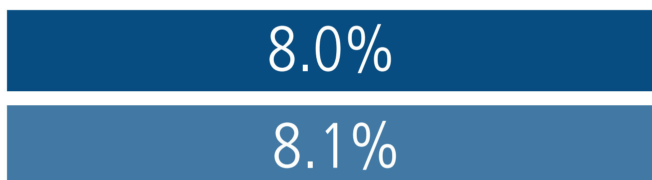
Revenues (In Million US$)



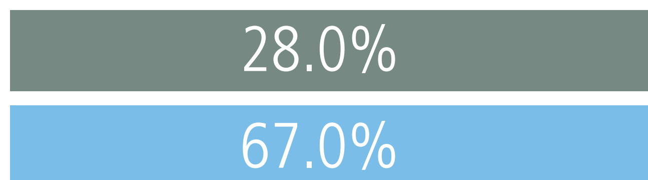
Ayala Automotive Holdings Corporation is a leading vehicle dealership network of both Honda and Isuzu brands. Its products in the passenger car category include Honda City, Jazz, Civic, and Accord. In the commercial vehicle segment, it has *Honda CR-V, Odyssey, Pilot,* and *Isuzu Crosswind, D-Max, Alterra* and Isuzu trucks. Ayala was recently appointed as Volkswagen AG's official distributor in the Philippines.

LiveIt Investments Ltd. is Ayala Corporation's BPO investment vehicle, which has invested over US$200 million in the Voice (Stream), Knowledge (Integreon), Ad/Marketing Production (Affinity Express), and F&A/HR (IQBackOffice) sectors. Its investees have combined revenues of US$1 billion, EBITDA of US$105 billion and total employees of over 43,000 in 23 countries, of which approximately 15,000 are located in the Philippines.

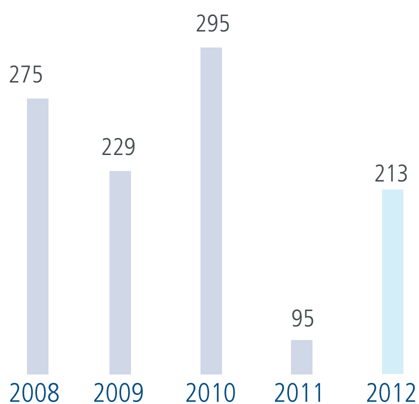
5-YEAR AVERAGE NET INCOME GROWTH
5-YEAR AVERAGE RETURN ON EQUITY



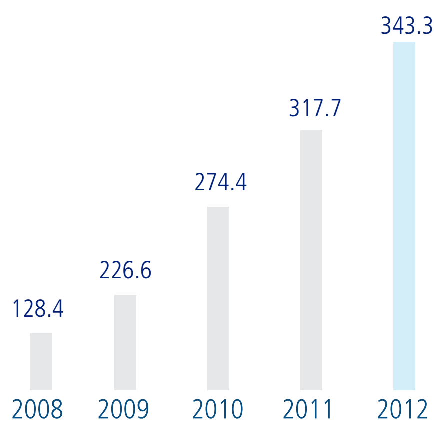
4-YEAR REVENUE CAGR
4-YEAR EBITDA CAGR



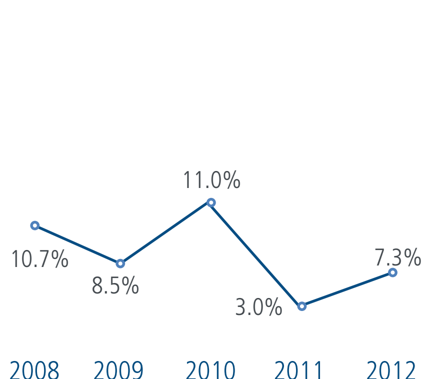
NET INCOME (IN MILLION PESOS)



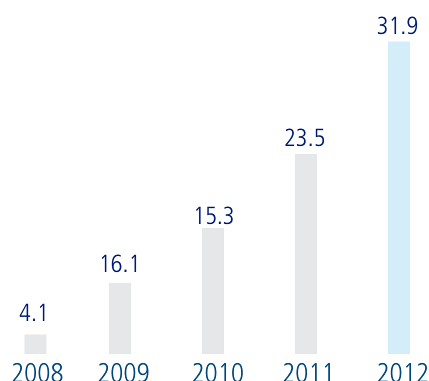
SHARE OF REVENUES (IN MILLION US$)



RETURN ON EQUITY (%)



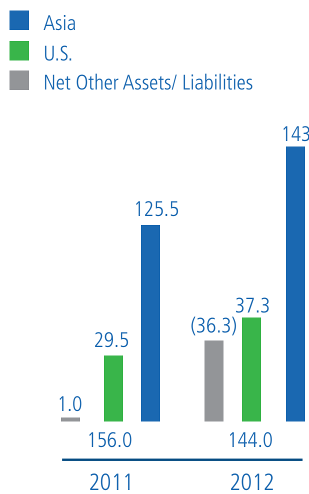
SHARE OF EBITDA (IN MILLION US$)



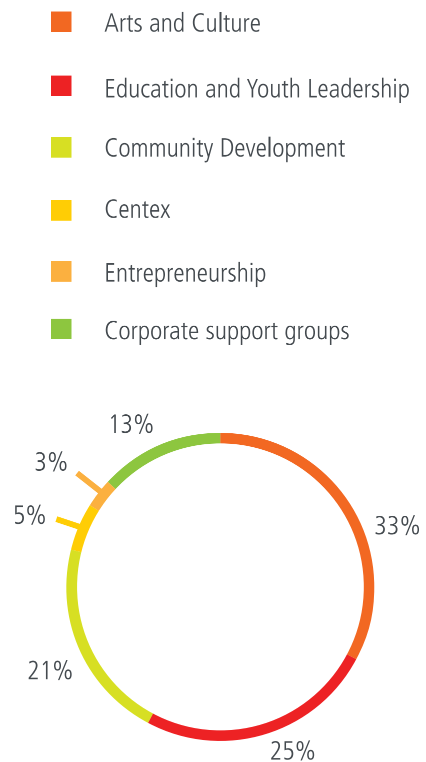
AG Holdings Limited is the holding company for the Ayala group's international investments in real estate and other assets.

Ayala Foundation Inc. is the social development arm of the Ayala group. It is a non-stock, non-profit organization that envisions communities where people are productive, creative, self-reliant, and proud to be Filipino. AFI seeks to achieve this through programs in education, youth leadership, sustainable livelihood, and arts and culture.

Net Asset Value (In Million US$)



AFI's uses of funds



FINANCIAL HIGHLIGHTS

	2012	2011	2010
FOR THE YEAR (In Million Pesos)			
Revenues	125,074	107,532	98,071
Net Income Attributable to Equity Holders	10,574	9,395	11,161
Cash Dividends to Common Shares	2,344	2,124	1,946
Cash Dividends to Equity Preferred Shares	543	554	944
Stock Dividends	-	4,842	-
Stock Dividends (%)	-	20%	-
AT YEAR-END (In Million Pesos)			
Total Assets	488,325	357,627	315,370
Cash and Cash Equivalents	76,761	53,577	53,143
Short-Term Investments	296	1,613	3,994
Total Borrowings	169,757	106,718	82,837
Equity Attributable to Equity Holders	125,602	107,044	107,541
PER SHARE (In Pesos)			
Earnings - Basic 1/	17.15	14.53	17.13
Earnings - Diluted 1/	17.04	14.43	17.01
Book Value of Common Shares 1/	201.54	175.13	164.37
Cash Dividends to Common Shares	4.00	4.00	4.00
FINANCIAL RATIOS			
Current Ratio	1.45	1.78	1.89
Debt-to-Equity Ratio	1.35	1.00	0.77

1/ Adjusted to reflect retroactive effect of the 20% stock dividends in 2011

CONSOLIDATED FINANCIAL HIGHLIGHTS

	AYALA CORPORATION					AYALA LAND				
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
FOR THE YEAR (In Million Pesos)										
Revenues	125,074	107,532	98,071	76,294	79,109	54,525	44,206	37,814	30,455	33,749
Net Income Attributable to Equity Holders	10,574	9,395	11,161	8,154	8,109	9,038	7,140	5,458	4,039	4,812
Cash Dividends to Common Shares	2,344	2,124	1,945	1,994	1,989	2,856	1,911	1,211	780	780
Cash Dividends to Equity Preferred Shares	543	554	944	2,026	549	46	60	60	60	66
Stock Dividends	-	4,842	-	-	4,139	-	-	-	-	-
Stock Dividends (%)	-	20%	-	-	20%	-	-	-	-	-
AT YEAR-END (In Million Pesos)										
Total Assets	488,325	357,627	315,370	232,149	220,188	231,232	154,619	121,675	107,742	100,453
Cash and Cash Equivalents	76,761	53,577	53,143	45,657	42,886	28,596	24,603	18,019	10,529	12,655
Short-Term Investments	297	1,613	3,994	4,561	1,009	17	192	1,434	4,561	1,009
Total Borrowings	169,757	106,718	82,837	56,523	54,484	69,450	34,531	20,971	18,812	16,752
Equity Attributable to Equity Holders	125,602	107,044	107,541	102,260	97,311	82,315	62,357	56,857	52,392	49,028
PER SHARE (In Pesos)										
Earnings - Basic 1/	17.15	14.53	17.13	11.86	12.68	0.68	0.55	0.41	0.31	0.36
Earnings - Diluted 1/	17.04	14.43	17.01	11.77	12.60	0.68	0.55	0.41	0.31	0.36
Book Value of Common Shares 1/	201.54	175.13	164.37	151.44	143.55	5.81	4.68	4.26	3.93	3.68
Cash Dividends to Common Shares	4.00	4.00	4.00	4.00	4.00	0.21	0.15	0.09	0.06	0.06
FINANCIAL RATIOS										
Current Ratio	1.45	1.78	1.89	2.56	2.52	1.40	1.65	1.67	1.95	1.89
Debt-to-Equity Ratio	1.35	1.00	0.77	0.55	0.56	0.84	0.55	0.37	0.36	0.34

1/ Adjusted to reflect retroactive effect of the 20% stock dividends in 2011

BANK OF THE PHILIPPINE ISLANDS					GLOBE TELECOM					MANILA WATER				
2012	2011	2010	2009	2008	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
47,384	41,758	38,407	34,395	29,784	86,446	81,518	75,735	74,319	75,718	14,553	12,004	11,013	9,533	8,914
16,291	12,822	11,312	8,516	6,423	6,857	9,832	9,745	12,569	11,276	5,440	4,266	3,979	3,231	2,788
8,180	6,401	6,122	5,844	5,842	8,606	8,206	10,588	15,087	16,542	1,217	1,141	935	812	708
-	-	-	-	-	33	81	-	50	60	278	264	224	200	180
-	-	-	-	5,409	-	-	-	-	-	-	-	-	-	-
-	-	-	-	20%	-	-	-	-	-	-	-	-	-	-
985,069	842,616	878,146	724,420	666,612	148,433	130,839	130,628	127,644	119,743	67,127	60,897	48,621	43,758	36,368
142,372	106,154	146,638	81,524	70,788	6,760	5,159	5,869	5,940	5,782	5,540	5,235	2,413	4,038	3,989
128,501	86,359	123,972	124,962	98,228	-	-	-	3	-		658	1,546	3,724	3,368
33,315	25,853	31,868	38,942	16,430	61,779	48,679	50,371	47,477	40,588	24,071	23,268	14,134	14,361	13,352
97,095	89,152	81,031	66,798	62,934	46,755	48,428	46,869	47,709	50,092	26,632	22,637	19,815	16,817	14,450
4.58	3.61	3.38	2.62	1.98	51.54	74.02	73.29	94.59	84.75	2.21	1.74	1.62	1.31	1.13
4.58	3.61	3.38	2.62	1.98	51.47	73.77	73.12	94.31	84.61	2.21	1.73	1.62	1.31	1.13
27.30	25.07	22.78	20.57	19.39	347.13	359.91	348.15	354.50	372.52	12.85	10.67	9.31	7.84	6.70
2.30	1.80	1.80	1.80	1.80	65.00	62.00	80.00	114.00	125.00	0.60	0.56	0.46	0.40	0.35
-	-	-	-	-	0.74	0.61	0.60	0.55	0.52	0.83	1.24	1.09	1.69	2.03
-	-	-	-	-	1.32	1.01	1.07	1.00	0.81	0.90	1.02	0.71	0.85	0.92

CHAIRMAN'S MESSAGE

Fellow Shareholders:

Over the past two years we have continued to lay the foundation that would help us to fulfill our aspiration of doubling our net income by 2016 and delivering a sustainable 15% return on the equity our stockholders put to work. We have expanded our core businesses aggressively, enhanced the profitability of our international businesses, and we invested in new business initiatives from which we can derive future sources of earnings and value creation.

In 2012 we took some bold steps to achieve these goals. We capitalized on the positive momentum taking place in the domestic economy as our country posted the highest Gross Domestic Product growth in Southeast Asia and the second highest in the whole of Asia. Domestic consumption was strong and interest rates remained low, underpinned by sound public fiscal management. This has fundamentally shifted the country's risk profile and resulted in successive rating upgrades. These strong macroeconomic fundamentals, combined with a vigorous

emphasis on better governance across the highest levels of public and private institutions, have resulted in an overall resurgence in investor and consumer confidence.

This stable and encouraging macro-economic environment allowed us to aggressively push the expansion of our core businesses. In 2012 the entire Ayala group spent a combined ₱149 billion in capital expenditures. This was 127% higher than in 2011 and the highest level we have spent on record. This was also 64% larger than what we originally budgeted as we seized the opportunity to invest in areas that are strategic and valuable over the long term. The bulk of our investments this year support the growth initiatives of our real estate, telecommunications, and water businesses.

Ayala Land, in particular, doubled its capital expenditure budget as it invested in strategic land banks and new growth centers in key areas within Metro Manila and across the country. It has expanded its product offerings across its residential, commercial, and hotels and resorts portfolio to reach a broader market and tap opportunities in emerging tourism and retail growth sectors.

Globe Telecom committed its largest infrastructure investment to date with its US$790 million Network Modernization and Information Technology (IT) Transformation program. This network change-out will significantly improve its capacity and enable the company to meet customers' needs for greater data usage, aside from generating substantial savings in operating expenses moving forward. Together with a massive IT transformation initiative, Globe will be able to rollout products to the market faster and quickly respond to customer needs and preferences.

Manila Water has also successfully expanded its presence both in the Philippines and across the region with four new concessions outside the east zone and two significant acquisitions in Vietnam. These new businesses have added more than 600 million liters per day (mld) capacity to its portfolio. Manila Water is working to close another sizable water concession in Indonesia which could add another 700 mld. While these new initiatives are progressing, the company continues its investment program in the East Zone of Manila where it has committed to invest ₱214 billion in capital expenditures for the duration of its concession. These investments will ensure service continuity in its area, new water sources, and provide a platform for environmental sustainability.

Our Bank of the Philippine Islands also continues to broaden customer reach. By investing in appropriate technology, it is able to provide innovative and cost-efficient banking solutions for its broadening range of clients, which are now nearly six million in number. BPI is focused on delivering quality, sustainable growth through its core banking business while keeping an eye on opportunities for inorganic growth in both the domestic as well as in Southeast Asian markets.

> "Expansion initiatives have strengthened our competitive advantage and laid the foundation for growth in our core businesses."

We expect this momentum in our group's investments to continue in the coming year. These expansion initiatives have strengthened our competitive advantage and laid the foundation for growth in our core businesses, which remain our main sources of growth and value at this stage.

Bulk of investments supported growth initiatives of core businesses

At the holding company, we continue to adjust our portfolio to maximize earnings and look for value creation opportunities. In October 2012 we increased our stake in BPI following the partial divestment by our strategic partner, DBS Bank Ltd., of half of its holdings for capital efficiency reasons. We acquired DBS's 10.4% stake at an average price of ₱70.00 for every common share. BPI's share price has appreciated by over 50% since the time of our acquisition. We will continue, from time to time, to re-balance and calibrate our portfolio with a view to maximizing value as opportunities arise.

Our second key initiative is to continue improving the profitability of our international businesses. We are encouraged by the progress of our electronics manufacturing services and BPO businesses. Integrated Micro-Electronics Inc's (IMI) earnings increased substantially this year, while LiveIt's EBITDA has more than doubled since 2010 as a result of eight consecutive quarters of year-on-year EBITDA growth. Our goal is to sustain the trend of profit growth, which would positively impact equity earnings.

Finally, we have made significant progress in scaling up our investments in new businesses, particularly in the energy sector. From virtually no exposure to this industry two years ago, we are now participating in various power generation projects across conventional and renewable energy platforms.

We also continue to participate in the privatization opportunities provided by transport infrastructure projects. Last year we pre-qualified to bid for two major projects under the government's public-private partnership program and are moving towards the bid development stage.

We intend to scale up our participation in these two sectors and develop these investments into meaningful, steady sources of recurring income and cash flows for the future. Our business units, likewise, continue to explore opportunities in adjacent spaces that are value accretive to their current businesses.

The record performance of our core businesses and the positive prospects of our investment initiatives have driven Ayala Corporation's share price up 71% in 2012, putting our total market capitalization at ₱307 billion, by year-end, which was the second highest among the listed conglomerates in the Philippines. With the resulting rise in the share price of our listed business units, and taking into account the new investments we have made in the past year, the gross value of our portfolio has risen by 63% to ₱430 billion from ₱263 billion at the start of the year.

As a final word, the achievements this year would not have been possible without the continued support and engagement of our board of directors, management team, and staff. We thank them all for their commitment in planning and executing our growth objectives. We also thank our business partners who continue to work with us to achieve our shared vision and aspirations, and finally, our shareholders, for your continued trust and confidence in Ayala.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

PRESIDENT'S REPORT

Fellow Shareholders:

The Philippines has experienced a period of significant growth over the past couple of years as a result of structural and economic reforms as well as a much higher standard of overall governance. This resurgence has rekindled much optimism in the country, creating not only a very positive environment for business, but also tremendous potential for growth and expansion in multiple sectors.

The robust performance of our businesses in the past year validates this. Ayala's consolidated net income grew by 12% to ₱10.6 billion in 2012. Core net income which excludes Globe's accelerated depreciation arising from its network modernization program, grew even higher at 32% to ₱11.6 billion. This was a result of the aggressive growth agenda we embarked on several years ago that largely focused on: 1) our expansion into new markets and customer segments; 2) geographic diversification; 3) strengthening presence in our core markets; and 4) entering new businesses to create a platform for future growth.

In 2012 we made great strides in each of these areas across the group.

Real Estate

Ayala Land Inc. registered another record-breaking performance in 2012 as it continued to capture opportunities in this thriving sector. Net income surged 27% to ₱9 billion after it registered a 23% increase in revenues of ₱54.5 billion.

The real estate sector remained robust. Demand for residential units was strong particularly in the affordable housing segments. Ayala Land's economic and socialized housing brands, *Amaia* and *BellaVita*, launched a total of 12,000 units during the year. Combined with its other residential brands, total units launched reached 23,000 with take-up rates increasing by 50% across all brands.

Ayala Land also continued to enhance its recurring income base by expanding its portfolio of retail, office, and hotels and resorts developments in new areas across the country. Strong private consumption, the continued growth of the business process outsourcing (BPO) sector, and increasing tourist arrivals all underpin growth and demand for these products.

To sustain a solid development pipeline into the future, Ayala Land continued to aggressively acquire land through purchases and joint ventures. Many of the parcels will be used for the development of large-scale, masterplanned, mixed-use developments. In 2012 it acquired the 74-hectare Food Terminal Inc. (FTI) property from the Philippine government. This will become the next business district outside Makati and Bonifacio Global City. Ayala Land also launched The *Circuit*, a 21-hectare mixed-use development in the former Sta. Ana Park. This is envisioned to rise as a dynamic urban hub, seamlessly integrating Ayala Land's residential, mall, entertainment, and office segments.

With this growth trajectory, Ayala Land is well on its way to exceeding its targets under the 5-10-15 plan.

Financial Services

Bank of the Philippine Islands (BPI) also posted record growth. BPI's net income increased by 27% to ₱16.3 billion fuelled by strong trading gains and higher net interest income.

BPI has significantly increased its lending while maintaining a balanced portfolio mix. The bank posted double-digit growth in loans across all segments with the highest growth from the SME and middle market, which expanded by 19% and 16%, respectively. These two segments comprise over 40% of its loan portfolio. As it sustains growth in its traditional markets, it continues to reach out to more customers, particularly the unbanked sector. Through BPI Globe BanKO, it granted over 50 loans to various microfinance institutions, growing wholesale loans by 19%.

BPI constantly develops efficient financial solutions by leveraging on the use of technology to make banking more convenient for its range of customers. This reinforces BPI's ability to reach customers in a cost-efficient manner. We believe BPI will continue to thrive and grow particularly in a robust domestic economy.

Telecommunications

Our telecommunications unit, Globe Telecom Inc., hit historically high consolidated service revenues of ₱82.7 billion, an increase of 6% from a year ago. Its postpaid service continued to drive its mobile business while its broadband business also achieved headway with 16% growth in revenues. Netting out the accelerated depreciation charges from its network modernization program, Globe's core net income rose by 2% to ₱10.3 billion.

Despite a highly competitive environment, Globe continued to expand its subscriber base. Postpaid subscribers grew by 19%, while broadband and prepaid grew by 18% and 6%, respectively. Globe's multi-brand strategy and differentiated products and services delivered strong subscriber acquisition and retention.

Its US$790-million Network Modernization and IT Transformation program that began in 2011 is an integral part of developing a key differentiator in customer experience. With close to 90% of the first phase completed, subscribers across the country have started to realize significant quality improvements in service. Along with this transformation initiative, Globe's successful tender offer of Bayan Telecommunications' debts will allow Globe to further build capacity and aggressively market products for its target market.

Water and Wastewater Services

Manila Water Company's net income increased by 28% to a record ₱5.4 billion.

Manila Water continued to grow within its East Zone concession and created exciting new platforms for growth in other parts of the country and within the region. In 2012 it was awarded a bulk water supply project in cooperation with the Cebu provincial government. It also strengthened its foothold in Vietnam with the acquisition of a 47.35% stake in Kenh Dong Water Supply Joint Stock Company, another bulk water supplier in Ho Chi Minh City.

We are excited about the prospects of Manila Water's growth as it successfully expands into new concession areas. We expect contribution from these new businesses to grow significantly.

International Businesses

Our international businesses saw significant improvement in earnings despite lingering uncertainties in the global economy.

Our electronics manufacturing business, Integrated Micro-Electronics Inc. (IMI), produced significantly higher earnings from a year ago on the back of stronger revenues. Revenues grew by 15% to US$661 million while net income reached US$5.4 million.

LiveIt, our vehicle for BPO investments, continued to grow, with share of revenues reaching US$343 million, 8% higher than last year. LiveIt also continued to improve its profitability, with share of EBITDA rising by 36% to a record US$32 million, which is more than double in 2010 levels.

Recognizing the demand for Filipino talent from the IT-BPO and other industries, Ayala recently started investing in the education sector through newly formed subsidiary LiveIt Global Services Management Institute Inc. (LGSMI). Its vision is to deliver affordable, high quality education that will significantly improve the employability of students from the mass market.

Power and Transport Infrastructure

As our core businesses continued to expand aggressively, we continued to scale up our investments in new businesses in power and transportation. In the past two years we have committed over US$300 million in various power investments. More recently, we have signed a purchase agreement to acquire a 20% stake in GN Power Mariveles Coal Plant Ltd. Co.

AC Infrastructure Holdings Corporation, our vehicle for transport infrastructure

investments, continues to participate in the government's public-private partnership program. We are carefully studying projects in toll roads, rail, and airports with a view to developing a steady stream of additional earnings and cash flow for the future. We are likewise forming strategic partnerships for these businesses. In 2012 we partnered with the Metro Pacific group to jointly bid for the Light Rail Transit Line 1 project and also formed a consortium with the Aboitiz group to pre-qualify to bid for the Mactan Cebu International Airport.

Overall, we are excited about the opportunities and the strategic value that our investments in these two sectors can potentially bring to Ayala. We have the financial strength to pursue these projects. In 2012 we raised debt and equity capital to bankroll our new projects, including the issuance of ₱10-billion fifteen-year fixed rate bonds and another ₱10-billion seven-year fixed-rate bonds. We also sold common shares held in treasury, raising ₱6.45 billion from the placement. This resulted in a gross debt of ₱70 billion and cash of ₱37 billion at the parent company by year-end. Our balance sheet remains solid with parent company net debt-to-equity ratio at 0.27:1.

Outlook

Looking ahead, we believe we can sustain this positive momentum both in our existing businesses and new businesses. We believe our growth plans in the power and transport infrastructure businesses will give us new and significant growth platforms in the coming years. While there continue to be challenges that need to be addressed, we remain optimistic that the fundamental drivers of our economy are solidly in place and will continue to create a positive environment for the sustained growth of our businesses.

In closing, I thank our management team and staff for their commitment, the Board of Directors for their support and guidance and finally, our partners and shareholders for their continued trust and confidence in Ayala.

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

"Looking ahead, we believe we can sustain this positive momentum both in our existing businesses and new businesses."

Ayala Corporate Headquarters, Ayala Triangle

US$325M

EQUITY COMMITTED IN THE PAST TWO YEARS

GNPower Mariveles Coal Plant

SCALING UP NEW BUSINESSES

Ayala is scaling up new growth platforms and has earmarked US$1 billion in equity investments in power and transport infrastructure businesses over the next five years.

AC Energy Holdings Inc., Ayala's holding company for its investments in the power sector, has committed US$325 million in equity as it moves closer to its goal of assembling 1,000 megawatt (MW) of generation capacity from both renewable and conventional power assets.

In 2012 it began construction of a 2x135MW circulating fluidized bed (CFB) coal plant in Calaca, Batangas. In December 2012, AC Energy signed a purchase agreement for a strategic stake in GNPower Mariveles Coal Plant which owns a 2x300MW CFB coal plant in Bataan. AC Energy is also actively developing renewable energy platforms in wind and mini-hydro projects in various parts of Luzon and Mindanao.

In transport infrastructure, Ayala targets to deploy over US$300 million for strategic projects in toll roads, rail, and airports. Following its successful bid for the Daang Hari Connector Road project, the company is eyeing other strategic infrastructure projects which have the potential to generate group synergies and enhance the value of the group's businesses. Ayala is forging strategic partnerships with highly reputable entities to strengthen capabilities and skills as it broadens its participation in these sectors.

SOUTH LUZON THERMAL ENERGY CORP.

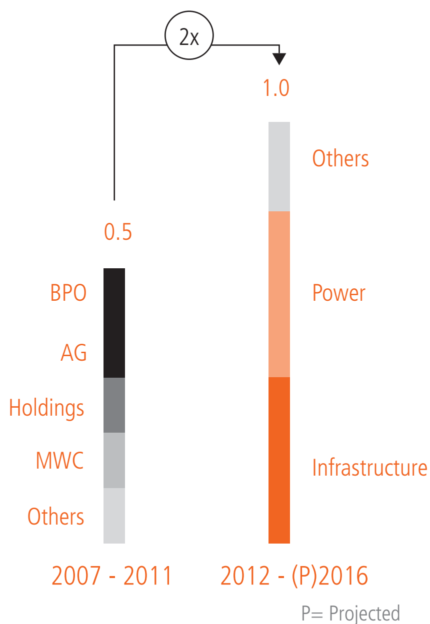
South Luzon Thermal Corporation, a joint venture between AC Energy and Trans-Asia Oil and Development Co., is constructing a 2x135MW CFB thermal plant in Calaca, Batangas. First phase of plant is set to start operations in 2014.

NORTHWIND DEVELOPMENT CORP.

NorthWind Development Corp. a 50%-owned joint venture by AC Energy, operates the Bangui Bay Wind Project in Ilocos Norte. It currently has 20 turbines with a total generation capacity of 33MW.

Investments - In Billion US$

(Total over last 5 years vs. total over next 5 years)



LIGHT RAIL MANILA HOLDINGS CORP.

AC Infrastructure Holdings Corp. and Metro Pacific Investments Corp. formed a consortium to jointly bid for the construction, operations, and maintenance of LRT-Line 1.

MACTAN CEBU AIRPORT BID

Ayala and the Aboitiz group formed a consortium to jointly bid for the development and operation of Mactan Cebu International Airport.

BULK WATER CAPACITY IN HO CHI MINH

Cau Mong Bridge, Ho Chi Minh City

DIVERSIFYING GEOGRAPHIES

The Ayala group is expanding in selected cities across the Philippines and the region where it can replicate its success and expertise in specific sectors.

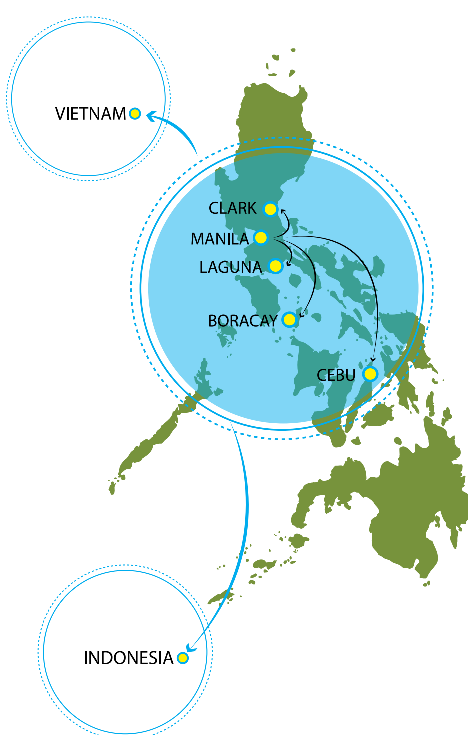
Manila Water continues to expand its foothold in Vietnam with its acquisition of a 49% stake in Kenh Dong Water Supply Joint Stock Co. (Kenh Dong). This 20-year bulk water concession further expands its service area in Ho Chi Minh City following its acquisition of Thu Duc Water BOO the prior year. Both concessions account for 35% of Ho Chi Minh's total water demand.

Manila Water is gearing for further expansion as it builds its presence as a major water infrastructure player in the region. It recently signed a share purchase agreement with Suez Environnement to acquire a 51% equity stake in PT PAM Lyonnaise Jaya (Palyja). Palyja operates the water supply concession in West Jakarta which serves a population of close to five million, nearly the size of its east zone concession in Metro Manila.

Manila Water's acquisition of Kenh Dong also provided Ayala strategic access to other related infrastructure opportunities. This led to Ayala's acquisition of a 10% stake in Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII) which has strategic interests in a major toll road project in Vietnam.

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

GEARING TOWARDS FURTHER EXPANSION



THU DUC

Manila Water has begun to realize income contributions from Thu Duc Water, one of the largest private bulk water suppliers in southern Vietnam.

KENH DONG

Manila Water acquired a 49% stake in Kenh Dong Water, which has a 20-year bulk water concession with Ho Chi Minh City.

CEBU WATER

Manila Water was awarded a bulk water project in cooperation with the Cebu provincial government. The construction of a 35MLD capacity treatment plant and transmission lines is ongoing and is expected to be completed in the fourth quarter of 2013.

HCMC CII

Ayala entered into an agreement with Ho Chi Minh City Infrastructure Investment JSC (CII) to jointly invest in VinaPhil Technical Infrastructure Investment JSC, a Vietnam-based infrastructure company. Ayala acquired a 10% stake in CII in conjunction with Manila Water's acquisition of a 47.35% in Kenh Dong Water Supply.

₱130B

INVESTMENTS OF THE CORE BUSINESSES IN 2012

Ayala Corporate Headquarters, Ayala Triangle

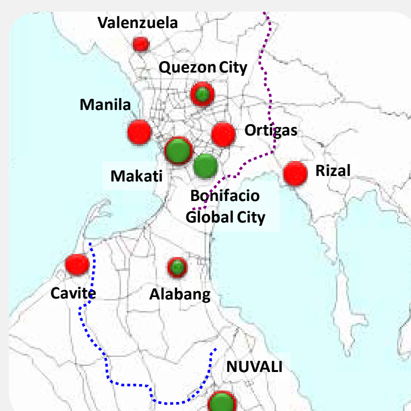
STRENGTHENING THE CORE

Ayala continues to build on the trajectory and competitive strengths of its core businesses as it expands aggressively in these sectors. The combined capital expenditure of the Ayala group of companies reached a record ₱149 billion in 2012 as its real estate, financial services, telecommunications, and water businesses continued to invest in building capacity to sustain their growth trajectory well into the future.

TELECOMMUNICATIONS

Globe has embarked on a US$790 million massive Network Modernization and Information Technology (IT) Transformation program to increase capacity and dramatically improve customer experience. This is part of its agenda to make customer experience a key differentiator. Globe completed the first phase of the network modernization and began the transformation upgrade in cities and municipalities south of Metro Manila in the first quarter of 2013. Its IT Transformation will also provide sharper customer knowledge and enable more personalized products and services for its customers.

Acquired
Planned



REAL ESTATE

Ayala Land continues to launch new growth centers in strategic areas within and outside Mega Manila. In 2012 it acquired the 74-hectare Food Terminal Inc. property located close to Bonifacio Global City (BGC) and the Makati Central Business District (MCBD). FTI is envisioned to be a hub linking southern Manila to these main districts. Following this, Ayala Land also launched *The Circuit Makati, Vertis North*, *Abreeza* Davao, and *Centrio* in Cagayan de Oro. These growth centers will replicate the development models of BGC and MCBD. Ayala Land spent ₱71 billion in capital expenditure in 2012 of which 57% was allocated to strategic land banking initiatives.

FINANCIAL SERVICES

BPI continued to institute a number of innovative products, solutions, and services. In 2012 it pioneered a paperless, full-service branch equipped with online account opening and foreign exchange facility, *BPI Express Assist* terminals, cash deposit machines, and automated teller machines. More online banking kiosks were also set up in branches bringing its total to 139 kiosks. Additional services were introduced in *BPI Express Online* which was not only recognized with an award from the *2012 Asian Banking & Finance Retail Banking Awards*, but more importantly fulfills BPI's "*Let's Make It Easy*" Campaign for its nearly six million customers.

42%

OF UNITS LAUNCHED IN SOCIALIZED HOUSING SEGMENT

EXPANDING INTO NEW MARKETS

Ayala is expanding its product lines to meet the needs of a broader and more empowered customer base.

Ayala Land's new residential brands, *Amaia* and *BellaVita*, cater to the economic and socialized housing segments. With price points that meet the affordability levels of a broader income group, these brands give first-time home owners access to quality affordable homes within well-organized communities. These products address the needs of communities outside the traditional market for Ayala Land's products and makes Ayala Land more relevant to the needs of the broader Philippine market.

With a robust domestic consumption base, Ayala has expanded its retail formats to suit a broad range of customers. From award-winning, high-end shopping malls, it has developed regional malls, fiesta markets, value malls and community centers to suit the shopping needs of consumers across various markets. It recently formed a partnership with the Itochu Group of Japan to complement its community retail developments with *FamilyMart* convenience stores in various locations across the country.

The growth of the country's tourism sector has also led Ayala Land to scale up its hotels and resorts business. Last year it took over operations of the *Fairmont Hotel* from the Kingdom Hotels Inc. and also opened a chain of boutique hotels under its own brand called *Seda*. Its resorts business also continued to expand with *Pangulasian Island Resort*, the fourth island resort in the *El Nido* resorts chain in Palawan, welcoming guests in 2012.

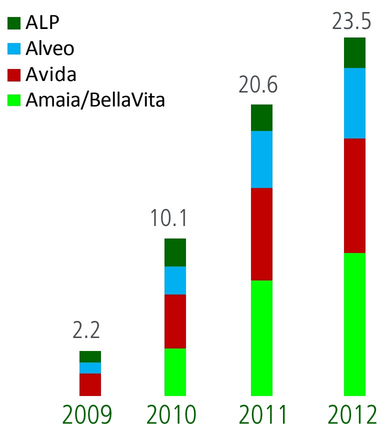
Ayala, BPI and Globe continued to build on its pioneering mobile microfinance platform under BanKO. This mobile phone-based, microfinance-focused savings bank primarily serves the financial needs of the unbanked sector. On its second year of operations BanKO granted loans to 55 microfinance institutions all over the country, which increased its wholesale portfolio by 19% and further expanded its reach through 2,000 partner outlets nationwide.

Bonifacio High Street Masterplan

RESIDENTIAL UNIT LAUNCHES UP 14%

- 42% in the economic and socialized housing segments
- 48% outside Metro Manila
- 34% horizontal developments

NUMBERS OF UNITS LAUNCHED (In thousands)



SEDA

Ayala Land opened its own brand of hotel—*Seda* in Bonifacio Global City and Cagayan de Oro, with 329 rooms.

BELLAVITA

Ayala Land further expanded its affordable and socialized housing products with the launch of *BellaVita*.

PANGULASIAN ISLAND RESORT

Pangulasian Island Resort, the 42-room eco-luxury resort under Ayala Land's *El Nido* chain started welcoming guests in 2012.

FAMILYMART

In partnership with the Rustan's Group and Japan's Itochu Corporation, Ayala Land entered the retail space with the operation of *FamilyMart*, a leading convenience store chain in the world. Ayala Land is looking to roll out the first 30 stores in 2013.

The Circuit Makati

AyalaLand | REAL ESTATE

The year 2012 was another record-breaking one for Ayala Land as it continued to capitalize on the strong growth drivers for the real estate sector. Revenues amounted to ₱54.5 billion and net income after tax reached ₱9 billion—both record highs and were 23% and 27% higher than the previous year, respectively. The company's return on equity (ROE) likewise increased to 13% from 12% in 2011.

Last year Ayala Land spent a record of ₱71.3 billion for several land acquisitions, new product launches, and the completion of ongoing projects that will sustain growth for the long run.

The company recently launched The *Circuit* as Makati's entertainment district. It is also fast-tracking the development of the recently acquired FTI property in Taguig, envisioned to become Metro Manila's gateway to the south. The maiden residential and commercial leasing projects will likewise be launched in *Vertis* this year, which will be transformed into Metro Manila's northern gateway.

Revenues from the residential business reached ₱30.9 billion, 29% higher than the previous year, driven by higher bookings, steady project launches, and continuous progress on construction across all residential brands. Launches were generally higher across all brands, delivering 14% more units to 23,487 units last year from 20,613 units in 2011. These included projects in new areas like Alabang, Bulacan, Sta. Cruz, Sta. Mesa, Bicutan, and Pasig, to name a few.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In Million Pesos except per share amounts and ratios)

	2012	2011
Total assets	231,232	154,619
Stockholders' equity*	82,315	62,357
Revenues	54,525	44,206
Net income attributable to equity holders	9,038	7,140
Earnings per share	0.68	0.55
Ratios		
Current Ratio	1.40	1.65
Debt-to-equity ratio	0.84	0.55
Return on equity	12.6%	12.0%
Top Shareholders		
Ayala Corporation	50.4%	53.2%
Aberdeen Asset Management Asia Ltd.	17.88%	19.68%

*Excludes noncontrolling interests

HARBOR POINT

Harbor Point's casual ambience is suited for mall-goers seeking an active lifestyle.

NEW GLORIETTA

The redeveloped *Glorietta* has an expanded retail space, BPO offices, and a hotel.

2012 HIGHLIGHTS

All-time high consolidated revenues and net income of ₱54.5 billion and ₱9 billion, respectively

- 14% growth in residential launches to 23,487 units with corresponding record take-up and sales across all brands
- Doubled number of Hotels and Resorts rooms with the acquisition of *Fairmont Hotel and Raffles Suites & Residences* and opening of two *SEDA* Hotels
- Capital expenditure reached an all-time high of ₱71.2 billion
- Recorded a Return on equity of 13% from 12% the previous year

Revenues from the commercial leasing business rose 18% to ₱8.8 billion. The retail segment accounted for ₱5.9 billion and the office segment delivered ₱2.9 billion—both 18% higher from 2011. Meanwhile, the hotels and resorts business contributed ₱2.4 billion in revenues, which was 9% above the 2011 levels.

The retail business sustained its portfolio build up with the opening of 108,000 square meters of new shopping center gross leasable area (GLA) in some of the country's fastest growing corridors. This includes the redeveloped *Glorietta 1&2* at the Ayala Center, the new *San Antonio Plaza Arcade* in Makati, *Harbor Point* in Subic, *Centrio Mall* in Cagayan de Oro, and *The District* in Cavite—helping bring total retail space to 1.2 million sqm of GLA as of the end of last year.

The company also signed a deal with one of the country's leading retailers for the operation of its own department stores and sealed a partnership with one of the world's leading convenience store chains, *FamilyMart*, for the roll out of the stores in 2013.

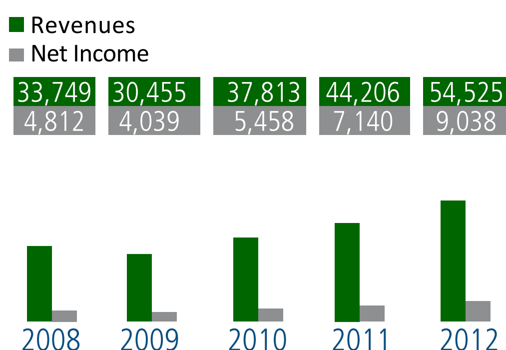
In the office segment, the portfolio build up continued with the opening of 60,000 sqm of new GLA last year, bringing total available office space GLA to 509,000 sqm.

Meanwhile, the hotels and resorts business sustained its expansion last year with the acquisition of the remaining 80% stake in the 280-room *Fairmont Hotel* and the 32-room *Raffles Suites* from Kingdom Hotels Inc. In addition, Ayala Land's owner-operated, boutique hotel brand *SEDA* opened in Bonifacio Global City and Cagayan de Oro, adding 329 more rooms. The fourth island resort in Palawan, *Pangulasian Island Resort,* also welcomed guests late last year in its 42 villas.

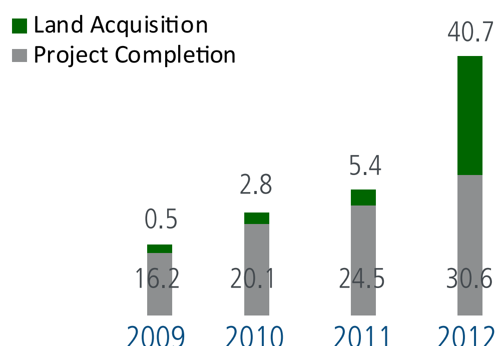
Amid its aggressive expansion, the company maintained its profitability through various programs in cost reduction and spend management. As a result, net income margin after tax reached 19% last year, which was a full percentage point higher than 2011.

Equally important, Ayala Land consistently increased the dividends it paid out to shareholders, and the payout ratio, as committed under its five-year plan. In 2012 the company paid ₱2.9 billion in dividends, which was 53% more than the previous year and equivalent to 40% of 2011's net income. In 2013 ₱4.1 billion in dividends, or 45% of 2012's net income, is programmed for distribution to shareholders.

Revenues and Net Income (In Million Pesos)



CAPEX (In Billion Pesos)



BPI Express Assist (BEA)

BPI | FINANCIAL SERVICES

Bank of the Philippine Islands (BPI) registered a net income of ₱16.3 billion, 27.1% higher than 2011's ₱12.8 billion. This resulted in a return on equity of 17.5% and return on assets of 1.9%.

Total revenues grew by 13% attributed mainly to the ₱4 billion or 25% rise in non-interest income on higher trading gains, other operating income, and fees and commissions. Despite a 10-basis-point contraction in spreads, net interest income increased by ₱1.6 billion or 6% as average asset base expanded by ₱64 billion.

Operating expenses grew at a slower pace of 6%, improving cost-to-income ratio to 52.5%. Impairment losses were higher at ₱2.9 billion on additional provisions for non-credit related items and foreclosed assets.

Total resources reached ₱985.1 billion, 17% higher than last year driven by the 18% growth in deposits which ended at ₱802.3 billion. Assets under management jumped by 11%, bringing total intermediated funds to ₱1.5 trillion.

Net loans expanded by 16% to ₱526.6 billion. All market segments posted double-digit growths. Asset quality further improved as the 30-day Nonperforming Loan ratio was pared down to 1.46% from last year's 1.87%, with the corresponding reserve cover further strengthening to 133%.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In Million Pesos except per share amounts and ratios)

	2012	2011
Total assets	985,069	842,616
Stockholders' equity*	97,095	89,152
Revenues	47,384	41,758
Net income attributable to equity holders	16,291	12,822
Per Share		
Earnings	4.58	3.61
Book Value	27.30	25.07
Return on equity	17.5%	15.2%
Top Shareholders		
Ayala Corporation	44.0%	33.6%
Ayala DBS Holdings, Inc.	21.3%	21.3%

*Excludes noncontrolling interests

CLIMATE RISK ASSESSMENT STUDY

BPI Foundation and WWF launched the second part of the *Business Risk Assessment and the Management of Climate Impacts* report.

EASY CONNECTION

Customers can easily reach BPI through its newly created *Facebook* and *Twitter* fan page accounts.

2012 HIGHLIGHTS

Net Income of ₱16.3 billion, 27.1% higher than last year, with an ROE of 17.5%

- Achieved double-digit growth in loans (16%), deposits (18%), and trust assets (11%)
- Acquired almost 900,000 new customers bringing total customer base to close to six million
- Pioneered the smallest, energy-saving, paperless branch located in the headquarters of the Asian Development Bank
- Opened two new BPI Europe branches in Italy
- Released results of the Phase 2 study on *Climate Risk Adaptation* to four more key cities in partnership with WWF-Philippines
- Recognized as Gold Awardee by the Institute of Corporate Directors
- Cited as Top Bank Website in the *5th Digital Filipino and Search Profile Index Web Awards* for BPI Express Online
- Won the *PMAP People Program of the Year* award for its BPI *Leadership Excellence Acceleration Program (LEAP)*

The bank's market capitalization of ₱337.8 billion remained the highest in the industry. Total cash dividends declared in 2012 was ₱8.2 billion or a payout ratio of 50%.

Aligned with its three main goals of quality sustainable growth, customer service innovation, and team oriented employee and community engagement, BPI continued its strategy of diversified lending, maintaining its balanced mix of portfolio while sustaining robust growth across the various segments. Its top corporate customers, which accounted for 33% of the portfolio grew by 12%. Its middle market, which accounted for 28%, went up by 16%, while SME and Consumer with share to total portfolio of 15% and 24%, grew by 19% and 17%, respectively.

BPI advanced its *Sustainable Energy Finance (SEF)* Program initiatives by engaging the public sector in energy and resource efficiency. Since it partnered with the International Finance Corporation (IFC) in 2008, lending through *SEF* has doubled in 2012 at ₱7.3 billion. As part of its sustainability initiatives the bank also continued to provide city-specific, socio-economic baseline data under BPI Foundation's and WWF-Philippines' *Climate Risk Assessment Studies*, the results of which were released in November 2012.

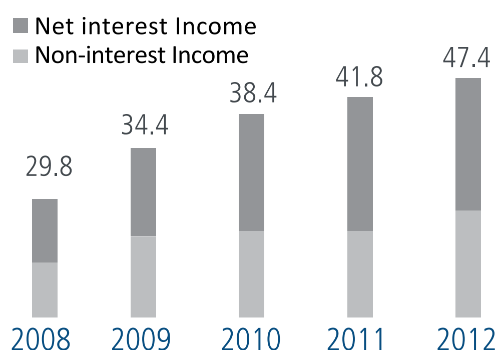
BPI Globe BanKO granted loans to 55 microfinance institutions all over the country, thereby increasing its wholesale portfolio by 19%, and increasing its partner outlets to almost 2000 in 2012.

In line with its *"Let's Make it Easy"* campaign, BPI instituted a number of innovative products, solutions, and services.

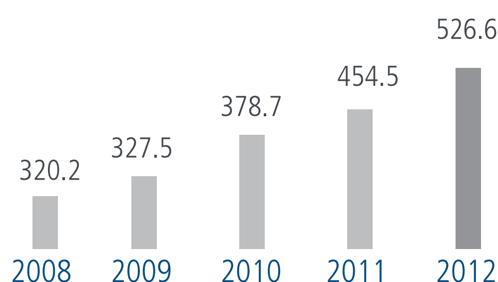
BPI pioneered a 9.56 square-meter paperless full-service branch. This is equipped with an online account opening and foreign exchange facility, *BPI Express Assist (BEA)* terminals, cash deposit machines, and automated teller machines. A Relationship Manager and two universal processors ensure all transactional needs of the customers are served in this small space. This branch showcased the first Interactive Digital Touch-Screen Information Dashboard that filters product options based on need.

More online banking kiosks were also set up in branches bringing the total to 139. Additional services were introduced in *BPI Express Online* (*EOL*) like the *BEA Online* facility, an online branch transaction appointment system, and the real-time activation of *EOL* enrollment through the ATM. With these enhancements, *BPI Express Online* won the *"Website of the Year – Philippines"* award from the *2012 Asian Banking & Finance Retail Banking Awards*.

Revenues (In Billion Pesos)



Net Loans (in Billion Pesos)



Globe flagship store in Greenbelt 4

TELECOMMUNICATIONS

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In Million Pesos except per share amounts and ratios)

	2012	2011
Total assets	148,433	130,839
Stockholders' equity	46,755	48,428
Service Revenues	82,742	77,765
Net income attributable to equity holders	6,857	9,832
Per share		
Earnings	51.54	74.02
Book Value	347.13	359.91
Ratios		
Current ratio	0.74	0.61
Debt-to-equity ratio	1.32	1.01
Return on equity	14.0%	21.0%
Top Shareholders		
Ayala Corporation	30.5%	30.5%
Singapore Telecom International Pte Ltd	47.3%	47.3%

*Excludes noncontrolling interests

Globe Telecom's consolidated service revenues surged by 6% to a historic high of ₱82.7 billion as Globe sustained its strong growth momentum. The mobile business posted all-time high revenues of ₱67.2 billion, 6% higher than the previous year on the back of record gross acquisitions in the postpaid segment, expansion in mobile browsing usage, as well as unlimited and bulk voice subscriptions. *Globe Postpaid* delivered robust acquisitions underpinned by the latest smart devices from *Apple*™, *Samsung*, *BlackBerry*® and *Nokia.* By the end of 2012 cumulative postpaid subscribers reached 1.7 million, a 19% increase from its year-ago level. *Globe Prepaid* closed the year with 16.4 million subscribers, 6% higher than the previous year, while *TM* ended the period with 14.9 million subscribers, 14% growth from 2011. Globe's cumulative mobile subscriber base rose by 10% to 33.1 million. This was achieved despite intense competition, peaking penetration rates, and eroding prices due to subscribers' continued preference for value service offerings.

Globe's broadband business expanded by 16% year on year to ₱8.7 billion. Cumulative broadband subscribers stood at about 1.7 million, an 18% increase from the previous year. During the year, Globe successfully rolled out its broadband *Long Term Evolution (LTE)* service to provide subscribers with alternative tools to improve their overall internet experience and further drive growth in the segment.

iPHONE5

Globe iPhone 5 users enjoy an enhanced internet experience with the rollout of the country's first mobile *Long Term Evolution* service.

GLOBE MY SUPERPLAN

Globe attracted new postpaid subscribers with its unique range of customizable plans.

2012 HIGHLIGHTS

Consolidated service revenues expanded 6% to an all-time high of ₱82.7 billion

- Mobile revenues grew by 6% to a record high of ₱67.2 billion
- Mobile SIM base increased by 10% to 33.1 million
- Postpaid subscriber base grew by 19% to over 1.7 million
- Broadband revenues increased by16% to a record high of ₱8.7 billion
- Broadband subscriber base expanded by 18% to 1.7 million
- Core net income rose 2% to ₱10.3 billion
- US$790 million network modernization and IT transformation program is ongoing

Globe's fixed-line data business likewise contributed to overall top-line growth with revenues rising 10% to ₱4.2 billion on sustained demand for high-speed data nodes, transmission links, bandwidth capacity, and reliable service.

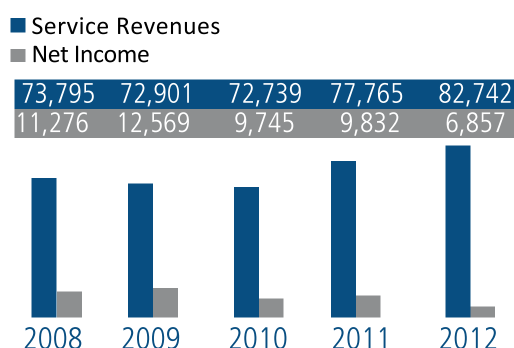
Operating expenses and subsidy increased by 12% to ₱47.7 billion from its year-ago level as a result of investments in expanding and retaining Globe's subscriber base as well as in improving capacity with the ongoing network modernization and IT transformation programs. Marketing and subsidy costs increased substantially following the aggressive acquisition of new postpaid subscribers who opted to get the higher-end gadgets such as the *Apple™ iPhone 5.* Marketing costs also increased to support the various brand-building initiatives. Network-related costs also rose as a result of the continued expansion of the *2G, 3G, 4G* and broadband networks. Operating expenses likewise included charges for various outsourced and contracted services, as well as professional fees resulting from the various projects being undertaken by the company.

As revenue gains were offset by the impact of accelerated depreciation charges and sustained investments in subscriber postpaid acquisitions, net income after tax declined by 30% to ₱6.9 billion in 2012 from ₱9.8 billion in 2011. Meanwhile, core net income, which excludes foreign exchange and mark-to-market gains and losses as well as non-recurring items such as the accelerated depreciation charges related to transformation initiatives, rose by 2% to ₱10.3 billion.

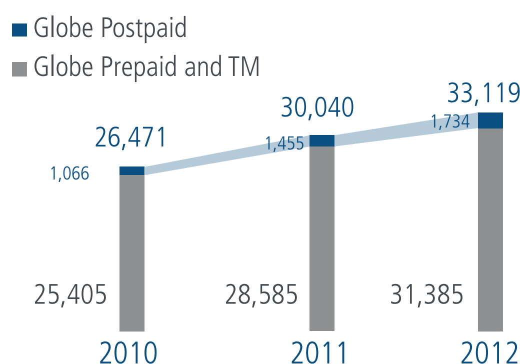
Globe's balance sheet and cash flows remain strong with ample liquidity and gearing comfortably within bank covenants. Globe ended the year with gross debt-to-equity ratio of 1.32:1 on a consolidated basis, while net debt-to-equity ratio was at 1.18:1 compared to 1.01:1 in 2011.

Globe paid out ₱8.6 billion in cash dividends in 2012, representing about 86% of its core net income in 2011. This was in line with the company's dividend policy of distributing 75% to 90% of the previous year's core net income.

Service Revenues and Net Income (In Million Pesos)



MOBILE SUBSCRIBERS (In '000 SIMs)



North Rizal Water System Project

WATER AND WASTEWATER SERVICES

Manila Water Company Inc.'s net income expanded by 28% to ₱5.4 billion in 2012 from ₱4.3 billion in 2011. Revenues rose by 21% to ₱14.6 billion boosted by a 14% increase in average tariff rates and a 4% increase in water sales in the East Zone. The company's East Zone operations continued to expand service connections resulting in a 4% growth to a total of 896,148 connections by year-end. Billed volume in the East Zone reached 427.3 million cubic meters (mcm). Core revenues consisting of water, sewer and environmental services grew by 21% to ₱14.1 million.

While the East Zone remains to be the company's biggest contributor to earnings, new income streams from businesses outside the East Zone are increasingly growing. The contributions of Clark Water Company, Vietnam's Thu Duc Water BOO Corporation and Kenh Dong Water Joint Stock Company were recognized for the first time in 2012. Laguna Water Corporation, Boracay Island Water Company, Clark Water Company and Thu Duc collectively contributed 152.1 mcm in billed volume, from the previous year's 8.2 mcm. The significant improvement was a result of the full recognition of the sales volumes of Clark Water and Thu Duc Water, which were both acquired in 2011.

The combination of higher revenues and stringent management of the operating expenses within the East Zone business lifted net income margin to 37% from 36% in 2011. Operating subsidiaries contributed about ₱358 million, expanding 817% from the previous year's ₱39 million. These subsidiaries combined accounted for 7% of consolidated net income.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(In Million Pesos except per share amounts and ratios)

	2012	2011
Total assets	67,127	60,897
Stockholders' equity*	26,632	22,637
Revenues	14,553	12,004
Net income attributable to equity holders	5,440	4,266
Per share		
Earnings	2.21	1.74
Book Value	12.85	10.67
Ratios		
Current ratio	0.83	1.24
Debt-to-equity ratio	0.90	1.02
Return on equity	20.2%	19.0%
Top Shareholders		
Ayala Corporation	43%	43%
Mitsubishi Corporation	7%	7%

*Equity excludes noncontrolling interests

CLARK WATER COMPANY

Acquired in November 2011, its billed volume rose by 14% in 2012 with the growth of its industrial customer base.

THU DUC WATER

Manila Water widened its footprint in Vietnam with the acquisition of Thu Duc, one of the largest private bulk water suppliers in Ho Chi Minh City.

2012 HIGHLIGHTS

Consolidated net income growth of 28% to ₱5.4 billion

- Billed volume growth of 38% year on year including new acquisitions
- Non-revenue water revenue in the East Zone registered at 12.2%
- Completed acquisition of 47.35% stake in Kenh Dong Water Supply Joint Stock Company in Vietnam
- Entered into a Joint Investment Agreement with the Provincial Government of Cebu to develop and operate a bulk water supply system
- Signed a Share Purchase Agreement to acquire 51% stake of Suez Environnement in PT PAM Lyonnaise Jaya
- Earned one of the top honors in the 2012 *Philippine Stock Exchange Bell Awards*
- Hailed as one of the Best in Corporate Governance in the Philippines for the sixth consecutive year by the Institute of Corporate Directors

Earnings before interest, taxes, depreciation and amortization (EBITDA) expanded 29% to ₱10.6 billion, underpinned by continuous improvements in operating efficiencies despite the continued expansion in water and wastewater facilities.

Manila Water spent ₱7.7 billion in capital expenditures in 2012 for projects to ensure the reliability of water supply and the expansion of water and wastewater services.

One of the key projects completed in 2012 was the North Rizal Water System Project, which includes a water treatment plant with a capacity of 150 million liters per day (mld), serving a population of over 940,000 in the province of Rizal. Manila Water's wastewater facilities increased to 39 with the completion of the Poblacion Sewerage Treatment Plant, bringing the total wastewater capacity to 142.6 mld.

NEW BUSINESSES

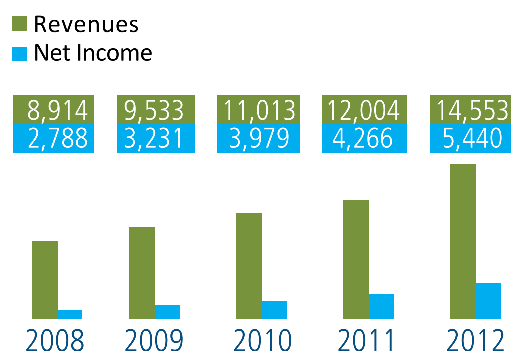
Manila Water strengthened its foothold in Vietnam with the acquisition of a 47.35% stake in Kenh Dong Water Supply Joint Stock Company in 2012. Kenh Dong Water is another bulk water supplier in Ho Chi Minh City with a 200 mld capacity treatment plant. The plant is currently under construction and is expected to be completed in the second quarter of 2013.

The company has made its initial foray in the water sector of Cebu City, which is the second largest city in the Philippines. Through a Joint Investment Agreement with the Provincial Government of Cebu, the company will develop and operate a bulk water supply system in the area. The construction of the 35 mld capacity treatment plant and transmission lines is ongoing and is expected to be completed and operational in the fourth quarter of 2013.

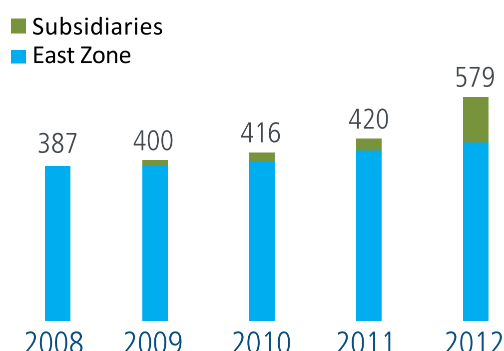
Manila Water is also working towards finalizing its acquisition from Suez Environnement of a 51% equity stake in Indonesia's PT PAM Lyonnaise Jaya (PALYJA). PALYJA, which operates the water supply concession contract in West Jakarta, currently has over 414,000 water service connections and produces 702 mld of water with an estimated non-revenue water of 39%. The transaction is expected to be completed by the second quarter of 2013.

Moving forward, Manila Water continues to explore opportunities in the water sector both in the Philippines and in the region. The company envisions these new businesses to contribute more significantly with a target to grow these to collectively account for 40% of the company's revenues and net income.

Revenues and Net Income (In Million Pesos)



Billed Volume (In Million Cubic Meters)



IMI facilities

Despite the lingering uncertainties in the global economy, Integrated Micro-Electronics Inc. (IMI) posted a 15% increase in sales revenue to US$661.8 million in 2012 as a result of the full-year consolidation of its businesses in Europe and Mexico coupled with business expansion of key customers.

Sluggish global economic growth and lower capacity utilization, however, continued to put pressure on margins, resulting in a consolidated net income of US$5.4 million. This, however, represented a substantial improvement from the US$3.3 million net income achieved in 2011.

The impact of adverse external factors were mitigated by additional revenues from acquired entities and an increase in demand by some major customers, as well as 12 new programs entering mass manufacture.

Subsidiaries in Europe and Mexico recorded US$182.2 million in combined revenues, while another subsidiary, PSi Technologies Inc. (PSi), contributed US$45.6 million.

The company's operations in China and Singapore registered US$276.7 million in combined revenues in 2012, a 1% decline from the previous year owing to a delay in transition to new models.

The Philippine operations generated US$159.1 million in revenues, a 3% increase from 2011 on the back of strong programs in the storage device, automotive, and industrial sectors.

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

	2012	2011
Total assets	455	445
Stockholders' equity	197	190
Revenues	662	575
Net income attributable to equity holders	5	3
Per share		
Earnings	0.002	0.001
Book Value	0.1044	0.10
Ratios		
Current ratio	1.56	1.51
Debt-to-equity ratio	0.46	0.42
Return on equity	2.8%	1.8%
Top Shareholders		
Ayala Corporation	57.9%	66.9%
Resins, Inc.	14.65%	16.81%
EPIQ	12.24%	

*Stockholders' equity excludes noncontrolling interests

EUROPE

Automotive electronics accounts for 32% of IMI revenues.

CHINA

IMI has manufacturing facilities and engineering and design centers in Shenzhen.

2012 HIGHLIGHTS

Revenues expanded 15% to US$661.8 million mainly from European acquisition and Philippine operations

- Net income increased 65% to US$5.4 million
- Net income excluding one-offs rose 48% to US$4.9 million
- Strong balance sheet with ending cash balance of US$56.2 million
- EBITDA margin of 5% from the previous year's 3%

The company's balance sheet remains robust with a cash balance of US$56.2 million at the end of 2012. Current ratio and debt-to-equity ratio are 1.56:1 and 0.46:1, respectively.

Innovation

Innovation is vital in keeping technology relevant and robust. IMI's units in the Philippines, Europe and China rolled out several innovative solutions in 2012. These include automotive, industrial and medical platforms.

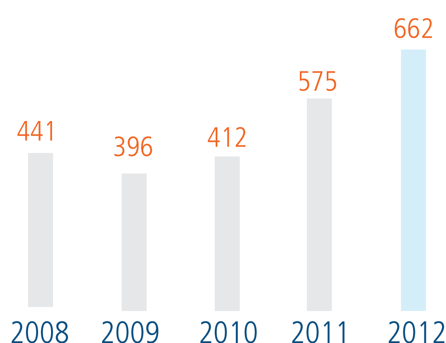
IMI Global Advanced Manufacturing Engineering (AME) Group in Tustin, California has long excelled in fine precision assembly technologies for automotive and medical products.

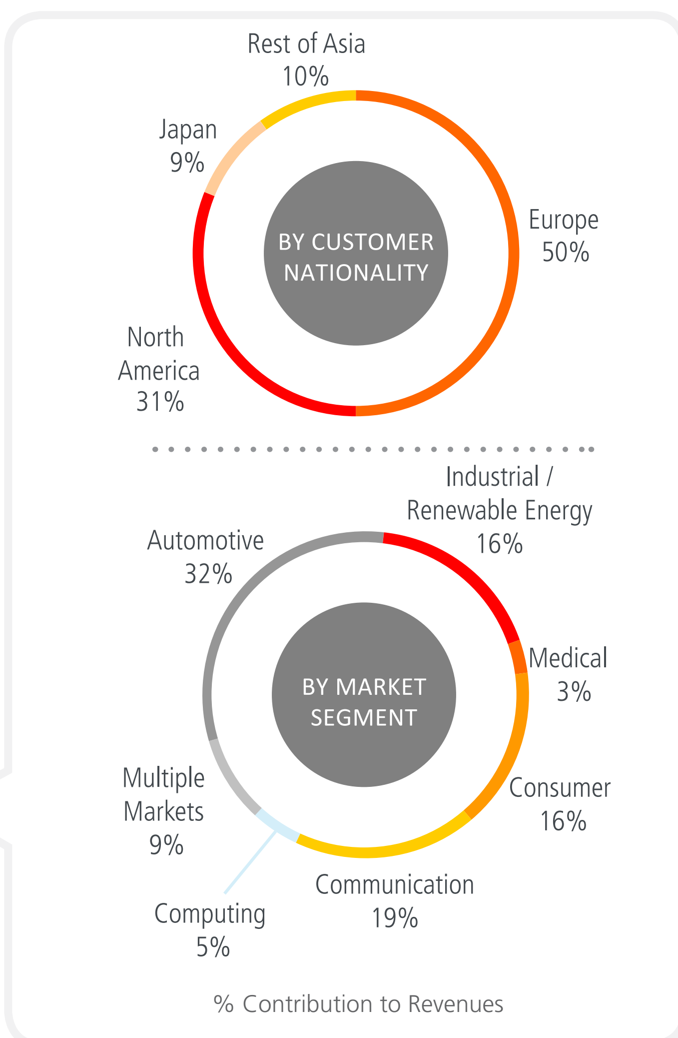
The Test and System Development (TSD) group developed innovative test solutions in 2012 for IMI's strategic customers. These include developments in next-generation optical sensors and automotive electronics control systems. The group engaged heavily in redesign and replication of test equipment to support major product conversions and volume ramp-ups. The transition in 2012 to mass production of a complex equipment assembly project paved the way for prototype development and qualification of similar projects.

In Europe, TSD introduced a custom fully automated backend product assembly, test and marking system for an automotive product. The European Design and Development group launched its motor drive platform for automotive applications that would reduce global costs and integrate new automotive safety standards.

In the Philippines, PSi established a research and development (R&D) facility for power module. PSi also developed a low-cost, high-performance LED engine for applications in the automatic and industrial sectors. The Philippine Design and Development group developed a camera platform with superior thermal management properties aimed for automotive and industrial applications.

IMI Revenues (In Million US$)





% Contribution to Revenues

Isuzu D-Max

AYALA AUTOMOTIVE

HONDA

ISUZU

AUTOMOTIVE

Consolidated sales of Ayala Automotive increased by 13% to ₱10 billion. Vehicle sales grew by 9% from 8,485 to 9,259 units. Consolidated net income, which includes its equity share and dividend income from its principals Honda Cars Philippines Inc. (HCPI) and Isuzu Philippines Corporation (IPC), reached ₱213 million in 2012, 125% higher than prior year's net income of ₱95 million.

HCPI recorded unit sales of 12,653, 9% higher than last year's 11,611 despite the lack of supply in the first quarter of the year. With the full year impact of the new *Civic* and *CR-V* models, HCPI is expected to improve its share of the market in 2013.

IPC ended the year with unit sales of 11,759 units, up by 20% compared to 2011. Despite the wider range of variants offered by competitors, its market share improved to 6.4% from last year's 5.9%. This was driven by the strong sales of *Crosswind* and Isuzu trucks.

Ayala Automotive's Honda dealerships ended the year with a market share of 45%. It cornered four out of the top six slots with Alabang as the leading dealer in the network for the seventh consecutive year. Its Isuzu dealerships posted a higher market share of 32% and captured two of the top three slots.

Volkswagen AG appointed Ayala Automotive as the Philippine distributor for Volkswagen passenger vehicles. The Volkswagen Group is the world's third largest automobile manufacturer as of 2012, with global sales of 9.3 million units. Ayala Automotive will invest in the first three Volkswagen dealerships to fast track the brand's re-entry into the Philippine market.

Ayala Automotive is well positioned to optimize opportunities in the Philippine automotive industry given the strong brand names of Honda, Isuzu and Volkswagen, its strategic collaboration with the principals, and focus on enhancing internal strength.

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

	2012	2011
Revenues	9,993	8,848
Consolidated net income	213	95
Car unit sales	9,259	8,485
Return on equity	7.3%	3.0%

2012 HIGHLIGHTS

Net income attributable to dealership operations and equity in assembly operations amounted to ₱213 million, up 125% due to higher sales volume

- Honda and Isuzu had a combined market share of 13% of total industry sales.
- Ayala's Honda dealerships contributed 45% of total Honda network sales.
- Ayala's Isuzu dealerships cornered 32% of total Isuzu network sales.
- Appointed by Volkswagen AG as Philippine distributor of Volkswagen passenger cars

Foshan, China

AG Holdings

INTERNATIONAL

ASIA

AG Holdings continues to invest in ARCH Fund, which had its final closing on its 2nd Fund (ARCH Capital – TRG Asian Partners, L.P) on September 2012. ARCH's 2nd Fund has raised total capital of US$387 million. Approximately 72% of the capital commitments have been committed into eight investments as of the end of 2012. A significant amount of capital was invested in China.

AG Holdings also acquired a 10% shareholding in HCM City Infrastructure Investment Joint Stock Company (CII), a publicly listed infrastructure company in Vietnam. In addition, AG Holdings formed a joint venture with CII, in which AG Holdings holds 49%. This will provide a platform to further participate in the growth of the Vietnam market.

NORTH AMERICA

In 2012 overall residential sales continued at the same pace as last year for AG Holdings' two residential projects in the United States, with increased activity in the lower price points. *The Saratoga Springs* market in Utah was particularly active especially towards the end of the year, allowing the project to fully pay off its bank loan by early January 2013.

The retail markets in California continue to strengthen with *The Seasons Market Place* in Milpitas achieving a 99.4% occupancy level by mid-year. As of December 31, 2012, management control of the shopping center has been turned over to its joint venture partner. The *Fontana* project increased occupancy level with the construction and opening of two major tenants while another major restaurant chain is expected to open in the first quarter of 2013.

2012 HIGHLIGHTS

Acquired 10% shareholding in HCM City Infrastructure Investment Joint Stock Company.

- Joint venture with HCM City Infrastructure Investment Joint Stock Company, with holdings of 49%.
- Sales of the two US residential projects continued at the same pace as 2011.
- *The Seasons Market Place* in Milpitas achieved a 99.4% occupancy level by mid-2012.

Professional Employment Program Campaign

BPO AND EDUCATION

LiveIt maintained its momentum of growth and profit improvement in 2012. Share of revenues reached a record US$343 million, up 8% versus last year, while share of EBITDA grew to a record US$32 million, up 36% and more than double 2010. As a result, LiveIt reduced its annual net loss, which was primarily due to amortization of intangibles and interest expense related to the leveraged buyout of Stream. LiveIt exited the fourth quarter with share of EBITDA near US$10 million, representing the eighth straight quarter of year on year EBITDA growth.

In 2013 LiveIt expects further growth and margin improvement, as its investee companies achieve additional scale. It will, however, be watchful for the risks associated with a potential slowdown in the U.S. or Europe, or a weakening of the dollar.

LiveIt's share of EBITDA grew to a record US$32 million, up 36% and more than double 2010, after its eighth straight quarter of year-on-year EBITDA growth.

Stream

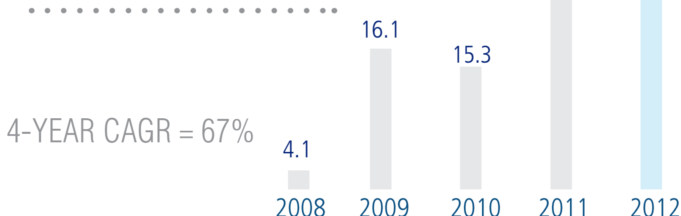
Stream is a leading Customer Relationship Management BPO company with over 39,000 employees supporting 35 languages across 56 locations in 23 countries.

Stream's revenues grew by 2% to US$860 million, and EBITDA increased by 11% to US$101 million, as a result of growing its existing customers and winning new logos. It exited 2012 with year-on-year revenue growth of 7%, record quarterly EBITDA of US$33 million, and net income of US$4 million in the fourth quarter of 2012.

Stream also launched its new brand promise, *"Caring People…Building Businesses. Building Careers."* with

SHARE OF EBITDA (In Million US$)

4-YEAR CAGR = 67%



NEW STREAM

Stream launched its refreshed brand promise in 2012

Education

- Ayala entered the For Education space through newly formed subsidiary, LiveIt Global Services Management Institute Inc. (LGSMI), after recognizing the strong global demand for Filipino talent from the IT-BPO and other industries.
- LGSMI's vision of Education for Employability is to deliver high quality, affordable education that can significantly enhance the potential for employment of students from the mass market, by equipping them with real-world skills through programs designed in close partnership with prospective employers.
- LGSMI is seeking to invest in or partner with existing schools, or build new schools, in both Basic Education and Higher Education.
- In the fourth quarter, it partnered with Jose Rizal University and rolled out LGSMI's *Professional Employment Program (PEP)*, which trains college seniors through workplace simulations and internships with leading employers, including many of the Ayala companies.

multiple programs to reinforce its position as an employer of choice. Stream recently won the highly sought after "*IT-BPO Employer of the Year*" award at the 7th International ICT Awards Philippines 2013.

Over the past three years, Stream grew its headcount in the Philippines by over 80% to 14,000, and its sites by more than 40% to 10, affirming the country's role as a key part of the company's global delivery capability.

In February 2013, Stream completed the acquisition of LBM, a premier demand and lead generation solutions provider that employs approximately 2,500 across six locations in the U.K. and generates approximately £60 million in revenues. LBM will enable Stream to better penetrate the U.K., the world's second largest English language market, as well as strengthen its ability to help customers grow their sales through LBM's revenue generation service offerings.

Integreon

Integreon is a leading provider of integrated legal, research and business support solutions to corporations and law firms, with over 2,000 associates operating from 17 offices across North America, Europe, Asia and Africa.

In 2012 Integreon achieved revenues of US$121 million and significantly improved its profitability. It recently announced a multi-year expansion of its landmark deal with SNL Financial, a premier provider of business intelligence and news for the banking, financial services and other industries. The partnership will enable Integreon to add 300 financial research and business support professionals to the 400 it already employs in Manila. Integreon also expanded its sales team into Chicago, Houston, and China, and won its first clients in Australia.

Integreon was also recognized as one the world's best outsourcing service providers by the International Association of Outsourcing Professionals (IAOP), which named it to the 2013 Global Outsourcing 100. The company was also recognized as a Tier 1 "Top Ranked" LPO provider in Chambers & Partners' *2013 Global Client Guide*.

Affinity Express

Affinity Express is one of the leading advertising and marketing creative production services company with over 1,500 employees in the U.S., the Philippines and India.

In 2012 Affinity grew its revenues by 14% to US$22 million and doubled its margins as a result of new clients, expanded service offerings and greater operating efficiencies. Because of increasing demand from its multimedia and retail customers, particularly for digital and mobile applications, the Company expanded its Indian facility by 50%. Affinity also entered the European market when it became the exclusive service provider of *Trinity Mirror,* one of U.K.'s largest multimedia publishers, to deliver ad creation, digital studio production and studio print creative services.

The company was also named to the *2012 Global Services 100* list of leading global outsourcing companies for the third consecutive year.

IQ BackOffice

IQ BackOffice is a leading finance, accounting and HR outsourcing company, offering higher quality and significant cost savings to companies around the globe. The company currently has over 500 employees across the U.S., the Philippines and India providing solutions for the underserved mid-sized enterprise segment in the U.S. and Asia. Customers include those in the manufacturing, restaurant, hotel, and property management sectors, as well as several Ayala group companies.

In 2012 IQ BackOffice grew revenues by 24% to US$9 million. Significant growth investments have been made to accelerate sales and broaden delivery capability.

Iraya Mangyan scholars

SOCIAL COMMITMENT

In 2012 Ayala Foundation Inc. (AFI) adopted the theme "*Creating Shared Value*" as an overarching framework to direct its programs and operations towards increasingly blurring distinctions between pure philanthropy and business. This is one of the foundation's overriding themes as it gears towards creating impact, delivering clear outcomes, and sustainability. In doing so, it hopes to gain greater participation and deeper engagement from donors, partners, beneficiaries, and other stakeholders.

To achieve this, AFI refocused its mission, vision, and values, highlighting the community as a program unit. Building on its initial mission of "contributing to the eradication of poverty in all its forms," AFI now envisions "communities where people are productive, creative, self-reliant, and proud to be Filipinos."

Along this renewed theme, AFI has redefined its programs to focus on the following areas: education, youth leadership, sustainable livelihood, and arts and culture.

Education

CENTEX

The *Center of Excellence in Public Elementary Education (CENTEX)* served as a high-quality learning environment for 968 grade school students in Tondo, Manila, and Bauan, Batangas. The schools have a cohort survival

SUSTAINABLE LIVELIHOOD

Ayala Foundation's sustainable Livelihood programs are found in the following areas: Manila, Quezon City, Taguig, Laguna, Batangas, Oriental Mindoro, and El Nido, Palawan.

MINDORO

With various partners, AFI facilitated scholarship, health assistance services, feeding initiatives, livelihood training, and housing programs, among others.

rate (Grade 1 students who successfully complete their elementary education and move on to high school) of as high as 95%. This is significantly higher than the national average of 74.23%. At the 2012 National Achievement Tests administered by the Department of Education (DepEd) to all Grade 3 students in the country, *CENTEX* Manila students had an average score of 80.3, while *CENTEX* Batangas students had an average score of 81.6. The national average was 68.15.

CENTEX also offered enhancements that helped students develop into well rounded individuals through the *After Hours* program in music in partnership with violinist Alfonso "Coke" Bolipata and dance with Steps Dance Studio.

An integral part of *CENTEX's* operation is its commitment to teacher development. Its annual teacher-training program focused on critical thinking, classroom management, and values education. This program was offered to teachers from *CENTEX* and other schools.

In 2012 *CENTEX* partnered with Prospero World, a United Kingdom–based international philanthropy consultancy organization, for a fund-raising event. Held during the first *London Philippine Fashion Show* in March, the event raised as much as £160,000 and drew over 300 distinguished guests.

TEXT2TEACH

Meanwhile, *Text2Teach*, a program that seeks to provide high-quality educational materials for public elementary students through mobile technology, officially entered its fourth phase in 2012. The official project partners are Nokia, Department of Education (DepEd), Pearson Foundation, Globe Telecom, and Ayala Foundation. After reaching over 557 schools across the country between 2004 and 2012, *Text2Teach* now targets 850 schools, 160,000 students, and 60,000 teachers by 2014.

Text2Teach reached 40 schools in the last quarter of 2012. Several Memorandums of Agreement were signed for 139 more schools, with official launches scheduled in January 2013. At the same time, *Text2Teach* developed 187 new curriculum-based educational videos as a way to supplement, update, or replace existing materials. These videos were also supported by 455 lesson guides aligned with the DepEd basic education curriculum.

Text2Teach worked actively with the DepEd in designing the teacher-training program. A total of 116 DepEd education supervisors and information and communications technology coordinators from the regional and division levels underwent training in 2012.

Text2Teach also drew support from several private-sector partners, such as Toshiba Corporation which committed to donate 853 32-inch LED television sets to be distributed between 2012 and 2014.

CENTEX

CENTEX students earned high scores at the DepEd's National Achievement Test - 80.3 for Manila and 81.6 for Batangas.

FHL

As a "contemporary space for the contemporary researcher," the library now occupies the sixth floor of the Ayala Museum.

Youth Leadership

The *Ayala Young Leaders Congress (AYLC)* flagship youth leadership program of the Ayala group of companies, welcomed 80 student leaders representing 56 colleges and universities to the 14th congress held in Alfonso, Cavite, on February 7 to 10. Aside from the main congress, the youth leadership unit also organized post-congress mentoring activities to encourage alumni to initiate and sustain "change projects" in their respective schools and communities.

Launched in 2011, *Leadership Communities (LeadCom)* aimed to bring the AYLC brand of servant leadership to the regions. In two years, it successfully trained 192 teacher-facilitators and 808 students from 55 partner schools in 10 provinces/areas. Similar to the AYLC, a conference is organized for students to cultivate their sense of responsibility and personal drive, collaborative mindset, critical thinking and problem-solving skills, and their desire to serve the local community.

Arts and Culture

One of the highlights of the year was the integration of Ayala Foundation's arts and culture division—composed of Ayala Museum and the Filipinas Heritage Library (FHL). The integration was a strategic move toward generating greater appreciation for Philippine culture and the arts as well as making these more accessible to the communities that the foundation serves.

Prior to the integration, Ayala Museum presented three exhibitions based on the *Pioneers of Philippine Art* collection, and developed 11 changing and traveling exhibits. Part of the museum's innovations was the inclusion of multimedia components in the exhibits—such as the Peque Gallaga–directed short film for *"Botong Francisco: A Nation Imagined,"* and the public video projections for *"Conectados,"* which featured some of the best Filipino, Mexican, and Spanish artists. Aside from the exhibits, the museum also offered educational programs, which included *History Comes Alive, Design Talks, Conversations in Art*, and the *St'Art* workshops. The museum drew a total of 83,892 guests during the year—1,304 of whom visited free of charge in celebration of International Museum Day on May 18.

One of the efforts of AFI to bring Ayala Museum closer to the public is by strengthening its presence in social media channels. At the height of the massive monsoon rains that swept Metro Manila and parts of Luzon last August, the museum launched the campaign tag line, *"The Filipino spirit is waterproof"* through its official *Twitter, Facebook,* and *Tumblr* accounts, as an inspirational message for those greatly affected by the flooding. The response was overwhelming as the campaign received 4,629 retweets and 581 favorites on *Twitter*, 203 likes and 969 shares on *Facebook*, and major media coverage.

For its part, FHL continued to provide invaluable service for researchers on Philippine art, history, culture, and society. Aside from attracting 1,961 researchers and tour participants, the library also organized the *Third LibraryLink Conference*. This conference tackled the issue of protecting intellectual property rights of authors, publishers, and other copyright owners. A total of 70 librarians from all over the country participated in this conference.

The National Book Development Board, with support from FHL and Ayala Museum, held the *Third Manila*

TEXT2TEACH

Text2Teach reached 40 schools in the last quarter of 2012, and signed MOAs for an additional 139 schools, to be launched in January 2013.

CALAUAN BAYANIJUAN

AFI is working with Salesian priests and Franciscan nuns in developing a master plan for parts of *Bayanijuan*, Calauan, Laguna.

International Literary Festival, which was attended by 245 literature lovers and acclaimed writers such as Nigerian-American Chris Abani, among others.

To celebrate the 75th anniversary of the Nielson Tower, FHL partnered with Ayala Land Inc. in an exhibit entitled *"Flight to Progress"*. This was a walking exhibit installed at the *Ayala Triangle Gardens* which made history more accessible to a broader audience. FHL is also further broadening access through the community libraries that it has helped build under the *OurLibrary* program. These were set up in two sites—Infanta, Quezon, and Taguig.

As FHL moves to its new home on the sixth floor of the Ayala Museum, the public can now look forward to a modern electronic Filipiniana research center. The library is scheduled to open in its new location in March 2013.

Sustainable Livelihood

AFI's commitment to shared prosperity is manifested as it broadens its activities to include sustainable livelihood programs. AFI envisions creating greater impact by providing households in communities in need the opportunity for gainful employment or the opportunity to diversify their income sources. It created a program that provides sustainable livelihood skills training and also the chance to be part of the business supply chain in local communities. AFI aims to pilot the program in various sites in Manila, Quezon City, Taguig, Laguna, Batangas, Puerto Galera, and El Nido, Palawan.

AFI continued to implement various projects for the Iraya Mangyan community in Puerto Galera, Mindoro Oriental. AFI facilitated scholarship programs, feeding, health assistance, livelihood training, and housing programs, among others, together with various partners.

Enabling Education Communities

Enabling Education Communities, a project funded by the Agencia Española de Cooperación Internacional para el Desarrollo (AECID), was implemented in Tiwi and Ligao City, Albay, Camiguin province, and Malaybalay, Bukidnon. This project enabled members of the target communities to work together in identifying key education needs in their respective communities and in developing solutions for these.

TEN Moves

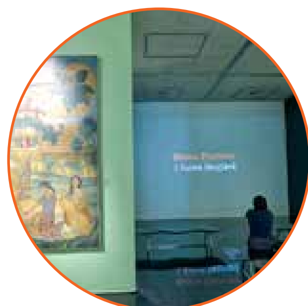
AFI served as the secretariat for *The Entire Nation (TEN) Moves*, a nationwide campaign to raise funds for the construction of public elementary school classrooms. At the end of 2012, *TEN Moves* raised ₱49.2 million in cash and pledges.

Strengthening Civil Society Organizations

AFI also implemented the S*trengthening the Capacity of Civil Society Organizations (CSO) in the Philippines*, a project funded by the United States Agency for International Development. This three-year project, which started in 2011, aims to "strengthen local civil society and private sector capacity to improve aid effectiveness and sustainability," with a special focus on 120 CSOs.

MUSEUM

The Ayala Museum introduced multimedia components for its exhibitions.



LEADCOM

LeadCom, AFI's effort to bring the *AYLC* experience to the regions has reached 10 areas and 808 students from 55 partner schools in two years.

Ayala Young Leaders Congress participants

SUSTAINABLE DEVELOPMENT IN AYALA

CREATING SHARED VALUE, ENABLING INCLUSIVE GROWTH

Ayala believes that sustainable development for communities and enterprises can only become a reality if the company integrates corporate responsibility into the management processes and aligns business goals with the social and economic goals of the country. The year 2012 was an opportunity for us to strengthen the foundations of our conglomerate-wide practice of sustainability by adhering to more rigorous protocols and optimizing synergy among the companies' efforts to achieve greater impact.

Synergy and Strength in Numbers

Ayala's second Sustainability Report published in 2012 covers the group's performance across 42 indicators of the Global Reporting Initiative (GRI), raising the level from 30 performance indicators reported in the previous year or an increase of 40%. We have progressed from publishing a self-declared Level B to a GRI-Checked Level B Sustainability Report and considered the guidelines and good practices of *AA1000 AccountAbility Principles Standard* on inclusivity, materiality, and responsiveness in preparing the report.

Last year, we enhanced our *Sustainability Commitment Policy* so that it recognizes the importance of integrating sustainability into our businesses' operations, products and services, supply chains, human resources practices, community involvement, management approach, and business viability, with the objective of creating shared value. As part of our continuing education program for sustainability, we held a two-day workshop and our second conglomerate-wide Sustainability Summit attended by senior management and our sustainability champions from the group. Through the Ayala Group Sustainability Council, we are able to strengthen the sustainability initiatives by adopting group-wide focus areas, having a common platform to discuss and address challenges, exploring opportunities and synergies, and sharing achievements in the area of sustainability.

We will continue to pursue our sustainability commitments vigorously through each of our businesses as we strive to create value, long-term sustainable development, and contribute to nation building.

Our Sustainability Stories

Ayala Land's *Sustainability Framework* is embedded throughout its value chain and enables the company to develop and design climate-responsive, inclusive, and economically viable communities. It is able to balance protection of the environment with land development by adopting the principle of environmental stewardship and impact reduction exercised through rigorous site assessment, planning, project execution, and estate management. Ayala Land's large-scale, integrated, and mixed-use communities enables the company to achieve energy efficiencies, exercise water stewardship, undertake proper solid waste management, and create pedestrian-friendly communities that are connected to public transport for the easy adoption of environment-friendly lifestyles. Ayala Land has introduced new residential and retail support products, *BellaVita* and *Fiesta Market* for low-income families and minimum-wage earners. These help address the country's housing backlog and broaden access to good quality housing products and at affordable rates. Ayala Land has received various citations including the prestigious *Asian CSR Award for Environment and Value Chain Management*, and the Department of Energy's *Don Emilio Abello Energy Efficiency Awards* for its property management arm Ayala Property Management Corporation, and recognition for its *Alay sa Komunidad* programs.

Bank of the Philippine Islands (BPI) remains committed to uplift the economic and social conditions of the country and encourage inclusive development. BPI hopes to achieve this by taking a proactive role in addressing the needs of the underserved, bridging socio-economic gaps, and developing new platforms for long-term growth. BPI's *Ka-Negosyo Business Loan* expanded its lending program for micro, small, and medium enterprises. This comprises 99% of all registered businesses in the country today, and contributes to the establishment of more new businesses and the expansion of existing ones that help generate jobs. Now on its fourth year of partnership with the International Finance Corporation (IFC), a member of World Bank Group, BPI's *Sustainable Energy Finance (SEF)* Program continues to play a vital role in financing clients who wish to operate sustainable businesses with sound environmental and social practices. BPI also continues to partner with WWF-Philippines on a *Climate Change Adaptation* project to educate the governing bodies of selected key cities in the country to assess climate change impacts. This will help them identify opportunities and sustainability strategies and ensure economic viability and competitiveness in a climate-defined future.

BPI Globe BanKO (BanKO), a joint venture among BPI, Globe Telecom, and Ayala Corporation, aims to achieve quality sustainable growth in microfinance, serve a wider community, offer affordable financial products, and promote social responsibility. BanKO has increased the bank's wholesale loan portfolio to ₱2.5 billion, up by 16% from last year's ₱2.1 billion with loans granted to 55 microfinance institutions (MFIs) all over the country such as rural banks, cooperatives, non-government organizations and people's

ALAY SA KOMUNIDAD

Ayala Land empowers communities by providing sustainable livelihood programs.

TUBIG PARA SA BARANGAY

TPSB provides clean water to 1.7 million individuals in low-income communities.

organizations. It provides valuable economic assistance to microentrepreneurs. BanKO has also developed a two-year agreement with the IFC to provide microfinance services for clean energy and energy-saving projects, giving small businesses access to cheaper and environmentally friendly sources of power.

Globe Telecom (Globe) continues to grow its contribution to sustainability as it successfully forges ahead in a challenging environment. In 2012 Globe went beyond activities in corporate social responsibility (CSR) and grew its green initiatives to a bigger scale by institutionalizing them in regular operations and continuing projects implemented under the Environmental Management System. The largest investment Globe has made—a massive US$700 million Network Modernization Program—is firmly anchored on a sustainable energy strategy. Globe cell sites and facilities are currently being replaced with the latest cost-saving technologies that dramatically reduce power consumption and carbon footprint. Globe's *Balik Baterya* program aims to properly dispose of and recycle used lead-acid batteries generated from telecom operations, with proceeds from the recycling used to fund more CSR projects. Under Globe's Paperless Billing program, there were 397,000 subscribers enrolled in e-billing, equivalent to 1,829 trees conserved at the end of 2012.

Manila Water provides clean water supply and wastewater facilities to more than six million people in 23 cities and municipalities in the eastern portion of Metro Manila. In addition to keeping water rates reasonable, especially for low-income communities, and accepting flexible payment methods through the *Tubig Para Sa Barangay (TPSB)* program, the company also runs sustainable livelihood and capacity-building programs for community-based cooperatives through *Kabuhayan Para Sa Barangay (KPSB)*. The *Lingap* program, which targets public institutions in marginalized communities, has improved water facilities for more than 1.5 million people by installing washing facilities and drinking fountains in over 300 schools, hospitals, jails, markets, and orphanages. Because of its sustainability model, Manila Water was one of the winners of the "*G20 Challenge on Inclusive Business Innovation,*" a global competition managed by the IFC for G20. On the environmental front, Manila Water launched *Toka Toka*, a wastewater advocacy that promotes shared responsibility among different stakeholders to revive the metro's rivers.

Integrated Micro-Electronics Inc. (IMI) adheres to responsible manufacturing for the protection of the environment by continuously promoting the practice of green manufacturing and *Hazardous Substance Process Management System (HSPM)* and ensuring compliance with environmental directives and regulations. The company has stepped up its engagement of sustainability through its business ventures in clean technologies and integrated Environment, Health, and Safety management system that consists of programs in energy management, water conservation, health and safety management, and chemical and waste management. Since 2011, IMI has been a member of the United Nations Global Compact (UNGC), considered the world's largest corporate citizenship that encourages businesses to adopt sustainable and socially responsible policies, and commit to report its implementation. In the last few years, IMI and its subsidiary, PSi Technologies Inc., have also ventured into renewable energy through its solar panel product development and manufacturing business, and clean lighting technology design, respectively.

Through the years, Ayala Automotive Holdings Corporation has supported the environmental and educational needs of its adopted communities. The Ayala-owned dealerships have engaged in promoting a healthier environment by addressing issues on waste management, recycling, and energy conservation. Its network of Honda and Isuzu dealers has incorporated Road Safety Awareness campaigns and Defensive Driving seminars into their CSR programs. In 2012 free *Defensive Driving and Fuel Saving Seminars* were conducted for the dealerships' Sales, Service and Parts customers to promote road safety and environmental consciousness among motorists. Furthermore, Ayala-owned Honda dealerships in Metro Manila were recognized as the

BANKO

BanKo has nearly 2,000 partner outlets.

TOKA TOKA

Manila Water promotes shared responsibility among stakeholders to revive the metro's rivers.

first group of *Certified Green Dealers* among all Honda car dealers nationwide.

Ayala Foundation Inc. (AFI) develops, implements, and sustains programs in various fields of social and cultural development anchored in education, youth leadership, sustainable livelihood, and arts and culture. As a strong believer in creating shared value, AFI seeks to bridge business and social development using a strong multi-stakeholder approach. Bright children from economically disadvantaged families receive quality education through the *Center of Excellence in Public Elementary Education (CENTEX)*. Through *Text2Teach*, AFI and its partners provide mobile-based learning intervention in the form of educational videos in English, Math, Science, and Values Education for Grade 5 and 6 students. The *Ayala Young Leaders Congress* and *Leadership Communities* programs nurture values-based servant leaders who contribute to nation-building and help uplift the lives of their fellow Filipinos through "change projects." AFI's commitment to shared prosperity has prompted it to develop livelihood programs that help households gain access to additional skills and income sources, including, among others, projects for the Iraya-Mangyan indigenous community in Mindoro. Through the Ayala Museum and the Filipinas Heritage Library, AFI seeks to inspire pride in our country's rich heritage, and promote knowledge and appreciation of art, history, and culture.

At the holding company level, Ayala is in a phase of active investment and is eyeing to build new businesses in power and transport infrastructure. We have invested in the power sector to contribute to our country's energy security. In partnership with the Phinma Group's Trans-Asia Oil and Energy Development Corporation, we have begun the construction of the first phase of a 135-megawatt (MW) circulating fluidized bed thermal plant in Batangas. We have also signed an agreement with Palm Thermal Consolidated Holdings Corp., a member of the A Brown Group of Companies, to build a 135MW coal-fired power plant, which will utilize the latest clean coal technology, and is expected to help ease the power supply shortage in Panay and the rest of the Visayas area. Ayala signed a sale and purchase agreement to acquire, for US$155 million, a 17.1% stake in GNPower Mariveles Coal Plant Ltd. Co., the owner of a 600MW coal-fired plant in Mariveles, Bataan. Complementing these are investments in the renewable energy space. We acquired a 50% stake in NorthWind Power Development Corporation, which owns and operates the 33MW wind farm located in Bangui Bay, Ilocos Norte. This is currently the only wind farm in the country, and is considered the largest in Southeast Asia with a capacity to supply up to 40% of the total electricity demand of the province.

Our Commitment to Sustainability

We are committed to being a catalyst in moving business practices toward sustainability and being at the forefront of sustainable development. In our future reports, we will include more subsidiaries and cover additional performance indicators. We will also aim for external assurance as part of our continued commitment to integrate sustainability practices in our business operations and increase the level of transparency and accountability. We will continue to pursue our sustainability commitments vigorously through each of our businesses as we strive to create value, long-term sustainable development, and contribute to nation building.

Download our Sustainability Report at *www.ayala.com.ph*

GREEN MANUFACTURING

IMI practices green manufacturing through its *Hazardous Substance Process Management System*.

GOGREEN

Globe Telecom introduces paperless billing campaign.

CORPORATE GOVERNANCE

"More and more, in respect of corporate governance, we consider the law and rules not as restraint, but as enabler and a measure of protection; not as a set of commands, but as tools for fairness and equal opportunity."

- Solomon M. Hermosura, Corporate Secretary
Panelist, Philippine Rollout of the Asean Corporate Governance Scorecard
September 2012

Good corporate governance is inherent in the company's system and processes. At Ayala, good governance and creating value and long-term growth for all its shareholders are inextricably linked.

Ayala has been consistently recognized for exploring and pursuing measures that raise the level of good governance throughout the organization. In May 2012 the Institute of Corporate Directors conferred *Platinum Plus* status in for achieving the gold standard in governance for more than three consecutive years. A poll conducted by *Asiamoney* in 2012 also ranked Ayala in the Philippines as the Best Overall for Corporate Governance, Best for Disclosure and Transparency, Best for Responsibilities of Management and the Board of Directors and Best for Shareholders' Rights and Equitable Treatment.

BOARD STRUCTURE AND PROCESS

Key Role and Responsibilities

The Board establishes the vision, strategies, key policies, and procedures of the company, as well as the mechanism to properly monitor and evaluate management performance. The Board also ensures that internal control mechanisms for good governance are adequate and firmly in place.

Composition

- The Ayala Board is composed of seven directors who have diverse experience, background, and disciplines in the areas of business, finance, and law and are elected annually
- None of the independent directors owns more than 2% of the outstanding capital stock
- The profile of each director are found in the Board of Directors section of this report on pages 56 and 57.

Independent Directors
Independent directors have no interest or relationship with the company that may hinder their independence from the company or management or interfere with their exercise of judgment in carrying out their responsibilities as directors.

The seven-member Board includes three independent directors who make up more than 40% of the Board's membership—Ramon R. del Rosario, Jr., Xavier P. Loinaz, Antonio Jose U. Periquet. Yoshio Amano, general manager of Mitsubishi Corporation's Manila Branch, is a non-executive director.

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

Board Performance
Board meetings are held quarterly and as needed. Discussions during board meetings are open. Independent views are given due consideration. Average attendance in the Board's six meetings last year was more than 90%. Four directors, namely, Jaime Augusto Zobel de Ayala, Ramon R. del Rosario, Jr., Delfin L. Lazaro and Antonio Jose U. Periquet had perfect attendance. Fernando Zobel de Ayala, Xavier P. Loinaz, and Yoshio Amano were absent from one board meeting last year.

Committee	Executive	Personnel and Compensation	Nomination	Finance	Audit and Risk
Jaime Augusto Zobel de Ayala	C		M	M	
Fernando Zobel de Ayala	M		M		
Yoshio Amano**	M	M			M
Ramon R. del Rosario Jr.*		C	C		M
Delfin L. Lazaro		M		C	
Xavier P. Loinaz*				C	C
Anton U. Periquet*				M	
Number of Meetings held in 2012	0	3	4	2	4

C- Chairman M- Member *Independent Director
**Non-executive Director

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

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

Nomination Committee. The Nomination Committee ensures that all nominees to the Board have all the qualifications and none of the disqualifications under the company's By-Laws, its Manual of Corporate Governance, and the rules of the Securities and Exchange Commission (SEC). In 2012 the Nomination Committee also reviewed the qualifications of all persons nominated to positions requiring appointment by the Board and approved the final list of nominees for directors for election at the 2012 annual stockholders' meeting.

Personnel and Compensation Committee. The Compensation Committee establishes a policy for a formal and transparent procedure for determining the salaries of officers and directors. It also oversees the salaries of senior management and other key personnel.

In 2012 the committee approved: 1) the performance bonus for 2012; 2) the merit increase for 2012; and 3) the 2012 Executive Stock Ownership Plan (ESOWN).

Finance Committee. The Finance Committee oversees the company's financial policy and strategy, including capital structure, dividend policy, acquisitions, and divestments, and makes the appropriate recommendations to the Board of Directors. The committee also has oversight responsibility over the company's Treasury activities, and reviews and approve changes in Treasury Policies. It is responsible for reviewing and

evaluating the financial affairs of the company on a regular basis and carrying out such other duties as may be delegated to it by the Board of Directors. The Finance Committee had two meetings in 2012.

Audit and Risk Committee. The Audit and Risk Committee oversees the internal control, financial reporting and risk management processes of the company for the Board.

In 2012 the committee met to

- Review and approve the 2011 consolidated audited financial statements of Ayala as audited by the external auditors, Sycip Gorres Velayo & Co. (SGV), the unaudited financial statements of the company for the first quarter, first half and third quarter and the 2012 Internal Audit Plan.
- Recommend the appointment of SGV as the company's external auditor for 2012 and the approval of the audit fees of SGV. The activities of the Audit and Risk Committee are further discussed in the Accountability and Audit section on pages 51 to 52 and the Report of the Audit and Risk Committee to the Board of Directors on page 65.

Director and Senior Executive Compensation

Non-executive directors are Board members who are not officers or consultants of the company. They receive remuneration consisting of: 1) a retainer fee of ₱1,200,000.00; 2) per diem of ₱200,000.00 for each board meeting attended; 3) per diem of ₱100,000.00 per Audit and Risk Committee meeting attended; and 4) ₱50,000.00 per diem for other committee meetings attended. None of the non-executive directors has been contracted and compensated by Ayala for services other than those provided as a director. Ayala adopts a performance-based compensation scheme for its senior executives. As additional incentive to Management, the Board approved stock option plans for officers covering 3% of the company's authorized capital stock. The grantee is selected based on performance over a three-year period.

The total compensation paid to non-executive directors and officers is disclosed yearly in the Definitive Information Statement sent to shareholders at least 15 business days before the annual stockholders' meeting. The total annual compensation includes basic salary, guaranteed bonus, and variable pay (i.e., performance-based bonus and gains from the exercise of stock options).

MANAGEMENT

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

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

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

In all functions and critical issues, both coordinate closely with each other. The Chairman/CEO and President/COO are supported by a management committee composed of key executives who meet twice a month to discuss business performance and issues critical to the growth of the company, facilitating the flow of strategic and operational information among decision makers.

A culture of good governance is fostered throughout the organization, with the Management and the Board equally responsible for ensuring that the mechanisms and structures for good governance are securely in place.

The Chairman/CEO, President/COO, and members of the management committee attend the annual stockholders' meetings.

Enterprise Risk Management: A Constantly Evolving Process

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

The Chief Risk Officer (CRO) is the champion of enterprise risk management of the group and is supported by the Group Risk Management Unit which is responsible for overall continuity of the risk management process and programs. Under an expanded Charter of 2008, the Audit and Risk Committee provides a more focused oversight role to the risk management process. The Group Risk Management Unit submits a quarterly report on the risk portfolio of the Ayala group of companies and the related risk mitigation efforts and initiatives to the committee. The company's internal auditors monitor compliance with risk management

policies to ensure that an effective control environment exists within the entire Ayala Group. The Board monitors the effectiveness of risk management and receives regular updates from management on the strategic and operational risks facing the Ayala group.

The company held a Risk Management Awareness session in 2012 for senior management and key leaders who performed an annual risk assessment exercise based on management effectiveness and impact to the achievement of the company's key strategies and business objectives. Risk owners who have overall responsibility for ensuring that the risks are managed and monitored overtime were also identified. Risk management strategies and action plans were developed, updated, monitored, and continuously reviewed for effectiveness and relevance.

The company hired a Risk Management Director for the Group Risk Management Unit in 2012 to support the CRO and drive the implementation and continuous improvement of the risk management process, and provide oversight and assistance to the Ayala group of companies' risk management functions. The Ayala Group Enterprise Risk Management Council, composed of the CROs and ERM Heads from the group, was also convened to ensure that ERM policy and process are effectively implemented, as well as, identify areas of excellence and improvement. These initiatives further support the vision of a conglomerate-wide practice of risk management.

Risk Management Strategy and Action Plans

Risk is inevitable given the diverse portfolio of Ayala's business operations. Thus, embedding risk awareness and risk management in the culture of the organization and integrating it into the company's operations and strategic decision-making is necessary for intelligent risk-taking and effectively balancing risk and reward.

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

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

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

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

ACCOUNTABILITY AND AUDIT

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

Independent Public Accountants

The external auditor of the company is SGV & Co., with Jessie D. Cabaluna as the partner-in-charge for 2012.

The Audit and Risk Committee reviews Ayala's financial reporting to ensure the integrity of the company's public reports, and oversees the work of the external auditor.

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

	Audit and Audit-related Fees	Other Fees
2012	₱11.09 M	2.21 M
2011	₱5.3 M	1.15 M

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

I. Updates on Philippine Reporting Standards for the entire group of companies
II. Review of the Hyperion or the Financial Management Automated Consolidation System

In 2011 SGV & Co. billed the company for an aggregate fee of ₱1.15 million for the following services:

I. Updates on Philippine Reporting Standards for the entire group of companies
II. Enterprise-Wide Risk Management Study

No tax consultancy services were secured from SGV & Co. in the past two years.

Internal Audit

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

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

In 2012 the Audit and Risk Commitee received, noted, and/or approved audit reports from Internal Audit that were performed in accordance with the approved Internal Audit Plan. The Internal Audit function was rated "Generally Conforms" after a thorough third-party quality assessment review (QAR) by the Institute of Internal Auditors Inc. (USA) in May 2007. The rating, considered the highest possible score in connection with the QAR, confirmed that Internal Audit's activities conformed to the International Standards for the Professional Practice of Internal Auditing. The next QAR will be undertaken in 2014. The company continues to improve the internal audit function by using a risk-based audit approach and by benchmarking against best practices.

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

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

Mr. Hermosura took part in the panel discussion during the Philippine rollout of the *ASEAN CG Scorecard* in September 2012 and at the *23rd Presidents of Law Associations in Asia Conference* held in Manila in August 2012 on the *Role of Lawyers in Promoting Corporate Social Responsibility* where he presented the role and advocacy of the lawyers in the Ayala group. He emphasized that disclosures are viewed as tools of fairness and honesty in Ayala and that the practice of good governance enhances internal control processes.

DISCLOSURE AND TRANSPARENCY

Ownership Structure

Ayala's outstanding common shares as of December 31, 2012 were held by:

Mermac, Inc.	303.7 Million common shares	51.15%
PCD nominee corporation	188.41 Million common shares	31.74%
Mitsubishi corporation	63.08 Million common shares	10.62%

	Outstanding shares	Foreign-owned
Listed common shares	594 Million shares	34.41%
Listed preferred a shares	12 Million shares	0.09%
Non-listed voting preferred shares	200 Million shares	17.18%

There were no cross or pyramid shareholdings.

Content and Timing of Disclosures

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

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

Solomon Hermosura, Ayala's compliance officer, joins the panel during the Philippine roll-out of the new Asean scorecard.

"Our practice is, when in doubt, to disclose more than less, because transparency helps us build trust and protect us from the temptation to take shortcuts."

- Solomon M. Hermosura, Corporate Secretary
Panelist, 23rd Presidents of Law in Promoting Corporate Social Responsibility
August 2012

In 2012 the company filed, among others, unstructured disclosures involving the following:

Ayala

- Memorandum of Agreement with Metro Pacific Investment Corporation to develop Light Rail Transit (LRT) projects
- Awarding of the right to purchase and the completion of the acquisition of the 10% stake in Ho Chi Minh City Infrastructure Investment Joint Stock Co. and 49% stake in Kenh Dong Water Supply Joint Stock Company to Ayala Corporation and Manila Water
- Agreement with Ho Chi Minh City Infrastructure Investment JSC to jointly invest in VinaPhil Technical Infrastructure Investment JSC
- Memorandum of Agreement with Aboitiz Equity Ventures Inc. for a 50-50 joint venture to build and operate the Mactan-Cebu International Airport
- Memorandum of Understanding with ADC and HAS Airports with AboitizLand Inc. for a consortium to participate in the public bidding to build and operate the Mactan-Cebu International Airport
- Sale on the Philippine Stock Exchange of the Ayala Corporation 15 million common shares
- Acquisition of additional BPI common shares
- Placement and subscription to the 680 million ALI common shares
- Grant of 2012 Employee Stock Ownership Plan
- Compliance with the SEC circular on Audit Committee assessment
- Issuance of ₱10 billion 6.875% Bonds Due 2027 and ₱10 billion 5.45% Bonds Due 2019
- Notices of interest payment for all the outstanding Ayala Bonds

AC Energy

- Acquisition of a strategic stake in the GNPower Mariveles 600MW Power Plant
- Subscription of Palm Concepcion Power Corporation's unsubscribed shares

Ayala Automotive

- Appointment of Ayala Automotive Holdings Corporation as the Philippine Distributor of Volkswagen Passenger Vehicles

BPI

- Nomination of Mr. Cezar P. Consing as the new president of the Bank of the Philippine Islands succeeding Mr. Aurelio R. Montinola III

News clarifications on:

a. Ayala's interest in Metro Rail Transit (MRT) line 3
b. Ayala group's budget for CAPEX and PPP projects
c. US$2.5 billion budget of Ayala Corporation for power projects
d. Ayala's plan to join the bidding for the planned privatization of the 640MW unified Leyte geothermal facility and the 150MW Casecnan hydropower plant in Nueva Ecija
e. Issuance by Ayala of foreign currency denominated bonds

Consolidated audited financial statements for 2012 were submitted to the SEC by the April 15, 2013 while the audited annual report was submitted at least 15 working days before the annual stockholders' meeting.

In 2012 the audited financial statements as contained in the Definitive Information Statement were submitted to the SEC and Philippine Stock Exchange on March 23, 2012 and to the PSE on the same day, more than three weeks before the April 20, 2012 annual stockholders' meeting.

Interim or quarterly financial statements were released between 30 to 45 days from the end of the financial period. The results were disclosed to the regulators within 24 hours from the time the Audit and Risk Committee met to accept the results. The results were also provided to financial and stock market analysts during an analysts' briefing, where members of senior management presented the results personally, as well as through the company website as soon as the SEC received the statements.

Financial Reporting

Ayala's financial statements comply with Philippine Accounting Standards and Philippine Financial Reporting Standards.

The annual consolidated financial statements detail total assets, total liabilities and equity, revenues, costs and expenses, income before income tax, net income attributable to equity holders of Ayala and noncontrolling interests, and earnings per share.

Ayala regularly provides a more comprehensive disclosure of business segment results to help shareholders appreciate the company's various businesses and their impact on overall value enhancement. The following are disclosed in the note on Business Segments, pages 166 to 171: 1) total revenue, 2) operating profit, 3) net income, 4) segment assets, 5) investments in associates and jointly controlled entities, 6) segment liabilities, and 7) depreciation and amortization.

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

Transactions entered into with associates and other related parties are on an arm's length basis. Sales and purchases of goods and services to and from related parties are in accordance with market prices. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements on pages 173 to 176.

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

DEALINGS IN SECURITIES

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

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

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

Trading Blackouts
The company has adopted a policy on insider trading. This covers directors, officers and employees, consultants, members of key officers' immediate families, and all other employees who may have knowledge of material facts or changes in the affairs of Ayala that have not been disclosed to the public. The persons covered by this policy are prohibited from buying or selling the company's securities during trading blackout periods.

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

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

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

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

The company holds regular briefings and meetings with investment and financial analysts where they are given access to senior management. In 2012 four briefings were held announcing the 2011 year-end results and 2012 first-quarter, first-semester, and third-quarter results.

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

Employee Relations
Ayala is committed to the safety and welfare of its employees and keeps open lines of communication.

In 2012 the company held two additional cohorts of the *Ayala Leadership Excellence Acceleration Program (Ayala LEAP)* covering participants from the Ayala group of companies, bringing the total number of executives who have undergone the program to 200. *LEAP* was established in 2010 to target the senior management teams to develop future leaders that would have a broader, enterprise-wide focus. The modules on strategy, innovation, customer centricity and transformational leadership provide unique insights and opportunities to build the leadership pipeline. The *Emerging Ayala Group Leaders Program (EAGLE)* was also launched with the participation of 88 middle managers from across the Ayala group.

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

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

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

Recognitions

Ayala figured prominently in polls of regional publications such as Asiamoney, Euromoney, Alpha SouthEast Asia Magazine, Finance Asia, and Corporate Governance Asia in the areas of company management, corporate governance, corporate social responsibility and investor relations. Ayala also earned the Innovative Corporate Bond Issue of the Year from The Philippine Dealing System Group for its P10 Billion Fixed-Rate Multiple-Put Bonds.

The Ayala group garnered top citations in the 7th Corporate Governance Scorecard Project initiated by the Institute of Corporate Directors. Ayala, Ayala Land Inc., and Manila Water Company Inc. were given Platinum Plus awards for being consistent gold winners in the past four years. BPI received the gold award while Globe, IMI and Cebu Holdings were silver awardees.

Ayala executives also reaped recognitions for their exceptional leadership. Jaime Augusto Zobel de Ayala was one of six Philippine Directors recognized by the Asian Corporate Director Recognition Awards as outstanding corporate director. The Management Association of the Philippines acclaimed Aurelio Montinola III as the Management Man of the Year 2012 for his remarkable stint as BPI president, and Ayala Land's Antonino Aquino was named Best Executive by Asiamoney.

Ayala's sustainable initiatives have also been noted by organizations such as the World Wide Fund which granted the company the Environmental Leadership Award in 2012.

Members of Ayala's Board of Directors at Raffles Makati

1

JAIME AUGUSTO ZOBEL DE AYALA

Filipino, 53, director of Ayala Corporation since May 1987. He is the Chairman and CEO of Ayala Corporation since April 2006. He also holds the following positions: Chairman of Globe Telecom, Inc., Bank of the Philippine Islands, and Integrated Micro-Electronics, Inc.; Co-Chairman of Ayala Foundation, Inc.; Vice Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte Ltd., and AC Energy Holdings, Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board, Children's Hour Philippines, Inc.; Vice Chairman of the Asia Business Council, Makati Business Club, and Asia Society Philippine Foundation, Inc.; Member of The Asia Society, Eisenhower Fellowships, Harvard University Asia Advisory Committee, Harvard Business School Social Enterprises Initiative Advisory Board, Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, International Business Council of the World Economic Forum, Asia Pacific Basin Economic Council, Philippine Economic Society, World Wide Fund for Nature Philippine Advisory Council, Pacific Basin Economic Council and Toshiba International Advisory Group; and Philippine Representative for APEC Business Advisory Council.

2

FERNANDO ZOBEL DE AYALA

Filipino, 52, director of Ayala Corporation since May 1994. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He is also: Chairman of Ayala Land, Inc., Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte Ltd., Ayala DBS Holdings, Inc., Alabang Commercial Corporation, AC Energy Holdings, Inc., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Bank of The Philippine Islands, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Livelt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., Vesta Property Holdings Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., and Manila Peninsula; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council, and World Presidents' Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; Vice Chairman of Habitat for Humanity International; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, *Kapit Bisig para sa Ilog Pasig* Advisory Board and National Museum.

3

YOSHIO AMANO

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

4

RAMON R. DEL ROSARIO, JR.

Filipino, 68, independent director of Ayala Corporation since April 2010. He is the President and Chief Executive Officer of Philippine Investment Management (PHINMA), Inc.; President, Chief Executive Officer and Vice-Chairman of PHINMA Corp.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., Microtel Development Corp., Trans-Asia Oil & Energy Development Corporation, CIP II Power Corp., Fuld & Co., Inc., Fuld & Co (Philippines),Inc., PHINMA F&A Outsource Corp., Toon City Animation, Inc.; President of Atlas Holdings Corp.; Vice-President of Trans-Asia Oil & Energy Development Corporation, PHINMA Property Holdings Corp., PHINMA Foundation; Director of Holcim (Philippines), Inc., Trans-Asia Power Generation Corp., Union Galvasteel Corp., and South Luzon Thermal Energy Corp.

5

XAVIER P. LOINAZ

Filipino, 69, independent director of Ayala Corporation since April 2009. He is an independent director of Bank of the Philippine Islands, BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation, and Globe Telecom, Inc.; Chairman of XPL Manitou Properties, Inc. and *Alay Kapwa Kilusan Pangkalusugan;* Vice Chairman of XPL MTJL Properties, Inc.; Trustee of PETA, BPI Foundation, Inc., and E. Zobel Foundation.

6

DELFIN L. LAZARO

Filipino, 66, has served as member of the Board of Ayala Corporation since January 2007. He also holds the following positions: Chairman of Philwater Holdings Company, Inc., Atlas Fertilizer & Chemicals, Inc. and AYC Holdings, Inc.; Chairman and President of Purefoods International Ltd., and A.C.S.T. Business Holdings Inc.; Director of Ayala Land, Inc., Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Manila Water Company, Inc., Ayala DBS Holdings, Inc., AC Energy Holdings, Inc., Ayala International Holdings, Ltd., Bestfull Holdings Limited, AG Holdings, AI North America, Inc., Probe Productions, Inc., and Empire Insurance Company.

7

ANTONIO JOSE U. PERIQUET

Filipino, 51, independent director of Ayala Corporation since September 2010. He is the Chairman of Pacific Main Holdings, Inc., Campden Hill Group, and Regis Financial Advisers; Director of Strait Wine Company, Inc. and ABS-CBN Holdings; Independent Director of BPI Capital Corporation, DMCI Holdings, Inc., Philippine Seven Corp., Bank of the Philippine Islands, and BPI Family Bank; and Trustee of Lyceum of the Philippines University.

BOARD OF DIRECTORS

MANAGEMENT COMMITTEE

Left to Right

Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala

Left to Right

Delfin C. Gonzalez Jr., Gerardo C. Ablaza Jr., Solomon M. Hermosura

Left to Right

Alfredo I. Ayala, Antonino T. Aquino, Ernest L. Cu, and Maria Lourdes H. de Leon

Left to Right

Arthur R. Tan and John Eric T. Francia

Left to Right

Rufino Luis T. Manotok, Aurelio R. Montinola III, and John Philip S. Orbeta

SENIOR LEADERSHIP TEAM

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

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

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

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

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

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

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

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

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

RUFINO LUIS T. MANOTOK *
Chairman and President
Ayala Automotive Holdings Corporation

AURELIO R. MONTINOLA III
President and Chief Executive Officer
Bank of the Philippine Islands

JOHN PHILIP S. ORBETA **
Group Head
Corporate Resources

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

MANAGING DIRECTORS

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

ASSOCIATE DIRECTORS

Fatima P. Agbayani
Catherine H. Ang
Paolo F. Borromeo
Ruby P. Chiong
Alexander T. Cordero
Josephine G. De Asis
Emily C. De Lara
Rosallie A. Dimaano
Felipe Antonio P. Estrella
Romualdo L. Katigbak
Noel Eli B. Kintanar
Erwin P. Locsin
Guillermo M. Luz
Monina C. Macavinta
Rafael Nestor V. Mantaring
Jenara Rosanna F. Ong
Ma. Teresa S. Palma
Rene D. Paningbatan
Maria Angelica B. Rapadas
Alfonso Javier D. Reyes
Ma. Victoria P. Sugapong
Norma P. Torres
Jaime P. Villegas

CONSULTANTS/ADVISERS

Victoria P. Garchitorena
Delfin L. Lazaro
Patrice R. Clausse
Carlos C. Reyes
Eliezer C. Tanlapco

* Until December 31, 2012

** Effective January 1, 2013
Group Head, Corporate Resources
Chairman and President, Ayala Automotive Holdings Corporation

***Retired December 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Ayala Corporation's consolidated net income attributable to equity holders ending December 31, 2012 amounted to ₱10.6 billion, 12.% higher than net income in 2011. Core net income reached ₱11.6 billion, 32% higher than prior year. This excludes the impact of the accelerated depreciation of Globe Telecom as a result of its network modernization program and the revaluation gains realized at AG Holdings and Integrated Micro-Electronics Inc. (IMI) last year.

CONSOLIDATED SALES OF GOODS AND SERVICES

Ayala's Consolidated Sales of Goods and Services for the year reached ₱104.1 billion, 20% higher than previous year. This was mainly driven by the strong revenue performance of its real estate, water and electronics businesses.

Real Estate

Ayala Land's total revenues grew by 23% to ₱54.5 billion with its property development business up by 31% versus last year on strong bookings of its residential products, continued completion of projects, and higher commercial lot sales particularly from its NUVALI development. Its commercial leasing business grew by 18% to ₱8.8 billion with contribution from new malls, higher occupied mall and office gross leasable areas, and higher lease rates. Revenues from its construction and property management business surged by 38% to ₱20.5 billion on the back of increasing order book from Ayala Land and new management contracts. In the meantime, its hotels and resorts business also rose by 9% to ₱2.4 billion. Ayala Land's consolidated net income in 2012 reached ₱9 billion, 27% higher compared to prior year driven by the strong revenue growth across all business lines and further improvement in margins.

Ayala Land spent ₱71 billion in capital expenditures for its pipeline of projects and land acquisitions in 2012 which included the 74-hectare Food Terminal Inc. property in Taguig. This coming year, Ayala Land has earmarked ₱66 billion in capital expenditures to fund its land acquisition and project completions.

Water and Wastewater Services

Manila Water Company Inc. posted a net income of ₱5.4 billion, 28% higher than the previous year. Revenues increased by 21% on a combination of growth in billed volume from the East Zone and new expansion areas outside of the East Zone as well as tariff increase.

Manila Water's growth during the year was partly driven by the contribution of new businesses, which accounted for 5% of revenues and nearly 7% of net income. The company expects to see continued growth in billed volume within the East Zone, coupled with higher contributions from its new businesses in the coming year. Manila Water has been building its pipeline of new businesses outside the East Zone with the acquisition of a 49% stake in Vietnam's Thu Duc Water BOO Corporation in 2011 and a 47.35% stake in Kenh Dong Water Supply Joint Stock Company in 2012. The company is looking to finalize its acquisition from Suez Environnement of a 51% equity stake in Indonesia's PT PAM Lyonnaise Jaya, which operates the water supply concession contract in West Jakarta.

Electronics

Integrated Micro-Electronics Inc. (IMI) posted consolidated sales revenues of US$661.9 million in 2012, 15% higher than 2011 levels as a result of the full-year consolidation of its European business coupled with order expansion of key customers. IMI recorded a substantial improvement in net income to US$5.4 million from US$3.3 million in 2011.

EQUITY IN NET EARNINGS

Equity in net earnings reached ₱8.5 billion in 2012, 10% higher than last year. The rise was mainly due to higher equity income from its banking unit as parent company Ayala Corporation (AC) increased its ownership stake by 10% in the bank from 33% to 44%. This was partly offset by the lower equity earnings from its telecom unit, Globe Telecom (Globe). Equity earnings from Globe registered a 29% decline versus last year due to the impact of the accelerated depreciation arising from its network modernization program.

Financial Services

Bank of the Philippine Islands (BPI) registered a net income of ₱16.3 billion in 2012, 27% higher than prior year. The improvement was a result of a 13% rise in revenues owing to higher net interest income and a 25% surge in non-interest income as a result of securities trading gains. The bank's strong loan growth was sustained at nearly 16%. While net interest income expanded as a result of a higher average asset base, net interest margin contracted slightly by 10 basis points following the BSP's cut in policy rates last year coupled with competitive lending across banks. Despite this, BPI's asset quality continued to improve with its net 30-day NPL ratio down to 1.46% from the 1.87% recorded in 2011. BPI's operating expenses grew by 6% with cost-to-income ratio improving significantly to 52.48% from 56.19% the previous year. These strong financial results translated to a return on equity of 17.5% in 2012.

Telecommunications

Globe Telecom's core net income rose by 2% in 2012 to ₱10.3 billion. Its service revenues stood at a record high of ₱82.7 billion, a 6% hike from last year. This improvement was a result of an overall increase in subscriber base and improvements across key product segments. Mobile revenues expanded 6% to ₱67.4 billion, also a new record high, primarily driven by the postpaid business, which grew by 23% to ₱23.1 billion. Prepaid revenues, on the other hand, dipped marginally by 2% to ₱44.3 billion.

Broadband revenues likewise posted a new record high of ₱8.7 billion, a 16% jump from last year as subscriber base expanded by 18%. The strong performance of both *Tattoo On-the-Go* and *Tattoo @Home* broadband segments cushioned the decline in fixed line voice revenues. Operating expenses and subsidy increased by 19% to ₱38.9 billion, keeping earnings before interest taxes depreciation and amortization (EBITDA) flat at ₱35 billion. The impact of the accelerated depreciation from its ongoing network modernization resulted in a 30% decline in Globe's reported net earnings to ₱6.9 billion.

INTEREST AND OTHER INCOME

Consolidated interest income increased by 29% to ₱4.2 billion mainly due to higher interest income from cash and cash equivalents of Ayala Land and international businesses. This was partly offset by the decline in interest income arising from lower investible funds at the parent company as well as at Manila Water.

Other Income declined by 15% to ₱8.2 billion as the company recognized a gain realized from Ayala's exchange of ownership in ARCH Capital Management with the Rohatyn Group as well as the bargain purchase gain realized from IMI's acquisition of the EPIQ group in 2011.

COSTS AND EXPENSES

Consolidated cost of sale of goods and services increased by 19% to nearly ₱74.7 billion with growth largely in line with the increase in sales of the real estate, electronics, and automotive businesses. In the meantime, consolidated General and Administrative Expenses (GAE) rose by 14% to ₱12.4 billion mainly from higher manpower costs across the group. The increase in GAE was also due to higher maintenance and power costs related to the expansion of facilities, particularly of Manila Water.

INTEREST AND OTHER CHARGES

Consolidated interest and other financing charges increased by 28% to ₱7.8 billion mainly due to higher short-term and long-term debt of Ayala Land for its land banking initiatives and other projects. Other charges, however declined by 13% to ₱6.9 billion as the prior year reflected impairment and other losses recognized by IMI and Manila Water.

BALANCE SHEET HIGHLIGHTS

Consolidated cash and short-term investments combined grew by 40% to ₱77.1 billion as of the end of 2012 from ₱55.2 billion at the beginning of the year. The increase was due to proceeds from new loans and the bond offerings by the parent company and Ayala Land. The placement of AC parent company's and Ayala Land's treasury shares likewise contributed to the higher consolidated cash balance.

Short-term investments declined by 82% to ₱297 million following the maturities of investments that were in turn used to retire loans at the parent company or were deployed for the operations of the water business and for property acquisitions at Ayala Land.

Accounts receivable expanded by 34% to nearly ₱42 billion mainly as a result of higher real estate sales and improved sales of the water as well as the automotive groups. Overall, total current assets increased by 36% to ₱168.4 billion.

Total non-current assets rose by 37% to ₱320 billion from ₱234 billion the prior year. This was mainly accounted for by the significant increases in Land and Improvements, long-term Investments, and Property, Plant, and Equipment. Land and Improvements more than doubled to ₱47.5 billion as a result of the increased land banking activities and increased number of new projects of Ayala Land. Similarly, Investments in Real Properties also grew by 19% to ₱39.4 billion mainly from new acquisitions and developments of the real estate group.

Investments in associates, joint ventures and others also rose by 36% to ₱108.6 billion as the parent company made additional investments in line with its initiatives in the power sector and as it increased its stake in BPI from 33% to 44%. Higher equity earnings from associates also contributed to the increase.

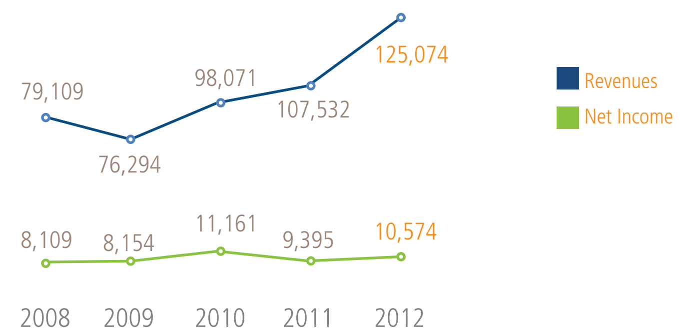
Finally, Property and Equipment increased by 79% to ₱24.8 billion as a result of the higher capital expenditures of the real estate group particularly for improvements in its facilities and hotel operations.

On the liabilities side, total current liabilities expanded by 68% to ₱116.3 billion. This was due largely to the increase in Ayala Land's customer deposits, project cost accruals, and payables from its various real estate projects. The increase also included the ₱12.8 billion balance payable for the 10% stake in BPI which AC acquired from the Development Bank of Singapore last October 2012.

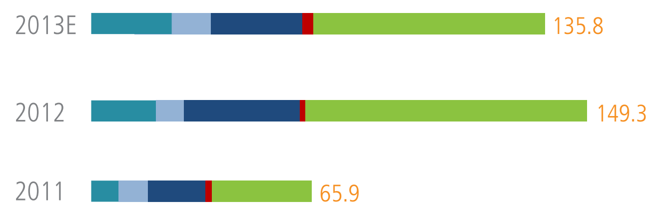
Consolidated debt grew by 59% to ₱170 billion as of the end of the year from ₱106.7 billion at the start of the year due to the increase in loans at the parent level and at Ayala Land. Ayala parent company issued last May 2012 a ₱10-billion fifteen-year corporate bond. Subsequently, it issued a ₱10-billion seven-year corporate bond in November 2012 to fund new investments mainly in the power and transport infrastructure sectors. Ayala Land likewise issued a ₱15-billion ten-year corporate bond last April 2012 as well as in October 2012 as it continued to gear up for its land acquisition and development plans.

Total stockholders' equity reached ₱203 billion. Consolidated current ratio and debt to equity ratio remained healthy at 1.45x and 1.35x, respectively as of the end of 2012. Consolidated net debt-to-equity ratio was at 0.74 to 1 while net debt-to-equity at the parent level was at 0.27 to 1.

AYALA CORPORATION CONSOLIDATED REVENUES AND NET INCOME (In Million Pesos)



AYALA GROUP CAPEX (In Billion Pesos)



FINANCIAL STATEMENTS

REPORT OF THE AUDIT AND RISK COMMITTEE TO THE BOARD OF DIRECTORS

For the Year Ended 31 December 2012

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

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

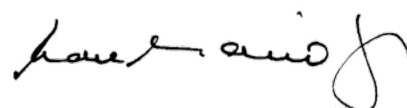
- The Chairman and another member of the Committee are independent directors;
- We had four (4) regular meetings and one executive session with SGV & Co., the independent auditor of Ayala Corporation;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Ayala Corporation and Subsidiaries, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with management, internal auditors and SGV & Co. We also reviewed and discussed the annual Parent Company Financial Statements. These activities were performed in the following context:
    - That management has the primary responsibility for the financial statements and the financial reporting process; and
    - That SGV & Co. is responsible for expressing an opinion on the conformity of the Ayala Corporation's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed the results of their audits and their assessment of the Company's internal controls and the overall quality of the financial reporting process including their management letter of comments;
- We have reviewed and approved all audit, audit-related and permitted non-audit services provided by SGV & Co. to Ayala Corporation and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have reviewed the reports and updates of the internal auditors ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in accordance with the Standards for the Professional Practice of Internal Auditing;
- A company-wide risk assessment was completed in February 2012. We have reviewed the reports of the Chief Risk Officer and the periodic updates regarding the company's enterprise risk management procedures and processes, the business risks and the mitigating steps to address such risks;
- We have also reviewed the scope, contents, and fees of engagements awarded to external parties in matters related to tax reviews, due diligence, IT services and accounting-related activities.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2012 for the filing with the Securities and Exchange Commission and the Philippine Stock Exchange. We are also recommending to the Board of Directors the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2013 based on their performance and qualifications.

March 06, 2013

XAVIER P. LOINAZ
Chairman

YOSHIO AMANO
Member



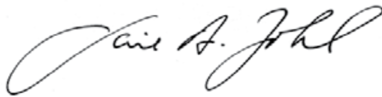
RAMON R. DEL ROSARIO JR.
Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Ayala Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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



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

FERNANDO ZOBEL DE AYALA
President & Chief Operating Officer

DELFIN C. GONZALEZ, JR.
Chief Finance Officer

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Ayala Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, 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, 2012, 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, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 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 February 13, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669666, January 2, 2013, Makati City

March 7, 2013

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

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 30 and 31)	**₱76,760,668**	₱53,577,252
Short-term investments (Notes 5, 30 and 31)	**296,503**	1,613,058
Accounts and notes receivable (Notes 6, 30 and 31)	**41,967,613**	31,319,696
Inventories (Note 7)	**29,647,639**	27,765,842
Other current assets (Notes 8 and 31)	**19,717,568**	9,288,682
Total Current Assets	**168,389,991**	123,564,530
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 31)	**13,730,905**	8,251,363
Investments in bonds and other securities (Notes 9, 30 and 31)	**3,243,920**	3,745,168
Land and improvements (Note 10)	**47,503,843**	18,530,915
Investments in associates and jointly controlled entities (Note 11)	**108,615,873**	79,659,081
Investment properties (Note 12)	**39,393,700**	33,134,958
Property, plant and equipment (Note 13)	**24,817,545**	13,850,956
Service concession assets (Note 14)	**71,295,398**	66,247,192
Intangible assets (Note 15)	**4,414,661**	4,312,163
Pension assets - net (Note 26)	**184,743**	189,287
Deferred tax assets - net (Note 24)	**3,517,389**	3,080,584
Other noncurrent assets (Note 16)	**3,217,148**	3,060,399
Total Noncurrent Assets	**319,935,125**	234,062,066
Total Assets	**₱488,325,116**	₱357,626,596
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 17, 30 and 31)	**₱77,178,256**	₱51,013,700
Short-term debt (Notes 19, 30 and 31)	**11,847,157**	6,665,841
Income tax payable	**1,299,796**	483,265
Current portion of:		
Long-term debt (Notes 19, 30 and 31)	**18,816,920**	7,459,658
Service concession obligation (Notes 14 and 31)	**840,563**	980,620
Other current liabilities (Notes 18 and 31)	**6,314,006**	2,704,718
Total Current Liabilities	**116,296,698**	69,307,802
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 30 and 31)	**139,092,814**	92,592,368
Service concession obligation - net of current portion (Notes 14 and 31)	**7,371,965**	6,916,998
Deferred tax liabilities - net (Note 24)	**5,856,456**	6,118,857
Pension liabilities - net (Note 26)	**361,805**	413,709
Other noncurrent liabilities (Notes 20 and 31)	**15,849,939**	11,038,827
Total Noncurrent Liabilities	**168,532,979**	117,080,759
Total Liabilities	**284,829,677**	186,388,561
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 21)	**45,083,125**	42,832,819
Share-based payments (Note 27)	**497,577**	553,743
Net unrealized gain on available-for-sale financial assets (Note 9)	**2,055,500**	1,725,394
Cumulative translation adjustments	**(3,238,400)**	(2,311,050)
Equity reserve	**5,379,074**	1,016,259
Retained earnings (Note 21)	**83,572,054**	75,885,784
Parent Company preferred shares held by subsidiaries (Note 21)	**(250,000)**	(250,000)
Treasury stock (Note 21)	**(7,497,344)**	(12,408,886)
	125,601,586	107,044,063
Non-controlling interests	**77,893,853**	64,193,972
Total Equity	**203,495,439**	171,238,035
Total Liabilities and Equity	**₱488,325,116**	₱357,626,596

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		
	2012	2011	2010
INCOME			
Sale of goods (Note 30)	**₱66,879,203**	₱55,703,984	₱46,531,033
Rendering of services (Notes 12 and 30)	**37,254,733**	31,130,485	29,844,561
Share of profit of associates and jointly controlled entities	**8,529,234**	7,727,215	6,124,137
Interest income (Note 30)	**4,217,353**	3,281,596	2,520,658
Other income (Note 22)	**8,193,626**	9,689,116	13,050,911
	125,074,149	107,532,396	98,071,300
COSTS AND EXPENSES			
Costs of sales (Notes 7 and 30)	**51,698,610**	43,934,281	36,956,810
Costs of rendering services (Notes 22 and 30)	**22,989,804**	18,946,628	18,700,028
General and administrative (Notes 22, 26 and 30)	**12,421,018**	10,874,972	11,005,676
Interest and other financing charges (Notes 19, 22 and 30)	**7,874,417**	6,175,343	4,755,989
Other charges (Note 22)	**6,892,568**	7,933,297	7,767,282
	101,876,417	87,864,521	79,185,785
INCOME BEFORE INCOME TAX	**23,197,732**	19,667,875	18,885,515
PROVISION FOR INCOME TAX (Note 24)			
Current	**5,080,744**	4,079,235	3,057,133
Deferred	**(664,503)**	(210,494)	(157,543)
	4,416,241	3,868,741	2,899,590
NET INCOME	**₱18,781,491**	₱15,799,134	₱15,985,925
Net Income Attributable to:			
Owners of the parent (Note 25)	**₱10,573,879**	₱9,394,887	₱11,161,092
Non-controlling interests	**8,207,612**	6,404,247	4,824,833
	₱18,781,491	₱15,799,134	₱15,985,925
EARNINGS PER SHARE (Note 25)			
Basic	**₱17.15**	₱14.53	₱17.13
Diluted	**₱17.04**	₱14.43	₱17.01

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2012	2011	2010
NET INCOME	**₱18,781,491**	₱15,799,134	₱15,985,925
OTHER COMPREHENSIVE INCOME (LOSS)			
Exchange differences arising from translations of foreign investments	**(1,137,783)**	(611,877)	(443,925)
Changes in fair values of available-for-sale financial assets	**18,362**	(34,375)	292,075
	(1,119,421)	(646,252)	(151,850)
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES			
Exchange differences arising from translations of foreign investments	**(108,187)**	(12,638)	(100,530)
Changes in fair values of available-for-sale financial assets	**296,879**	574,930	800,644
	188,692	562,292	700,114
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(930,729)**	(83,960)	548,264
TOTAL COMPREHENSIVE INCOME	**₱17,850,762**	₱15,715,174	₱16,534,189
Total Comprehensive Income Attributable to:			
Owners of the parent	**₱9,976,635**	₱9,443,968	₱11,753,773
Non-controlling interests	**7,874,127**	6,271,206	4,780,416
	₱17,850,762	₱15,715,174	₱16,534,189

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											
								Treasury Stock (Note 21)				
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 9)	Cumulative Translation Adjustments	Equity Reserve (Note 1)	Retained Earnings (Note 21)	Parent Company Preferred Shares Held by Subsidiaries (Note 21)	Common Stock	Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2012											
At January 1, 2012	₱42,832,819	₱553,743	₱1,725,394	(₱2,311,050)	₱1,016,259	₱75,885,784	(₱250,000)	(₱6,608,886)	(₱5,800,000)	₱107,044,063	₱64,193,972	₱171,238,035
Net income	–	–	–	–	–	10,573,879	–	–	–	10,573,879	8,207,612	18,781,491
Other comprehensive income (loss)	–	–	330,106	(927,350)	–	–	–	–	–	(597,244)	(333,485)	(930,729)
Total comprehensive income (loss)	–	–	330,106	(927,350)	–	10,573,879	–	–	–	9,976,635	7,874,127	17,850,762
Exercise of ESOP/ESOWN	779,028	(171,284)	–	–	–	–	–	–	–	607,744	–	607,744
Cost of share-based payments	–	115,118	–	–	–	–	–	–	–	115,118	–	115,118
Sale of treasury stock	1,471,278	–	–	–	–	–	–	4,911,542	–	6,382,820	–	6,382,820
Cash dividends	–	–	–	–	–	(2,887,609)	–	–	–	(2,887,609)	(2,478,197)	(5,365,806)
Change in non-controlling interests	–	–	–	–	4,362,815	–	–	–	–	4,362,815	8,303,951	12,666,766
At December 31, 2012	**₱45,083,125**	**₱497,577**	**₱2,055,500**	**(₱3,238,400)**	**₱5,379,074**	**₱83,572,054**	**(₱250,000)**	**(₱1,697,344)**	**(₱5,800,000)**	**₱125,601,586**	**₱77,893,853**	**₱203,495,439**

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											
								Treasury Stock (Note 21)				
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 9)	Cumulative Translation Adjustments	Equity Reserve (Note 1)	Retained Earnings (Note 21)	Parent Company Preferred Shares Held by Subsidiaries (Note 21)	Common Stock	Preferred Stock - B	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2011											
At January 1, 2011	₱37,855,466	₱1,243,055	₱1,128,734	(₱1,763,471)	₱148,302	₱74,011,144	(₱250,000)	(₱4,832,262)	₱–	₱107,540,968	₱59,210,496	₱166,751,464
Net income	–	–	–	–	–	9,394,887	–	–	–	9,394,887	6,404,247	15,799,134
Other comprehensive income (loss)	–	–	596,660	(547,579)	–	–	–	–	–	49,081	(133,041)	(83,960)
Total comprehensive income (loss)	–	–	596,660	(547,579)	–	9,394,887	–	–	–	9,443,968	6,271,206	15,715,174
Exercise of ESOP/ESOWN	135,036	–	–	–	–	–	–	–	–	135,036	–	135,036
Cost of share-based payments	–	178,733	–	–	–	–	–	–	–	178,733	143,555	322,288
Redemption of preferred B shares	–	–	–	–	–	–	–	–	(5,800,000)	(5,800,000)	–	(5,800,000)
Acquisition of treasury stock	–	–	–	–	–	–	–	(1,776,624)	–	(1,776,624)	–	(1,776,624)
Cash dividends	–	–	–	–	–	(2,677,930)	–	–	–	(2,677,930)	(2,231,826)	(4,909,756)
Stock dividends	4,842,317	–	–	–	–	(4,842,317)	–	–	–	–	–	–
Change in non-controlling interests	–	(868,045)	–	–	867,957	–	–	–	–	(88)	800,541	800,453
At December 31, 2011	₱42,832,819	₱553,743	₱1,725,394	(₱2,311,050)	₱1,016,259	₱75,885,784	(₱250,000)	(₱6,608,886)	(₱5,800,000)	₱107,044,063	₱64,193,972	₱171,238,035

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT										
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 9)	Cumulative Translation Adjustments	Equity Reserve (Note 1)	Retained Earnings (Note 21)	Parent Company Preferred Shares Held by Subsidiaries (Note 21)	Treasury Stock (Note 21)	Total	Non-controlling Interests	Total Equity
	For the year ended December 31, 2010										
At January 1, 2010	₱37,477,875	₱1,059,588	₱123,916	(₱1,351,334)	₱–	₱65,739,096	(₱100,000)	(₱688,714)	₱102,260,427	₱33,157,723	₱135,418,150
Net income	–	–	–	–	–	11,161,092	–	–	11,161,092	4,824,833	15,985,925
Other comprehensive income (loss)	–	–	1,004,818	(412,137)	–	–	–	–	592,681	(44,417)	548,264
Total comprehensive income (loss)	–	–	1,004,818	(412,137)	–	11,161,092	–	–	11,753,773	4,780,416	16,534,189
Exercise/Cancellation of ESOP/ESOWN	178,591	–	–	–	–	–	–	–	178,591	–	178,591
Issuance of shares	199,000	–	–	–	–	–	–	–	199,000	–	199,000
Cost of share-based payments	–	183,467	–	–	–	–	–	–	183,467	58,190	241,657
Parent Company preferred shares held by a subsidiary	–	–	–	–	–	–	(150,000)	–	(150,000)	–	(150,000)
Acquisition of treasury stock	–	–	–	–	–	–	–	(4,143,548)	(4,143,548)	–	(4,143,548)
Cash dividends	–	–	–	–	–	(2,889,044)	–	–	(2,889,044)	(1,641,817)	(4,530,861)
Increase in non-controlling interests	–	–	–	–	–	–	–	–	–	22,519,111	22,519,111
Effect of changes in ownership interests in subsidiaries	–	–	–	–	148,302	–	–	–	148,302	336,873	485,175
At December 31, 2010	₱37,855,466	₱1,243,055	₱1,128,734	(₱1,763,471)	₱148,302	₱74,011,144	(₱250,000)	(₱4,832,262)	₱107,540,968	₱59,210,496	₱166,751,464

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱23,197,732**	₱19,667,875	₱18,885,515
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 22)	**7,874,417**	6,175,343	4,755,989
Depreciation and amortization (Note 22)	**6,564,504**	6,600,259	5,228,394
Cost of share-based payments (Note 27)	**500,611**	447,557	374,956
Provision for impairment loss on available-for-sale financial assets (Note 22)	**61,076**	157,314	235,114
Provision for impairment loss on investment properties (Note 22)	**19,500**	–	–
Provision for impairment of property, plant and equipment (Note 22)	**11,575**	–	–
Gain on sale of other assets (Note 22)	**(26,588)**	(131,078)	(162,156)
Gain on sale of investments (Note 22)	**(67,847)**	(539,713)	(13,972)
Other investment income (Note 22)	**(531,714)**	(572,012)	(306,601)
Remeasurement gain arising from business combinations - net (Notes 22 and 23)	**(593,853)**	–	(3,790,864)
Interest income	**(4,217,353)**	(3,281,596)	(2,520,658)
Share of profit of associates and jointly controlled entities	**(8,529,234)**	(7,727,215)	(6,124,137)
Loss on derecognition of derivative asset (Note 22)	**–**	229,613	–
Impairment loss on goodwill (Note 22)	**–**	139,170	914,118
Bargain purchase gain (Note 22)	**–**	(558,233)	(53,327)
Gain on deemed disposal of a subsidiary (Notes 11and 22)	**–**	–	(2,110,272)
Operating income before changes in working capital	**24,262,826**	20,607,284	15,312,099
Decrease (increase) in:			
Accounts and notes receivable - trade	**(8,059,847)**	(4,296,294)	(95,452)
Inventories	**365,132**	(5,854,738)	(499,974)
Other current assets	**(7,103,820)**	(2,085,742)	(499,632)
Service concession asset	**(5,686,589)**	(8,419,716)	(7,056,261)
Increase (decrease) in:			
Accounts payable and accrued expenses	**9,637,756**	12,295,612	4,494,042
Net pension liabilities	**(47,360)**	62,838	(161,471)
Other current liabilities	**3,620,774**	24,811	(1,068,210)
Net cash generated from operations	**16,988,872**	12,334,055	10,425,141
Interest received	**4,207,527**	3,336,277	2,348,631
Interest paid	**(7,398,440)**	(5,070,594)	(4,585,346)
Income tax paid	**(4,264,213)**	(3,689,225)	(3,122,413)
Net cash provided by operating activities	**9,533,746**	6,910,513	5,066,013
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of available-for-sale financial assets	**1,280,602**	1,591,464	1,114,293
Sale/maturities of financial assets at fair value through profit or loss	**515,775**	560,973	1,159,812
Sale/redemptions of investments in associates and jointly controlled entities	**113,858**	454,717	15,847
Disposals of:			
Property, plant and equipment (Note 13)	**193,393**	447,862	289,942
Investment properties (Note 12)	**–**	–	3,685
Land and improvements (Note 10)	**1,613**	–	4,756
Maturities of short-term investments	**1,316,555**	2,380,475	2,445,576

(Forward)

	Years Ended December 31		
	2012	2011	2010
Additions to:			
Service concession asset (Note 14)	**(₱907,753)**	₱–	₱–
Investments in associates and jointly controlled entities	**(18,645,005)**	(5,014,773)	(4,013,923)
Property, plant and equipment (Note 13)	**(9,340,371)**	(3,741,068)	(3,534,412)
Investment properties (Note 12)	**(7,527,188)**	(6,625,977)	(2,909,517)
Land and improvements (Note 10)	**(30,168,716)**	(3,959,279)	(2,372,740)
Accounts and notes receivable - nontrade	**(7,391,547)**	(2,734,569)	(315,495)
Financial assets at fair value through profit or loss	**(797,175)**	(870,240)	(872,360)
Available-for-sale financial assets	**(647,266)**	(848,217)	(485,869)
Intangible assets (Note 15)	**(41,538)**	(86,250)	(33,394)
Dividends received from associates, jointly controlled entities and available-for-sale financial assets	**7,026,279**	4,484,010	6,703,464
Acquisitions through business combinations - net of cash acquired (Note 23)	**(1,096,432)**	(2,023,820)	2,041,011
Increase in other noncurrent assets	**607,617**	13,258	414,621
Net cash used in investing activities	**(65,507,299)**	(15,971,434)	(344,703)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	**71,530,859**	49,279,908	18,107,926
Issuance of preferred shares	**–**	–	199,000
Collections of subscriptions receivable	**448,040**	100,928	67,156
Payments of short-term and long-term debt	**(10,001,159)**	(27,804,022)	(8,312,516)
Reissuance of treasury shares (Note 21)	**6,382,820**	–	–
Redemption of preferred shares (Note 21)	**–**	(5,800,000)	–
Dividends paid	**(5,415,160)**	(5,304,555)	(4,569,050)
Acquisition of treasury shares (Note 21)	**–**	(1,776,624)	(4,143,548)
Service concession obligation paid (Note 14)	**(356,385)**	(305,597)	(186,213)
Increase (decrease) in:			
Other noncurrent liabilities	**4,184,465**	(225,434)	630,993
Non-controlling interests in consolidated subsidiaries	**12,383,489**	1,330,792	970,830
Net cash provided by financing activities	**79,156,969**	9,495,396	2,764,578
NET INCREASE IN CASH AND CASH EQUIVALENTS	**23,183,416**	434,475	7,485,888
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**53,577,252**	53,142,777	45,656,889
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱76,760,668**	₱53,577,252	₱53,142,777

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Corporation (the Company or the Parent Company) is incorporated in the Republic of the Philippines on January 23, 1968. The Company's registered office address and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company is a publicly listed company which is 51.15% owned by Mermac, Inc., 10.62% owned by Mitsubishi Corporation and the rest by the public.

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

The consolidated financial statements comprise the financial statements of the Company and the following wholly- and majority-owned domestic and foreign subsidiaries:

	Effective Percentages of Ownership	
	2012	2011
Real Estate and Hotels:		
Ayala Land, Inc. (ALI) and subsidiaries (ALI Group)	**50.4**	53.2*
Ayala Hotels, Inc. (AHI) and subsidiaries	**76.6**	76.6
Technopark Land, Inc.	**78.8**	78.8
Electronics:		
Integrated Microelectronics, Inc. (IMI) and subsidiaries (IMI Group)**	**57.8**	67.4
Information Technology and BPO Services:		
Azalea International Venture Partners, Limited (AIVPL) (British Virgin Islands Company) and subsidiaries (AIVPL Group)	**100.0**	100.0
Azalea Technology Investments, Inc.(Azalea Technology)	**100.0**	100.0
Water Utilities:		
Manila Water Company, Inc. (MWC) and subsidiaries (MWC Group)*** (Note 23)	**42.9**	43.1
Philwater Holdings Company, Inc. (Philwater) (Note 23)	**100.0**	100.0
Water Capital Works, Inc. (WCW) (Note 23)	**100.0**	100.0
Automotive:		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries (AAHC Group)	**100.0**	100.0
Power:		
AC Energy Holdings, Inc. (ACEHI) and subsidiaries (ACEHI Group)	**100.0**	100.0
Infrastructure:		
AC Infrastructure Holdings Corporation (AC Infra) (formerly LiveIt Solutions, Inc.)	**100.0**	100.0
International and Others:		
Bestfull Holdings Limited (BHL) (incorporated in Hong Kong) and subsidiaries (BHL Group)	**100.0**	100.0
AC International Finance Limited (ACIFL) (Cayman Island Company) and subsidiary	**100.0**	100.0
AYC Finance Ltd. (AYCFL) (Cayman Island Company)	**100.0**	100.0
Michigan Holdings, Inc. (MHI) and subsidiary	**100.0**	100.0
Ayala Aviation Corporation (AAC)	**100.0**	100.0
Darong Agricultural and Development Corporation (DADC)	**100.0**	100.0
Purefoods International, Ltd. (PFIL) (British Virgin Islands Company)	**100.0**	100.0
AG Counselors Corporation (AGCC)	**100.0**	100.0
MPM Noodles Corporation	**100.0**	100.0
LiveIt Global Services Management Institute, Inc. (LGSMI)	**100.0**	–

**The Company owns 71.29% and 75.20% of the total common and preferred shares of ALI as of December 31, 2012 and 2011, respectively.*

***A subsidiary of AYC Holdings, Ltd. which is a subsidiary of ACIFL.*

****The Company owns more than one-half of the voting power.*

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

On July 10, 2012, the Company participated in the placement and subscription of 680.0 million common shares of stock in ALI, whereby the Company sold 680.0 million of its listed ALI common shares through a private placement and infused the proceeds into ALI as subscription for the same number of new ALI shares at the same price. This transaction supports ALI's fund raising initiatives to acquire assets for its next phase of expansion.

Following this transaction, the Company's ownership in ALI's common stock was reduced from 53.2% to 50.4%. The transaction resulted in an increase in the non-controlling interest amounting to ₱8,446.6 million. The difference between the increase in non-controlling interest and consideration paid amounting to ₱5,173.9 million was also recognized directly in equity under "Equity reserve." The Company will maintain the same number of common shares it held in ALI prior to the transaction.

ALI shares with carrying value of ₱305.5 million and ₱311.2 million were collateralized to secure the Company's loan facility as of December 31, 2012 and 2011, respectively. Fair value of ALI shares collateralized amounted to ₱10.6 billion and ₱6.2 billion as of December 31, 2012 and 2011, respectively.

In 2012, the Company's investment in common shares of AHI amounting to ₱72.5 million was redeemed.

Electronics
ACIFL's (a subsidiary of the Parent Company) ownership in IMI was reduced from 67.4% to 59.1% as result of IMI Philippines' share exchange with IMI Singapore (see Note 23). On December 19, 2012, ACIFL sold 12.0 million IMI common shares at ₱3.5 per share or for a total consideration of ₱42.0 million. Following this transaction, the Parent Company's ownership in IMI's common stock was reduced from 59.1% to 57.8%.

Information Technology and BPO Services
On February 21, 2011, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 2,371,699 shares of AIVPL and paid US$1 per share (equivalent to the par value) for a total of US$2.4 million. Consequently, AIVPL and LiveIt Investments Ltd. (LIL) entered into a subscription agreement wherein AIVPL subscribed to 237,169 shares of LIL and paid US$10 per share (equivalent to the par value) for a total of US$2.4 million.

On the same date, AIVPL and the Company also entered into a deposit for future subscription wherein the Company deposited US$0.6 million to AIVPL.

On various dates from September to December 2011, the Company entered into subscription agreements with AIVPL wherein the Company subscribed to a total of 43.7 million shares of AIVPL amounting to US$43.7 million.

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

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

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

On various dates in 2012 and 2011, the Company infused additional capital to ACEHI in the form of subscription which amounted to ₱1.1 billion and ₱2.6 billion, respectively. The proceeds were used to finance the various renewable energy projects of ACEHI.

Infrastructure
In 2012, the Company subscribed to 1.5 million common shares of AC Infra amounting to ₱150.0 million.

International and Others

BHL

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

On November 11, 2011, the Company converted advances to BHL amounting to ₱2.0 billion by subscribing to 4.6 million redeemable preferred shares of BHL.

ACIFL

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

AAC

On various dates in 2012 and 2011, the Company infused additional capital to AAC amounting to ₱30.1 million and ₱8.1 million, respectively.

AGCC

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

LGSMI

On September 14, 2012, the Company's Board of Directors (BOD) ratified the approval by the Executive Committee of the incorporation and registration with the Securities and Exchange Commission (SEC) of the new subsidiary, LGSMI. The primary purpose of LGSMI is to provide services oriented towards the promotion of service management, including but not limited to the design, marketing, management and/or conduct of seminars, conventions, courses, conferences, special programs, symposia for service management excellence, by itself or in partnership with other entities or institutions except management of funds, securities portfolios or similar assess of managed entity, without operating a school.

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

DADC

In 2011, the Company's investment in common shares of DADC amounting to ₱26.4 million was redeemed.

PFIL

In December 2011, the Company converted advances to PFIL amounting to US$5.0 million by subscribing to 5.0 million common shares of PFIL.

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were endorsed for approval by the Audit and Risk Committee on March 6, 2013 and authorized for issue by the Board of Directors (BOD) on March 7, 2013.

2. 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.

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, 2012 and 2011 and for each of the three years in the period ended December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

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

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the amended PFRS, which were adopted beginning January 1, 2012. Except as otherwise stated, the adoption of these amended Standards did not have any impact on the consolidated financial statements.

Philippine Accounting Standards (PAS 12), *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

PFRS 7, *Financial Instruments: Disclosures - Transfer of Financial Assets* (Amendments)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the entity's consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Future Changes in Accounting Policies

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 2013

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

PAS 19, *Employee Benefits* (Revised)
The amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

	As at 31 December 2012	As at 1 January 2012	As at 1 January 2011
		(In Thousands)	
Consolidated statements of financial position			
(Increase) decrease in:			
Net defined benefit liability	**(₱340,878)**	(₱599,870)	(₱17,440)
Deferred tax asset	**133,337**	59,225	46,389
Other comprehensive income	**23,490**	252,182	(4,390)
Retained earnings	**149,778**	288,418	(23,556)

	2012	2011
	(In Thousands)	
Consolidated statement of income		
Net benefit cost	**₱170,391**	₱128,287
Income tax expense	**(30,655)**	(33,883)
Profit for the year	**139,735**	94,404
Attributable to the owners of the parent	**93,047**	84,451
Attributable to non-controlling interests	**46,688**	9,953
Other comprehensive income	**(958,730)**	(199,477)
Tax effect on OCI	**217,799**	(38,855)

Equity in net earnings from investments in associates and jointly controlled entities will decrease net income attributable to owners of the parent by ₱5.9 million and ₱12.1 million for the year ended December 31, 2012 and 2011, respectively.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements.

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

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32.

The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;

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

The amendments to PFRS 7 are to be applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

The Company has concluded its assessment covering its investment in subsidiaries, associates and jointly controlled entities as of December 31, 2012 where in the adoption of PFRS 10: a.) all direct subsidiaries of the Company shall remain to be consolidated; and, b.) all direct associates and jointly controlled entities of the Company will not be consolidated based on the provisions of the Standard.

The impact at the Group level is discussed below:

ALI Group - the following previously unconsolidated entities under the ALI Group will qualify for consolidation, upon adoption of PFRS 10 on January 1, 2013: a) North Triangle Depot Commercial Corporation; b) Cebu Holdings, Inc. and; c) Alabang Commercial Corporation, which are currently accounted for as investments in associates. The change in accounting for these investments will increase total consolidated assets by ₱12,673.0 million as of December 31, 2012 (₱11,032.4 million as of December 31, 2011) and total consolidated liabilities by ₱8,556.1 million as of December 31, 2012 (₱7,287.8 million as of December 31, 2011). Consolidated revenue will also increase by ₱3,384.2 million for the year ended December 31, 2012 (₱3,164.9 million for the year ended December 31, 2011) while consolidated income before income tax will increase by ₱1,023.6 million for the year ended December 31, 2012 (₱895.5 million for the year ended December 31, 2011).

MWC Group, IMI Group, AIVPL Group, AAHC Group, ACEHI Group and BHL Group - these intermediate holding companies considered subsidiaries of the Company have assessed that their existing subsidiaries will continue to be consolidated and that any existing associates or jointly controlled entities will not be consolidated as set forth in this Standard.

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

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of the standard need not be applied to comparative information provided for periods before initial application.

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

Improvement to PFRS
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

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

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

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

Effective 2014

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

Effective 2015

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39, Financial Instruments: Recognition and Measurement and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For 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 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group has decided not to early adopt PFRS 9 for its 2012 financial reporting, thus, has not conducted a quantification of full impact of this standard. The Group will continue to monitor updates as there are still major changes that are expected to be made in the existing draft of the standard that could impact the Group's decision to early adopt or not.

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, *Construction Contracts* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The adoption of this interpretation may significantly affect the determination of the Group's revenue from real estate sales and the corresponding costs, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this interpretation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on

acquisition and fees that are integral parts of the effective interest rate. The amortization is included in "Interest income" in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of income under "Provision for impairment losses" account. HTM investments are included under "Other current assets" if the maturity falls within 12 months from reporting date.

As of December 31, 2012 and 2011, the Group has no outstanding HTM investments.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVPL. This accounting policy relates to the consolidated statement of financial position captions "Cash and cash equivalents", "Short-term investments" and "Accounts and notes receivable" (except for Advances to contractors and suppliers).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in the "Interest income" account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under "Provision for doubtful accounts" in the consolidated statement of income.

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

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

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

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in other comprehensive income and are reported as "Net unrealized gain (loss) on available-for-sale financial assets" (net of tax where applicable) in equity. The Group's share in its associates' or jointly controlled entities' 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).

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

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

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

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

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. Club shares amounting to ₱329.0 million and ₱342.2 million as of December 31, 2012 and 2011,respectively, have been included under the "Subdivision land for sale" account.

Vehicles - purchase cost on specific identification basis.

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

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

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

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

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

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

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

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

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

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

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

Investments in Associates and Jointly Controlled Entities
Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

An investment in an associate or joint venture is accounted for using the equity method from the day it becomes an associate or joint venture. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. The Group's share in the investee's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the investee's other comprehensive income is recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and to the extent that for unrealized losses, there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when its investment in an investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company subsequently reports profits, the Group resumes recognizing its share of the profits only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The Group recognizes gain or loss on partial disposals of interests in investee companies (including deemed disposals) without loss of significant influence. Likewise, the Group reclassifies to profit or loss the portion of its share in the associates'or jointly controlled entities' other comprehensive income which has been disposed of.

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

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

Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and the joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the NRV of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Intangible Assets</u>
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 Group expenses all project development costs until a project is deemed probable of being techinically, commercially and financially viable. Project development costs are capitalized once a project is deemed probable of being technically, commercially and financially viable. This generally occurs in tandem with management's determination that a project should be classified as advanced project, such as when favorable results of a system impact study are received, interconnection agreements obtained and project financing is in place. Project development cost will be reclassified to property, plant and equipment when construction of the project commences.

The estimated useful life of intangible assets are assessed as within finite and indefinite.

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

The estimated useful lives of intangible assets follow:

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

**Change in life from fifteen (15) years to seven (7) years effective January 1, 2012.*

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, 2012 and 2011, intangible asset pertaining to leasehold right is included under "Other noncurrent assets".

<u>Business Combinations and Goodwill</u>
PFRS 3 provides that 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.

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.

Following 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.

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

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present

value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Investments in associates and jointly controlled entities
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 jointly controlled entities" 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.

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

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

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

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

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

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

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Leases

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

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

Group as lessee

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

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

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

Group as lessor

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

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 plans
Pension cost 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 option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on plan assets, recognized actuarial gains and losses and the effect of any curtailments or settlements.

The net pension liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

The net pension asset is the lower of the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in future periods, or the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Actuarial gains and losses are recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

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. The subsidiary has 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.

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

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 jointly controlled entities. With respect to investments in foreign subsidiaries, associates and interests in jointly controlled entities, 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.

Income tax relating to items recognized directly in equity is recognized in equity.

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

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

Foreign Currency Transactions
The functional and presentation currency of Ayala Corporation and its subsidiaries (except for 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 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.

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

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

a. Restatement of foreign currency-denominated loans;

b. Excess of actual Concession Fee payment over the amounts of Concession Fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱44.0:US$1.0 based on the last rate rebasing exercise effective on January 1, 2008;

c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and

d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

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

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

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Black-Scholes model, further details of which are provided in Note 27 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 25).

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

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

Assets Held in Trust
Assets which are owned by MWSS, POL and TIEZA but are operated by MWC 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).

Operating Segments
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 28 to the consolidated financial statements.

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

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

3. Significant Accounting Judgments and Estimates

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

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

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. The accounting policy on the Group's SCA under the Intangible Asset model is discussed in Note 2.

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

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

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

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

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

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

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

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

Distinction between real estate inventories and land and improvements
The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land and improvements).

Property acquisitions and business combinations
The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

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

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

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

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

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

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position (see Note 36).

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

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

As of December 31, 2012 and 2011, allowance for impairment losses amounted to ₱1.5 billion and ₱1.1 billion, respectively. Accounts and notes receivable, net of allowance for doubtful accounts, amounted to ₱55.7 billion and ₱39.6 billion as of December 31, 2012 and 2011, respectively (see Note 6).

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

Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Inventories carried at cost amounted to ₱27.3 billion and ₱25.8 billion as of December 31, 2012 and 2011, respectively. Inventories carried at NRV amounted to ₱2.4 billion and ₱1.9 billion as of December 31, 2012 and 2011, respectively (see Note 7).

Evaluation of impairment of nonfinancial assets
The Group reviews investments in associates and jointly controlled entities, 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 jointly controlled entities, 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 jointly controlled entities, investment properties, property, plant and equipment, service concession assets and intangible assets.

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

Investments in associates and jointly controlled entities, investment properties, property, plant and equipment, service concession assets and intangible assets amounted to ₱248.5 billion and ₱197.2 billion as of December 31, 2012 and 2011, respectively (see Notes 11, 12, 13,14 and 15).

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

Investment properties, property, plant and equipment, and intangible assets with finite useful lives amounted to ₱64.9 billion and ₱47.6 billion as of December 31, 2012 and 2011, respectively(see Notes 12, 13, 15 and 16).

Deferred FCDA and deferred credits
Under Amendment No. 1 of the Concession Agreement, MWC is entitled to recover (refund) foreign exchange losses (gains) arising from MWSS loans and any concessionaire loans. For the unrealized foreign exchange losses, MWC recognized deferred FCDA as an asset since this is a resource controlled by MWC as a result of past events and from which future economic benefits are expected to flow to MWC. Unrealized foreign exchange gains, however, which will be refunded to the customers, are presented as deferred credits.

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

As of December 31, 2012 and 2011, the Group has net deferred tax assets amounting to ₱3.5 billion and ₱3.1 billion, respectively, and net deferred tax liabilities amounting to ₱5.9 billion and ₱6.1 billion, respectively (see Note 24).

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

The carrying amount of the Group's income taxes payable as of December 31, 2012 and 2011 amounted to ₱1,299.8 million and ₱483.3 million, respectively.

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

Total expense arising from share-based payments recognized by the Group amounted to ₱500.6 million, ₱447.6 million and ₱375.0 million in 2012, 2011 and 2010, respectively (see Note 27).

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 to the consolidated financial statements and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions materially affect retirement obligations. See Note 26 to the consolidated financial statements for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow methodology. See Note 31 for the related balances.

Fair value of put and call options
The acquisition of PSi on October 6, 2010 gave rise to a long equity call option and written equity put option for IMI. The call and put options were valued using the binomial option pricing model. This valuation technique considers the probability of the value of PSi's shares price determined based on a five-year discounted cash flow model to move up or down depending on the volatility, risk free rate and exercise price. As of December 31, 2012 and 2011, the call option has a positive value of US$2.86 million (₱117.3 million) and US$2.74 million (₱119.9 million), respectively, while the put option has zero value.

Fair value measurement of intangible assets resulting from business combination
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Valuation techniques are used to determine the fair value of the intangible assets. Valuation techniques include relief from royalty method (RRM), multi-period excess earnings method (MEEM) and other relevant valuation techniques. The table below summarizes the carrying amount of the intangible assets and the related valuation techniques used to determine fair value at the acquisition date for business combinations in 2011 (amounts in thousands):

	Intangible Asset	Valuation Technique	Carrying Value 2012	2011
EPIQ EA	Customer relationships	MEEM	**₱199,068**	₱271,928
IQ BackOffice	Trademark	RRM	**5,343**	7,419
	Customer relationships	MEEM	**80,420**	100,200
	Developed software	RRM	**143,918**	165,228
			₱428,749	₱544,775

Purchase price allocation

2012 Acquisition
As of December 31, 2012, the purchase price allocation relating to ALI Group's acquisition of ALI Makati Hotel & Residences, Inc. (AMHRI) and ALI Makati Hotel Property, Inc. (AMHPI) have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. The difference between the total consideration and the net assets is recognized as goodwill as follows:

Total consideration	₱3,037,232
Net Assets	2,643,602
Goodwill	₱393,630

2011 Acquisition
As of December 31, 2011, the purchase price allocation relating to the Group's acquisition of EPIQ subsidiaries and Clark Water Corporation (CWC) have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. The difference between the total consideration and the net assets are either recognized as goodwill or bargain purchase gain as follows:

	EPIQ EA		EPIQ CZ		EPIQ MX		
	In US$	In Php*	In US$	In Php*	In US$	In Php*	CWC
			(In Thousands)				
Total consideration	$28,287	₱1,192,019	$725	₱30,571	$13,957	₱588,141	₱1,200,658
Net Assets	39,949	1,683,442	75	3,163	15,314	645,316	1,070,339
Goodwill (gain from bargain purchase)	($11,662)	(₱491,423)	$650	₱27,408	($1,357)	(₱57,175)	₱130,319

**Translated using the exchange rate at the transaction date (US$ 1:₱42.14)*

4. Cash and Cash Equivalents

This account consists of the following:

	2012	2011
	(In Thousands)	
Cash on hand and in banks (Note 30)	**₱19,076,921**	₱8,784,740
Cash equivalents (Note 30)	**57,683,747**	44,792,512
	₱76,760,668	₱53,577,252

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.

5. Short-term Investments

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

	2012	2011
PHP	**2.2% to 4.6%**	1.3% to 5.0%
USD	**–**	0.2% to 2.0%

6. Accounts and Notes Receivable

This account consists of the following:

	2012	2011
	(In Thousands)	
Trade:		
Real estate	**₱27,514,043**	₱18,921,685
Electronics manufacturing	**6,051,898**	5,628,560
Water utilities	**1,707,290**	1,086,389
Automotive	**968,156**	534,975
Information technology and business process outsourcing (BPO)	**163,335**	117,305
International and others	**6,507**	2,493
Advances to contractors and suppliers	**9,391,396**	3,247,162
Advances to other companies	**6,499,672**	4,493,325
Related parties (Note 30)	**2,835,598**	2,700,765
Dividend receivable (Note 30)	**36,636**	815,220
Receivable from officers and employees (Note 30)	**442,317**	738,549
Receivable from BWC (Note 23)	**473,731**	599,342

(Forward)

	2012	2011
	(In Thousands)	
Investment in bonds classified as loans and receivables	**₱1,000,000**	₱200,000
Others (Note 30)	**81,892**	1,627,326
	57,172,471	40,713,096
Less allowance for doubtful accounts	**1,473,953**	1,142,037
	55,698,518	39,571,059
Less noncurrent portion	**13,730,905**	8,251,363
	₱41,967,613	₱31,319,696

The classes of trade receivables of the Group follow:

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

The sales contracts receivable, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) years and bear annual interest rates ranging from 2.15% to 20.00% 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
Electronics manufacturing receivables pertain to receivables arising from manufacturing and other related services for electronic products and components and billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These are collectible within 30- to 60- days from invoice date.

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with UniCredit Bulbank amounted to €8.0 million (₱436.2 million) and €2.7 million (₱148.9 million), respectively. IMI Philippines also provided a Soft Letter of Comfort to the creditor (see Note 19).

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with BNP Paribas amounted to €0.3 million (₱17.5 million) and €0.3 million (₱18.19 million), respectively (see Note 19).

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

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

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

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

The nature of the Group's other receivables follows:

Advances to contractors and suppliers
Advances to contractors and suppliers are recouped every progress billing payment date depending on the percentage of accomplishment.

Receivables from related parties and advances to other companies
Receivables from related parties include notes receivable issued by related parties which are interest-bearing ranging from 4.0% to 15.0% and payable with various maturities up to 2012. Advances to other companies are due and demandable. Advances to other companies include receivable from SAWACO which pertains to the unpaid portion of services rendered by MWC in relation to its management contract with SAWACO. These are offset against the management billings made by MWC.

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 2013 to 2026.

Investment in bonds classified as loans and receivables
Investment in bonds classified as loans and receivables pertain to ALI's investments in various notes and bonds as follows:

- ₱200 million investment in 7.25% unsecured subordinated notes of Land Bank of the Philippines (LBP) due 2019, callable with step-up interest in 2014.
- ₱100 million investment in 5.88% unsecured subordinated notes of Land Bank of the Philippines due 2022, callable in 2017.
- ₱200 million investment in 5.75% unsecured subordinated notes of Development Bank of the Philippines due 2022, callable in 2017.
- ₱500 million investment in 5.75% collateralized bonds of First Metro Investment Corp. due 2019, callable in 2017.

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

Other receivables also include IMI's insurance claim amounting to US$1.2 million (₱49.3 million) and US$1.2 million (₱52.6 million) as of December 31, 2012 and 2011, respectively, for damages to equipment and inventories caused by a fire incident in IMI's plant in Cebu, Philippines in May 2009.

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

	2012							
	Real Estate	**Electronics Manufacturing**	**Water Utilities**	**Automotive**	**Information Technology and BPO**	**International and Others**	**Others**	**Total**
At January 1	**₱247,424**	**₱92,797**	**₱419,268**	**₱36,003**	**₱29,019**	**₱67**	**₱317,459**	**₱1,142,037**
Provisions during the year (Note 22)	**52,621**	**14,666**	**75,425**	**–**	**3,695**	**–**	**572,991**	**719,398**
Write-offs	**(45,616)**	**–**	**(1,047)**	**–**	**–**	**–**	**(18,009)**	**(64,672)**
Reversals	**(2,209)**	**(6,513)**	**–**	**(12,461)**	**(22,750)**	**(67)**	**(278,810)**	**(322,810)**
At December 31	**₱252,220**	**₱100,950**	**₱493,646**	**₱23,542**	**₱9,964**	**₱–**	**₱593,631**	**₱1,473,953**
Individually impaired	**₱204,782**	**₱100,950**	**₱59,133**	**₱1,688**	**–**	**₱–**	**₱115,885**	**₱482,438**
Collectively impaired	**47,438**	**–**	**434,513**	**21,854**	**₱9,964**	**–**	**477,746**	**991,515**
Total	**₱252,220**	**₱100,950**	**₱493,646**	**₱23,542**	**₱9,964**	**₱–**	**₱593,631**	**₱1,473,953**
Gross amount of loans and receivables individually determined to be impaired	**₱204,782**	**₱100,950**	**₱59,133**	**₱1,688**	**₱–**	**₱–**	**₱115,885**	**₱482,438**

	2011							
	Real Estate	Electronics Manufacturing	Water Utilities	Automotive	Information Technology and BPO	International and Others	Others	Total
At January 1	₱245,059	₱28,183	₱479,524	₱36,516	₱7,330	₱67	₱363,550	₱1,160,229
Additions through business combinations (Note 23)	–	–	3,764	–	–	–	–	3,764
Provisions during the year (Note 22)	8,195	83,763	49,965	1,513	25,240	–	154,258	322,934
Write-offs	(1,611)	(590)	(18,516)	–	–	–	(109,147)	(129,864)
Reversals	(4,219)	(18,559)	(95,469)	(2,026)	(3,551)	–	(91,202)	(215,026)
At December 31	₱247,424	₱92,797	₱419,268	₱36,003	₱29,019	₱67	₱317,459	₱1,142,037
Individually impaired	₱221,260	₱92,797	₱42,992	₱36,003	₱25,148	₱67	₱177,192	₱595,459
Collectively impaired	26,164	–	376,276	–	3,871	–	140,267	546,578
Total	₱247,424	₱92,797	₱419,268	₱36,003	₱29,019	₱67	₱317,459	₱1,142,037
Gross amount of loans and receivables individually determined to be impaired	₱277,731	₱92,797	₱42,992	₱36,003	₱25,148	₱67	₱177,192	₱651,930

As of December 31, 2012 and 2011, certain real estate receivables and receivables from officers and employees with a nominal amount of ₱13,311.4 million and ₱13,790.2 million, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of the Group's receivables as of December 31, 2012 and 2011 follow:

	2012	2011
	(In Thousands)	
Balance at beginning of the year	**₱2,729,328**	₱1,250,257
Additions during the year	**1,534,751**	2,379,733
Accretion for the year	**(1,310,130)**	(900,662)
Acceleration of accretion	**(447,029)**	–
Balance at end of the year	**₱2,506,920**	₱2,729,328

In 2012, ALI sold real estate receivables on a without recourse basis to BPI Family Bank and RCBC Savings amounting to ₱2.96 billion and ₱1.35 billion, respectively. These were sold for a total average discount rate of 5.99% or ₱2.58 billion to BPI Family Bank and ₱1.23 billion to RCBC Savings. The total discounting cost on these receivables amounted to ₱498.0 million recognized under "Interest and other financing charges" in the consolidated statements of income (see Note 22).

In 2011, the Company and ALI sold to Bank of the Philippine Islands (BPI) its loans receivable from officers and employees and real estate receivables without recourse amounting to ₱452.5 million and ₱322.8 million, respectively. The discount on these receivables amounting to ₱37.3 million has been included under "Interest and other financing charges" in the consolidated statement of income (see Note 22).

Also in 2011, ALI entered an agreement with BPI for the sale of interest bearing loans receivables from employees without recourse amounting to ₱306.0 million with 12% interest rate which resulted to no gain or loss.

On April 29, 2011, LIL granted promissory notes to its two IQ Backoffice officers. The notes have an aggregate amount of US$0.66 million (₱28.9 million) which bear interests at four percent (4%) per annum and will mature on April 29, 2016. On the same date, the parties to the notes simultaneously entered into a Pledge Agreement where the officers (Pledgor), who are also shareholders of LIL (Pledgee), pledge their entire 3,941,469 shares on LIL as collateral for the notes they have availed.

7. Inventories

This account consists of the following:

	2012	2011
	(In Thousands)	
At cost:		
Condominium, residential and commercial units	**₱16,199,338**	₱13,316,731
Subdivision land for sale	**8,434,881**	9,624,053
Vehicles	**740,668**	472,230
Finished goods	**216,896**	273,178
Work-in-process	**144,757**	277,452
Materials, supplies and others	**1,546,028**	1,875,127
	27,282,568	25,838,771
At NRV:		
Subdivision land for sale	**524,158**	524,158
Finished goods	**243,502**	191,481
Work-in-process	**305,001**	82,227
Parts and accessories	**149,884**	140,461
Materials, supplies and others	**1,142,526**	988,744
	2,365,071	1,927,071
	₱29,647,639	₱27,765,842

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

2012

	Subdivision land for sale	**Condominium, residential and commercial units**	**Total**
		(In Thousands)	
Opening balances at January 1	**₱10,148,211**	**₱13,316,731**	**₱23,464,942**
Land acquired during the year	**228,291**	**176,519**	**404,810**
Land cost transferred from land and improvements	**1,194,843**	**–**	**1,194,843**
Construction/development costs incurred	**3,482,199**	**16,423,509**	**19,905,708**
Borrowing costs capitalized	**–**	**14,550**	**14,550**
Disposals (recognized as cost of sales)	**(5,608,637)**	**(14,147,035)**	**(19,755,672)**
Write-down of inventories	**–**	**(250,607)**	**(250,607)**
Transfers from investment properties	**76,726**	**39,360**	**116,086**
Other adjustments/reclassifications	**(562,594)**	**747,454**	**184,860**
Exchange differences	**–**	**(121,143)**	**(121,143)**
	₱8,959,039	**₱16,199,338**	**₱25,158,377**

2011

	Subdivision land for sale	Condominium, residential and commercial units	Total
		(In Thousands)	
Opening balances at January 1	₱7,871,262	₱7,286,024	₱15,157,286
Land acquired during the year	21,747	–	21,747
Land cost transferred from land and improvements	927,756	445,261	1,373,017
Construction/development costs incurred	5,225,000	15,696,149	20,921,149
Borrowing costs capitalized	–	61,547	61,547
Disposals (recognized as cost of sales)	(3,851,345)	(10,320,029)	(14,171,374)
Write-down of inventories	(87,081)	(19,503)	(106,584)
Other adjustments/reclassifications	40,872	167,282	208,154
	₱10,148,211	₱13,316,731	₱23,464,942

Inventories recognized as cost of sales amounted to ₱51.6 billion, ₱43.9 billion and ₱37.0 billion in 2012, 2011 and 2010, respectively, and were included under “Costs of sales” in the consolidated statement of income.

The Group recorded provision for impairment losses on inventories amounting to ₱330.8 million, ₱49.9 million and nil in 2012, 2011 and 2010, respectively. The provision is included under “Other charges” in the consolidated statement of income (see Note 22).

For the years ended December 31, 2012, 2011 and 2010, gain from sale of scrapped packaging supplies amounting to US$0.005 million (₱0.20 million), US$0.01 million (₱0.43 million) and US$0.23 million (₱10.38 million), respectively, are included under “Other income” in the consolidated statement of income (see Note 22).

As of December 31, 2012, inventories amounting to €8.0 million (₱435.1 million) and €0.3 million (₱17.6 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 19).

As of December 31, 2011, inventories amounting to €2.7 million (₱158.7 million) and €0.3 million (₱18.9 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 19).

8. **Other Current Assets**

This account consists of the following:

	2012	2011
	(In Thousands)	
Prepaid expenses	**₱5,639,268**	₱3,179,854
Input VAT	**4,723,872**	1,826,450
Financial assets at FVPL	**4,532,323**	1,470,829
Deposits in escrow	**2,176,869**	147,529
Creditable withholding tax	**1,749,968**	2,278,279
Derivative assets (Note 31)	**184,276**	122,704
Others	**710,992**	263,037
	₱19,717,568	₱9,288,682

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

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

Financial assets at FVPL pertains to the Group's investment in The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments), which have a combined fair value of US$33.4 million as of December 31, 2012 and 2011, 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. In March 2011, the Group acquired additional 5.96% interest in TRG investments. Subsequent to the equity transaction, the Group's existing 4.04% equity investments in TRG were revalued based on the most recent equity transaction with an external party. Unrealized gains recognized on this investment amounted to nil, US$3.0 million (₱132.2 million) and nil in 2012, 2011 and 2010 (see Note 22).

In the absence of equity transaction at reporting date, the Group uses the last transaction price as the fair value as of reporting date.

In December 2012, the Group amended its partnership agreement for the TRG investments to include a clause on how much the Group will receive (Distributable Amount) in connection with a liquidation of the Partnership or a sale or other disposition of all or substantially all of the assets of the Partnership that leads to a liquidation of the Partnership of a Sale of Business. The Distributable Amount available to the Group will vary as follows:

a. if Distributable Amount is less than US$150 million, the Group and the other strategic partner would be entitled to receive 2 times the original equity interest, and after that, the remaining would be divided on a pro-rata basis among the remaining equity interest holders;
b. if the Distributable Amount is between US$150 million and US$334 million, then the first US$66.8 million would be divided between the Group and the other strategic partner on a pro-rata basis and after that, the rest would be divided among all the remaining equity interest holders; and,
c. if the Distributable Amount is above US$334 million, then the Distributable Amount should be divided among all the equity interest holders, including the Group and the other strategic partner on a pro-rata basis.

As of December 31, 2012, investment securities include the Group's investment in ARCH Fund which was previously classified as an investment in associate accounted for under equity method of accounting by virtue of the Group's interest in the general partner. The reclassification was due to an exchange consummated in 2011, wherein the Group gave up their interest in the general partner. The investment in ARCH Fund is no longer an equity investment but a monetary interest in the fund. Net changes in fair value of financial assets at FVPL is included under "Other income" in the consolidated statement of income (see Note 22).

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (Fund) was established. As of December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. On various dates in 2012 and 2011, the Fund made capital calls where the Group's share amounted to US$0.1 million and US$4.5 million as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the Group's remaining capital commitment with the Fund amounted to US$9.1 million and US$9.2 million, respectively.

In 2011, the Company, through one of its subsidiaries, committed to invest US$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P., which had its first closing on June 30, 2011. As of December 31, 2012, the Company had contributed US$21.7 million (₱890.8 million) into the fund.

On March 7, 2011, the Group entered into a Contribution and Exchange Agreement with TRG for the exchange of ownership interests in ARCH Capital and ARCH Capital Asian Partners G.P. (a Cayman Islands company) which resulted to a gain amounting to US$9.4 million (₱407.1 million). The gain on the exchange is recorded as part of "Other income" in the consolidated statement of income (see Note 22). The exchange ownership interest with a cash consideration of US$13.3 million resulted in TRG acquiring the Company's 33% and ALI's 17% stake in ARCH Capital and increase in ownership interest in TRG Allocation LLC and TRG Management LP to 10%.

Deposits in escrow includes the proceeds from the sale of real estate of an ALI subsidiary. Under its temporary license to sell, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

The deposits in escrow account also include cash deposit of Summerhill E-Office, Inc. (Buyer) amounting to ₱1,175.2 million with an Escrow Agent on August 15, 2012 in relation to the Buyer's purchase of parcels of land from a third party with an aggregate area of approximately 47,952 square meters located in Pasig City. The amount and document will be released only upon presentation of the Certificate Authorizing Registration duly issued by the Bureau of Internal Revenue authorizing the transfer of the Parcels from the Seller to the Buyer. The amount will be net of capital gains tax on the sale but will include accrued interests in the escrow account.

On October 18, 2012, MWC entered into a share purchase agreement (SPA) with Suez Environment to acquire 51% of PT PAM Lyonnaise Jaya (PALYJA), the Indonesian water concessionaire for the West Zone of Jakarta. The payment for the shares is subject to the fulfillment of certain conditions precedent. To secure the fulfillment of these conditions, a deposit of 15% of the purchase price was required and held by an escrow agent amounting to ₱482.7 million. It is expected that MWC will obtain control over PALYJA in 2013 when it takes over its operations.

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

Derivative assets consist of:

	2012	2011
	(In Thousands)	
Call option	**₱117,280**	₱119,939
Conversion option	**66,996**	–
Currency forwards	**–**	2,765
	₱184,276	₱122,704

9. Investments in Bonds and Other Securities

This account consists of investments in:

	2012	2011
	(In Thousands)	
AFS financial assets		
Quoted equity investments	**₱1,859,092**	₱992,612
Unquoted equity investments	**1,048,916**	1,439,324
	2,908,008	2,431,936
Quoted debt investments	**99,501**	874,161
Unquoted debt investments	**236,411**	439,071
	₱3,243,920	₱3,745,168

Quoted equity instruments consist mainly of listed securities and golf club shares.

Investment in quoted equity securities includes the Group's investment in Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII). CII is a leading player in the infrastructure sector in Vietnam with a solid track record in sourcing, implementing and operating infrastructure assets. CII has a portfolio of strategic infrastructure assets, including water treatment plants and toll roads serving Ho Chi Minh City and surrounding areas. CII also holds a stake in Thu Duc Water B.O.O. Corporation (TDW), a water treatment company which is now 49%-owned by MWC (see Note 11). CII was established in December 2001 and is listed in the Ho Chi Minh Stock Exchange.

The cost of the investment in CII amounted to US$12.7 million. Unrealized loss in this investment amounted to US$3.3 million as of December 31, 2012.

Also in 2012, BHL disposed its quoted AFS equity investment in shares of stocks of Asia Standard International, a property development and investment company publicly listed in the Hong Kong Stock Exchange. This quoted equity investment was disposed for a consideration of US$1.5 million with a gain of US$0.8 million recognized in the profit or loss after realization of equity reserve of US$0.6 million.

The unquoted equity investments include investments in 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 2011, the Group received a return of capital from SOF amounting to US$13.3 million.

On February 29, 2012, the Group received US$2.2 million from the partial redemption of its GOF investment. On March 28, 2012, the proceeds arising from the GOF redemption was reinvested in the TRG-Merrill Lynch Investment Solutions Global Emerging Markets ("GEM") UCITS. The GEM-UCITS is a fund managed by TRG using the same strategy as GOF and distributed by Merrill Lynch in Europe. The Group subsequently opted to have its investment in the GEM-UCITS redeemed. The Group received US$2.05 million at end of October 2012.

Unquoted equity investments also include the Group's investment in Red River Holdings. The Red River Holdings is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies. In 2010, a final capital call was made amounting to US$1.9 million bringing the total investment in Red River Holdings to US$10.0 million.

In 2012, the Group recorded a provision for impairment loss amounting to ₱61.1 million included under "Other charges" in the consolidated statement of income (see Note 22).

In 2011, the Group recorded impairment loss on Red River Holdings amounting to US$3.5 million (₱155.1 million) included under "Other charges" in the consolidated statement of income. The impairment is due to prolonged decline in net asset value of Red River Holdings (see Note 22).

In 2010, the Group recorded impairment loss on its investment in a company engaged in the manufacture of broadband devices amounting to ₱235.1 million included under "Other charges" in the consolidated statement of income (see Note 22). The provision is primarily due to poor financial results and liquidity problems of the investee company.

In 2010, AIVPL invested US$0.5 million out of US$1.0 million commitment to invest in Preferred C units of Victoria 1522 Investments, LP (Victoria). Victoria is an investment management firm exclusively focused on the emerging markets of Asia, Latin America, Europe, Middle East and Africa. In 2012 and 2011, capital calls amounting to US$0.1 million and US$0.3 million, respectively, were made, bringing the total investments in Victoria to US$0.9 million as of December 31, 2012. The investment in Victoria is included as part of unquoted equity investments.

Unquoted equity investments also 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. In 2011, this includes Manila Water South Asia Holdings Pte. Ltd.'s, subsidiary of MWC, 1% share in TRILITY Pty. Ltd. TRILITY is the definitive market leader in water utility services across Australia. These shares were sold in 2012.

Quoted debt investments consist mainly of government securities such as retail treasury bonds. These bonds earn interest ranging from 6.0% to 8.75% in 2012 and 2011 with maturity dates up to 5 years. In 2012, ALI and MWC sold ₱224.2 million and ₱597.1 million worth of treasury bonds and quoted investments, recognizing gain on disposals amounting to ₱7.3 million and loss on disposals amounting to ₱12.5 million, respectively.

As of December 31, 2012 and 2011, the Net unrealized gain on AFS financial assets as reflected in the equity section is broken down as follows:

	2012	2011
	(In Thousands)	
Net unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries	**₱726,055**	₱697,823
Share in the net unrealized gain on AFS financial assets of associates and jointly-controlled entities	**1,329,445**	1,027,571
	₱2,055,500	₱1,725,394

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

	2012	2011
	(In Thousands)	
At January 1	**₱697,823**	₱676,094
Changes in fair value recognized in equity	**2,725,063**	(135,585)
Recognized in profit and loss	**(2,696,831)**	157,314
At December 31	**₱726,055**	₱697,823

10. Land and Improvements

The rollforward analysis of this account follows:

	2012	2011
	(In Thousands)	
Cost		
At January 1	**₱19,041,040**	₱16,943,823
Additions	**30,168,716**	3,959,279
Transfers*	**(1,194,843)**	(1,846,886)
Disposals	**(945)**	(15,176)
At December 31	**48,013,968**	19,041,040
Allowance for decline in value		
At January 1 and December 31	**510,125**	510,125
	₱47,503,843	₱18,530,915

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

During the year, ALI won the public bidding for the purchase of the 74-hectare Food Terminal, Inc. (FTI) property in Taguig. ALI's bid was ₱24.3 billion. The bid was conducted in accordance with the Asset Specific Bidding Rules dated July 4, 2012 and in accordance with the provisions of Executive Order No. 323.

In October 2012, ALI entered into a Purchase Agreement wherein the Seller (FTI) agrees to sell, convey, assign and transfer and deliver to the buyer, and the buyer agrees to purchase and acquire from the seller, all of the seller's rights and interests in the property. The property is designed to be a mixed-use development.

On August 27, 2009, ALI and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop the 29.1-hectare North Triangle Property in Quezon City as a priming project of the government and the private sector. The joint venture represents the conclusion of a public bidding process conducted by the NHA which began last October 3, 2008.

ALI's proposal, which has been approved and declared by the NHA as compliant with the Terms of Reference of the public bidding and the National Economic Development Authority (NEDA) Joint Venture Guidelines, features the development of a new Central Business District (CBD) in Quezon City. The CBD will be developed as the Philippines' first transit-oriented mixed-use central business district that will be a new nexus of commercial activity. The proposal also aims to benefit the NHA in achieving its mandate of providing housing for informal settlers and transforming a non-performing asset in a model for urban renewal. The development will also generate jobs and revenues both for the local and national governments.

ALI's vision for the property is consistent with the mandate of the Urban Triangle Development (TriDev) Commission to rationalize and speed up the development of the East and North Triangles of Quezon City into well-planned, integrated and environmentally balanced, mixed-use communities. The joint venture also conforms to NHA's vision of a private sector-led and managed model for the development of the property, similar to the development experience in Fort Bonifacio.

The total project cost is estimated at ₱22.0 billion, inclusive of future development costs and the current value of the property, which ALI and the NHA will contribute as their respective equity share in the joint venture. Development of Phase 1 of the project broke ground last July 2012.

11. Investments in Associates and Jointly Controlled Entities

This account consists of the following:

	2012	2011
	(In Thousands)	
Acquisition cost	**₱93,723,157**	₱65,284,572
Accumulated equity in earnings	**15,455,592**	13,878,503
Other comprehensive income (loss)	**(562,876)**	496,006
	₱108,615,873	₱79,659,081

Details of the Group's investments in associates and jointly controlled entities and the related percentages of ownership are shown below:

	Percentage of Ownership		Carrying Amounts	
	2012	2011	**2012**	2011
Domestic:			(In Millions)	
Bank of the Philippine Islands and subsidiaries (BPI)	**32.6**	23.9	**₱50,323**	₱26,573
Globe Telecom, Inc. and subsidiaries (Globe)*	**30.5**	30.5	**16,869**	17,353
Ayala DBS Holdings, Inc. (ADHI)*	**53.5**	45.5	**15,552**	10,743
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**3,964**	3,682
Cebu Holdings, Inc. and subsidiaries (CHI)	**50.0**	47.0	**2,673**	2,265
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,699**	1,578
South Luzon Thermal Energy Corp. (SLTEC)*	**50.0**	50.0	**1,931**	1,489
North Triangle Depot Commercial Corporation (NTDCC)*	**49.0**	49.3	**1,282**	1,336
Bonifacio Land Corporation (BLC)	**10.0**	10.1	**1,279**	1,161
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**1,075**	994
Alabang Commercial Corporation (ACC)*	**50.0**	50.0	**634**	617
Northwind Power Development Corp.* (Note 23)	**50.0**	50.0	**433**	458
BG West Properties, Inc. (BGW)*	**50.0**	50.0	**323**	247
BG South Properties, Inc. (BGS)*	**50.0**	50.0	**270**	195
BG North Properies, Inc. (BGN)*	**50.0**	50.0	**135**	3
SIAL Specialty Retailers, Inc.*	**50.0**	–	**54**	–
SIAL CVS Retailers, Inc.*	**50.0**	–	**84**	–
Foreign:				
Stream Global Services, Inc. (Stream) (U.S. Company)	**28.9**	26.8	**2,537**	2,978
Integreon, Inc. (Integreon) (British Virgin Islands Company)*	**58.7**	56.2	**1,776**	1,515
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	**49.0**	49.0	**1,930**	1,788
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	**47.4**	–	**1,715**	–
VinaPhil Technical Infrastructure Investment JSC (VinaPhil) (incorporated in Vietnam)	**49.0**	–	**875**	–
Tianjin Eco-City Ayala Land Development Co., Ltd. (incorporated in China)	**40.0**	40.0	**694**	729
Others	**Various**	Various	**509**	3,955
			₱108,616	₱79,659

** Jointly controlled entities.*

The fair value of investments in listed associates and jointly controlled entities for which there are published price quotations amounted to ₱229,933.0 million and ₱97,504.9 million as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the Group had total commitments relating to the Group's interests in the joint ventures amounting to ₱2,259.0 million and ₱1,246.8 million, respectively (see Note 34).

Financial information on significant associates and jointly controlled entities (amounts in millions, except earnings per share figures) follows:

BPI	**2012**	2011
Total resources	**₱985,069**	₱842,616
Total liabilities	**886,547**	752,086
Non-controlling interests	**1,427**	1,378
Net interest income	**27,453**	25,866
Other income	**19,931**	15,892
Other expenses	**24,888**	23,465
Net income attributable to:		
Equity holders of the bank	**16,291**	12,822
Non-controlling interests	**150**	191
Earnings per share:		
Basic	**4.58**	3.61
Diluted	**4.58**	3.61

Globe	2012	2011
Current assets	**₱34,028**	₱23,564
Noncurrent assets	**114,405**	107,275
Total assets	**148,433**	130,839
Current liabilities	**45,827**	38,987
Noncurrent liabilities	**55,851**	43,424
Total liabilities	**101,678**	82,411
Revenue	**88,785**	82,710
Costs and expenses	**78,016**	68,613
Net income	**6,857**	9,832
Earnings per share:		
Basic	**51.54**	74.02
Diluted	**51.47**	73.77

ADHI	2012	2011
Current assets	**₱684**	₱707
Noncurrent assets	**20,512**	18,820
Total assets	**21,196**	19,527
Total liabilities	–	–
Net income	**3,473**	2,734

ECHI and Subsidiaries	2012	2011
Current assets	**₱19,788**	₱22,094
Noncurrent assets	**23,178**	20,577
Total assets	**42,966**	42,671
Current liabilities	**2,549**	3,767
Noncurrent liabilities	**5,231**	3,890
Total liabilities	**7,780**	7,657
Net operating revenue	**7,163**	5,668
Costs and expenses	**6,352**	4,272
Net income	**811**	1,396

CHI and Subsidiaries	2012	2011
Total assets	**₱10,920**	₱7,130
Total liabilities	**5,638**	2,102
Net operating revenue	**1,337**	1,349
Costs and expenses	**896**	884
Net income	**441**	465
Earnings per share	**0.23**	0.22

BHI and Subsidiaries	2012	2011
Current assets	**₱60**	₱60
Noncurrent assets	**3,742**	3,756
Total assets	**3,802**	3,817
Total liabilities	**7**	7
Net operating revenue	**94**	114
Costs and expenses	–	–
Net income	**94**	114

SLTEC**	2012	2011
Current assets	**₱574**	₱472
Noncurrent assets	**3,351**	2,498
Total assets	**3,925**	2,970
Total liabilities	**136**	53
Net operating revenue	**14**	5
Costs and expenses	**38**	47
Net loss	**32**	44

***Incorporated in 2011.*

NTDCC	2012	2011
Total assets	**₱7,075**	₱7,243
Total liabilities	**4,697**	4,771
Net operating revenue	**1,876**	1,777
Costs and expenses	**1,373**	1,359
Net income	**502**	418

BLC and Subsidiaries	**2012**	2011
Total assets	**₱42,586**	₱42,852
Total liabilities	**7,756**	7,769
Net operating revenue	**7,154**	4,065
Costs and expenses	**6,353**	2,894
Net income	**801**	1,171

Stream	**2012**		2011	
	In US$	**In Php***	In US$	In Php*
Current assets	**US$215**	**₱8,826**	US$218	₱9,573
Noncurrent assets	**394**	**16,174**	400	17,521
Total assets	**609**	**25,000**	618	27,095
Current liabilities	**120**	**4,926**	122	5,345
Noncurrent liabilities	**279**	**11,453**	283	12,392
Total liabilities	**399**	**16,379**	405	17,737
Revenue	**860**	**3,630**	847	36,675
Costs and expenses	**836**	**35,287**	832	36,020
Net loss	**(12)**	**(507)**	(24)	(1,024)

Integreon	**2012**		2011	
	In US$	**In Php***	In US$	In Php*
Current assets	**US$35**	**₱1,437**	US$33	₱1,450
Noncurrent assets	**63**	**2,586**	71	3,093
Total assets	**98**	**4,023**	104	4,543
Current liabilities	**25**	**1,026**	52	2,264
Noncurrent liabilities	**29**	**1,190**	16	715
Total liabilities	**54**	**2,216**	68	2,979
Revenue	**121**	**5,107**	125	5,410
Costs and expenses	**124**	**5,234**	132	5,701
Net loss	**(16)**	**(675)**	(18)	(770)

TDW**	**2012**	2011
Total assets	**₱2,419**	₱3,213
Total liabilities	**1,400**	1,970
Revenues	**537**	636
Net income	**372**	167

***Acquired in 2011.*
The conversion rates used was ₱0.0020 and ₱0.0021 to VND1 as of December 31, 2012 and 2011, respectively.

KDW	**2012**
Total assets	**₱2,279**
Total liabilities	**1,277**
Revenue	**153**
Net income	**89**

***Acquired in 2012.*
The conversion rate used was ₱0.0020 to VND1 as of December 31, 2012.

*Assets and liabilities are translated using the closing exchange rate at the reporting date while revenue, cost and expenses and net income are translated using the weighted average rate for the year.

The following significant transactions affected the Group's investments in its associates and jointly controlled entities:

Investment in BPI
In October 2012, the Parent Company entered into an agreement with DBS Bank, Ltd. (DBS) to acquire 8.69%, equivalent to 309.3 million of the outstanding common shares held by DBS in BPI for a total consideration of ₱21.6 billion. As of December 31, 2012, outstanding payable to DBS in relation to the transaction amounted to ₱10.8 billion.

The fair value of BPI shares held by the Parent Company amounted to ₱102.0 billion and ₱42.8 billion as of December 31, 2012 and 2011, respectively.

Investment in Globe
The Company also holds 60% of Asiacom, which owns 158.5 million Globe preferred shares. The Company does not exercise control over Asiacom since it is a joint venture with SingTel.

Investment in ADHI
In October 2012, the Parent Company purchased 15.0 million ADHI Class B common shares representing 1.7% indirect ownership in BPI for a total consideration of ₱3.98 billion.

As of December 31, 2012 and 2011, ADHI owns 757.8 million common shares of BPI. ADHI's direct ownership in BPI is equal to 21.3% as of December 31, 2012 and 2011.

The fair value of BPI shares held by ADHI amounted to ₱71.2 billion and ₱41.8 billion as of December 31, 2012 and 2011, respectively.

Investment in ECHI and BHI
On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Metro Pacific Investment Corporation (MPIC) as amended:

(a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPIC, pursuant to which, Larouge extended MPIC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to ALI and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPIC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPIC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC.

In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPIC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million.

This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

ALI's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because ALI has significant influence over BLC.

Investment in SLTEC
On June 29, 2011, ACEHI entered into a 50-50 joint venture with Trans-Asia Oil and Energy Development Corporation to incorporate SLTEC which will undertake the construction and operation of a 135-megawatt power plant in Calaca, Batangas. The power plant will employ the environment-friendly Circulating Fluidized Bed boiler technology and is expected to start commercial operations by mid-2014.

In various dates in 2012 and 2011, the Group infused additional capital to SLTEC by way of deposits for further stock subscriptions, which were subsequently converted into shares of stock, amounting to ₱1.5 billion and ₱455.0 million, respectively.

Investment in BGW and BGS
BGW and BGS were incorporated on August 5 and 10, 2011, respectively, to engage in the development of residential and retail projects in Bonifacio Global City.

Investment in Stream
On August 14, 2009, a Share Exchange Agreement (the Agreement) was entered into by Stream, EGS, EGS Dutchco B.V. (EGS Dutchco), and NewBridge to combine in a stock-for-stock exchange. Under the Agreement:

- NewBridge shall contribute all its rights with respect to the US$35.8 million advances from EGS. These advances were originally borrowed by EGS from AYC Holdings. AYC Holdings assigned the advances to NewBridge;
- NewBridge shall transfer to Stream all the shares of EGS that it owns including shares that would result from the conversion of the US$35.8 million advances; and
- Stream shall issue and deliver to NewBridge an aggregate of 20,192,068 common shares with US$0.001 par value per share provided that at the election of Stream, Stream may pay an aggregate of US$5,994 in cash for an aggregate of 1,131 shares (at US$5.3 per share) of Stream Common Stock otherwise issuable to NewBridge.

On October 1, 2009 (the Closing Date), NewBridge received a total of 20,190,937 shares of Stream's capital stock representing 25.5% interest in Stream and cash amounting to US$5,994 in lieu of 1,131 shares. As a result of the transaction, NewBridge:

- derecognized its Investment in and Loan receivable from EGS amounting to US$61.5 million and US$35.8 million, respectively;
- recognized an Investment in Stream amounting to US$107.0 million; and,
- recognized a gain from the transaction amounting to US$8.8 million.

After the Closing Date, Newbridge acquired additional 320,146 common shares of Stream at a total cost of US$1.9 million.

On October 5, 2009, the 5,880.0 million shares of non-voting common stock were converted into voting common stock.

In March 2010, NewBridge exercised its warrants in exchange for 13,187 additional shares in Stream at US$6.0 per share at a total cost of US$0.08 million.

In 2010, the Group recorded an adjustment for the excess of the carrying value over the fair value of its investment in Stream amounting to ₱365.6 million. The adjustment was recorded mainly due to the decline in the quoted share price of Stream. The recoverable amount of the investment in Stream is based on its quoted share price as of December 31, 2010. The adjustment is netted against the share of profit of associates and jointly controlled entities in the consolidated statement of income.

On April 27, 2012, Stream's three majority shareholders namely Ares Management LLC, Providence Equity Partners, Inc. and the Parent Company (through AIVPL and LIL) completed a short-form merger in which they purchased all the remaining common stock outstanding of Stream. On the same date, Stream delisted its shares from the New York Stock Exchange and as such no longer has publicly traded equity.

Investment in Integreon
On February 16, 2010, Actis LLP, an emerging markets private equity specialist, invested US$50.0 million to acquire a 37.68% stake in Integreon, a subsidiary of LIL. The transaction resulted in the Group losing control over Integreon. Integreon became a jointly controlled entity by LIL and Actis although LIL owns 56.36% of Integreon. LIL recorded gain on deemed disposal amounting to US$44.7 million (₱2.1 billion) which primarily arose from recognizing the retained investment in Integreon at fair value at the date when control was lost. The gain on deemed disposal is recorded as part of "Other income" in the consolidated statement of income (see Note 22).

Thu Duc Water B.O.O. Corporation
On October 12, 2011, Thu Duc Water Holdings Pte. Ltd. (TDWH) (a subsidiary of MWC) and CII entered into a share sale and purchase agreement whereby CII will sell to TDWH its 49% interest (2,450,000 common shares) in TDW. On December 8, 2011, TDWH completed the acquisition of CII's interest in the common shares of TDW after which TDWH obtained significant influence in TDW.

The acquisition cost of the investment amounted to ₱1.80 billion (VND858 billion). Included within investment in associate account is a notional goodwill amounting to ₱1.21 billion arising from the acquisition of shares of stocks in TDW by the Group.

In 2012, TDWH finalized its purchase price allocation which resulted approximately to the same amount of notional goodwill because there were no significant changes to the fair values of the assets acquired and liabilities of TDW.

The share of the Group in the net income of TDW for the period ended December 31, 2012 amounted to ₱164.81 million.

Kenh Dong Water Supply Joint Stock Company
On May 17, 2012, the Kenh Dong Water Holding 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 Kenh Dong Water Supply Joint Stock Company (KDW). The payment for the shares will be done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent for a total purchase price of ₱1.8 billion.

As of December 31, 2012, considerations paid by MWC for its investment in KDW amounted to ₱1.6 billion (VND809.5 billion). Contingent consideration included in the purchase price allocation amounted to ₱92.7 million (VND44.5 billion). The share purchase transaction was completed on July 20, 2012 warranting KDWH to obtain significant influence in KDW.

Included within investment in associate account, is a notional goodwill amounting to ₱1.4 billion arising from the acquisition of shares of stock in KDW by the Group.

The share of the Group in the net income of KDW for the period May 17 to December 31, 2012 amounted to ₱44. 1 million.

Investment in Tianjin Eco-City Ayala Land Development Co., Ltd.
Regent Wise, a wholly-owned subsidiary of ALI, signed an Equity Joint Venture Agreement with Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd for the development of a 9.78 hectare residential project in China. The project will be located in Tianjin Eco-City, a 3,000 hectare collaboration between the Chinese and Singaporean governments which will showcase future direction of urban planning and sustainable development.

Investment in VinaPhil
CII and the Group have entered into an agreement to jointly invest in VinaPhil Technical Infrastructure Investment JSC ("VinaPhil"), a corporation established under Vietnam law to invest in infrastructure projects in Vietnam. VinaPhil will be initially 49%-owned by the Group with the remainder owned by CII and other Vietnamese investors. VinaPhil will have an initial charter capital of VND 900 billion (approximately US$43 million).

Interest in Limited Partnerships of Ayala International North America (AINA)
Other investments include AINA's interest in various Limited Partnerships with a carrying value of nil and ₱281.4 million as of December 31, 2012 and 2011, respectively. These investments are all incorporated in the United States of America (USA) and are mainly involved in developing properties in different states in the USA. Although the interest of AINA in certain limited partnerships exceeds 50%, these limited partnerships are accounted for under the equity method of accounting because AINA does not have control over the financial and operating policies of these partnerships.

The Group's accumulated equity in net losses of the Limited Partnerships exceeded the cost of its investment amounting to US$6.1 million (₱249.7 million) in 2012. Accordingly, the excess is recorded as a liability under accounts payable and accrued expenses as of December 31, 2012 (see Note 17).

In 2010, impairment loss amounting to ₱191.4 million was recorded for a property development of a certain limited partnership. The impairment loss is based on the property development's fair value less cost to sell. The impairment loss is netted against the share of profit of associates and jointly controlled entities in the consolidated statement of income.

The excess of cost of investments over the Group's equity in the net assets of its associates and jointly controlled entities accounted for under the equity method amounted to ₱26.6 billion and ₱10.5 billion as of December 31, 2012 and 2011, respectively.

12. **Investment Properties**

The movements in investment properties follow:

2012

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱5,505,454**	**₱33,054,163**	**₱3,905,506**	**₱42,465,123**
Additions	**308,369**	**833,142**	**6,385,677**	**7,527,188**
Transfers	**(116,086)**	**4,231,453**	**(4,327,500)**	**(212,133)**
Disposals	**–**	**(3,215)**	**–**	**(3,215)**
Balance at end of the year	**5,697,737**	**38,115,543**	**5,963,683**	**49,776,963**
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	**26,616**	**9,303,549**	**–**	**9,330,165**
Depreciation and amortization (Note 22)	**–**	**1,036,813**	**–**	**1,036,813**
Disposals	**–**	**(3,215)**	**–**	**(3,215)**
Impairment losses	**–**	**19,500**	**–**	**19,500**
Balance at end of the year	**26,616**	**10,356,647**	**–**	**10,383,263**
Net book value	**₱5,671,121**	**₱27,758,896**	**₱5,963,683**	**₱39,393,700**

2011

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	₱5,295,035	₱28,752,141	₱3,223,649	₱37,270,825
Additions	1,341,296	1,689,312	3,595,369	6,625,977
Transfers	(1,130,877)	2,612,710	(2,913,512)	(1,431,679)
Balance at end of the year	5,505,454	33,054,163	3,905,506	42,465,123
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	26,616	7,755,934	–	7,782,550
Depreciation and amortization (Note 22)	–	1,547,615	–	1,547,615
Balance at end of the year	26,616	9,303,549	–	9,330,165
Net book value	₱5,478,838	₱23,750,614	₱3,905,506	₱33,134,958

On March 5, 2011, Alveo Land Corporation, a subsidiary of ALI, acquired a landholding entity, by way of acquisition of 70% shares of stock of Solinea (formerly Bigfoot Palms, Inc.). Solinea is involved in developing properties located in Cebu Business Park. The value of the investment property arising from the acquisition amounted to ₱417.3 million.

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 ₱216.4 billion in 2012 and ₱184.2 billion in 2011. The fair values of the investment properties were determined based on valuations performed by independent professional qualified appraisers.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The values of the land and condominium units were arrived using the Market Data Approach. In this approach, the value of the land and condominium units is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing 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.

As of December 31, 2012 and 2011, total commitments for investment properties amounted to ₱16.3 billion and ₱10.0 billion, respectively.

Consolidated rental income from investment properties amounted to ₱9.9 billion in 2012 and ₱8.1 billion in 2011 and ₱7.5 billion in 2010. Consolidated direct operating expenses arising from the investment properties amounted to ₱2.5 billion in 2012 and ₱2.3 billion in 2011, rescpectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱1,036.8 million, ₱1,547.6 million and ₱1,150.4 million in 2012, 2011 and 2010, respectively (see Note 22).

In 2012, the Group provided for allowance for impairment loss amounting to ₱19.5 million pertaining to the total carrying value of an investment property that was already being prepared for demolition as of December 31, 2012. The impairment loss is included under "Other charges" account in the consolidated statement of income (see Note 22).

13. **Property, Plant and Equipment**

The movements in property, plant and equipment follow:

	2012						
	Land, Buildings and Improvements (Note 19)	**Machinery and Equipment**	**Hotel Property and Equipment** (Note 19)	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Construction in-Progress**	**Total**
				(In Thousands)			
Cost							
At January 1	**₱8,467,756**	**₱9,359,937**	**₱5,127,850**	**₱4,279,612**	**₱2,067,304**	**₱81,919**	**₱29,384,378**
Additions	**2,201,627**	**2,687,899**	**3,150,652**	**697,076**	**182,982**	**420,135**	**9,340,371**
Additions through business combination (Note 23)	**–**	**–**	**5,421,000**	**–**	**–**	**–**	**5,421,000**
Disposals	**(15,372)**	**(564,028)**	**(4,175)**	**(44,603)**	**(156,964)**	**–**	**(785,142)**
Transfers	**3,381**	**175,603**	**(771,911)**	**12,535**	**–**	**(104,678)**	**(685,070)**
Exchange differences	**(216,970)**	**(406,539)**	**–**	**(46,644)**	**(5,720)**	**(7,102)**	**(682,975)**
At December 31	**10,440,422**	**11,252,872**	**12,923,416**	**4,897,976**	**2,087,602**	**390,274**	**41,992,562**
Accumulated depreciation and amortization and impairment loss							
At January 1	**3,218,762**	**5,835,732**	**2,201,141**	**3,108,224**	**1,169,563**	**–**	**15,533,422**
Depreciation and amortization for the year (Note 22)	**394,342**	**1,234,879**	**160,903**	**639,989**	**281,285**	**–**	**2,711,398**
Impirment Loss (Note 22)	**–**	**11,073**	**–**	**502**	**–**	**–**	**11,575**
Disposals	**(14,203)**	**(427,604)**	**(4,175)**	**(42,056)**	**(130,299)**	**–**	**(618,337)**
Transfers	**–**	**(1,663)**	**(7,468)**	**1,665**	**–**	**–**	**(7,466)**
Exchange differences	**(136,449)**	**(276,347)**	**–**	**(39,246)**	**(3,533)**	**–**	**(455,575)**
At December 31	**3,462,452**	**6,376,070**	**2,350,401**	**3,669,078**	**1,317,016**	**–**	**17,175,017**
Net book value	**₱6,977,970**	**₱4,876,802**	**₱10,573,015**	**₱1,228,898**	**₱770,586**	**₱390,274**	**₱24,817,545**

	2011						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱7,225,985	₱8,576,352	₱4,094,610	₱3,710,560	₱2,103,160	₱21,743	₱25,732,410
Additions	744,246	1,035,227	1,200,744	512,482	205,964	42,405	3,741,068
Additions through business combination (Note 23)	806,914	792,054	–	26,932	16,271	34,169	1,676,340
Disposals	(21,507)	(938,574)	(9,172)	(89,175)	(256,958)	–	(1,315,386)
Transfers	(215,104)	3,664	(158,332)	136,317	–	(10,858)	(244,313)
Exchange differences	(72,778)	(108,786)	–	(17,504)	(1,133)	(5,540)	(205,741)
At December 31	8,467,756	9,359,937	5,127,850	4,279,612	2,067,304	81,919	29,384,378

(Forward)

	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)			
Accumulated depreciation and amortization and impairment loss							
At January 1	₱2,893,496	₱5,385,179	₱2,040,682	₱2,638,032	₱1,076,098	–	₱14,033,487
Depreciation and amortization for the year (Note 22)	356,268	1,177,963	169,200	536,246	269,379	–	2,509,056
Disposals	(19,568)	(722,382)	(8,741)	(71,739)	(176,168)	–	(998,598)
Transfers	(13,492)	1,699	–	8,779	–	–	(3,014)
Exchange differences	2,058	(6,727)	–	(3,094)	254	–	(7,509)
At December 31	3,218,762	5,835,732	2,201,141	3,108,224	1,169,563	–	15,533,422
Net book value	₱5,248,994	₱3,524,205	₱2,926,709	₱1,171,388	₱897,741	₱81,919	₱13,850,956

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱2,711.4 million in 2012, ₱2,509.1 million in 2011 and ₱2,090.3 million in 2010 (see Note 22).

PSi has a Mortgage Trust Indenture (MTI) with the Trust and Investment Division of a local bank, as Trustee. The mortgaged properties securing the Mortgage Obligations under the MTI are composed of machinery and equipment. The holders of the Mortgage Participation Certificates (MPC) under the MTI in 2010 includes a creditor bank and a major supplier of PSi, with a participation of US$3.0 million each (see Notes 17 and 19). In 2011, the creditor bank cancelled its participation in the MTI (see Note 19). As of December 31, 2012 and 2011, mortgaged machinery and equipment have a net carrying amount of US$1.99 million (₱81.69 million) and US$2.78 million (₱121.88 million), respectively.

Several assets of AIVPL with an aggregate net book value amounting US$0.1 million (₱4.1 million) and US$0.2 million (₱8.8 million) were mortgaged in favor of long-term debt in 2012 and 2011, respectively (see Note 19).

The carrying values of IMI's equipment under finance lease amounted to US$2.05 million (₱84.15 million), and US$2.2 million (₱97.3 million) as of December 31, 2012 and 2011, respectively (see Note 29).

The cost of fully depreciated property, plant and equipment amounted to ₱6,459.2 million and ₱5,017.9 million as of December 31, 2012 and 2011, respectively.

In 2012, IMI recognized an impairment loss of US$0.23 million (₱9.71 million), representing carrying amount of production assets, included under "Cost of Sales" account in the consolidated statement of income. In 2011, AIVPL recognized impairment loss of US$0.05 million included under "Other Charges" account in the consolidated statement of income.

14. Service Concession Assets and Obligations

SCA

The movements in this account follow:

	2012	2011
	(In Thousands)	
Cost		
At January 1	**₱79,023,430**	₱69,526,353
Additions during the year	**7,705,522**	8,419,716
Additions through business combination (Note 23)	**–**	1,077,361
At December 31	**86,728,952**	79,023,430
Accumulated amortization		
At January 1	**12,776,238**	10,428,584
Amortization (Note 22)	**2,657,316**	2,347,654
At December 31	**15,433,554**	12,776,238
Net book value	**₱71,295,398**	₱66,247,192

The Parent Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, POL, TIEZA and CDC. These concession agreements set forth the rights and obligations of the Parent Company and MWC Group throughout the concession period (see Note 35).

Service Concession Obligations (SCO)

POL Concession Fees
Under Laguna AAA Water Corporation's (LAWC) concession agreement with POL, LAWC is required to pay concession fees to POL computed as a percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Advance payment to POL was made for the said concession fees and 70% of the annual concession fees is applied against the said advances. The remaining thirty percent (30%) of the annual concession fees is expensed in the period they are incurred.

BIWC Concession Fees
The aggregate concession fee pursuant to the Agreement is equal to the sum of the following:

a. Servicing the aggregate peso equivalent of all liabilities of Boracay Water Sewerage System (BWSS) as of commencement date;

b. 5% of the monthly gross revenue of the Concessionaire, inclusive of all applicable taxes which are for the account of the Concessionaire.

Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, the Concessionaire shall pay not more than ₱20.0 million, subject to annual consumer price index (CPI) adjustments. In addition, advance payment of ₱60.0 million was provided to TIEZA which shall be offset against the annual concession fees pertaining to the 5% annual gross revenue of Boracay Island Water Company, Inc. (BIWC), within a period of 10 years from the signing of the concession agreement or until fully paid. Any amount payable after application of the advance payment will be expensed in the period this is incurred.

CDC Concession Fees
The aggregate concession fee pursuant to the Agreement is equal to the sum of the following:

a. Annual franchise fee of ₱1.5 million;

b. Semi-annual rental fees of ₱2.8 million for leased facilities from CDC.

MWSS Concession Fees
The aggregate concession fees of MWC pursuant to the Agreement are equal to the sum of the following:

a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;

b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;

c. 10% of the local component costs and cost overruns related to the UATP;

d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by the MWC for continuation; and

e. 100% of the local component costs and cost overruns related to existing projects; and

f. MWC's share in the repayment of MWSS loan for the financing of the Project.

The schedule of undiscounted future concession fee payments follows:

	In Original Currency		
Year	Foreign Currency Denominated Loans (Translated to US Dollars)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2013	US$14,623,577	₱422,746,019	₱1,023,043,868
2014	14,416,541	422,746,019	1,014,545,013
2015	10,640,081	422,746,019	859,521,348
2016	12,406,387	422,746,019	932,028,194
2017	10,087,368	422,746,019	836,832,459
2018 onwards	73,625,763	8,306,281,476	11,328,619,056
	US$135,799,717	₱10,420,011,571	₱15,994,589,938

**Translated using the closing exchange rate as of December 31, 2012 of ₱41.05 to US$1.*

Estimated concession fee payments on future concession projects, excluding MWC's share in current operating budget, related to the Extension is still not determinable. It is only determinable upon loan drawdown of MWSS and actual construction of the related concession projects.

15. **Intangible Assets**

The movements in intangible assets follow:

	2012									
	Goodwill	**Customer Relationships**	**Order Backlog**	**Unpatented Technology**	**Developed Software**	**Licenses**	**Technical Service Agreement**	**Trademarks**	**Project Development Cost**	**Total**
	(In Thousands)									
Cost										
At January 1	**₱5,275,134**	**₱1,263,398**	**₱4,128**	**₱4,384**	**₱177,114**	**₱274,146**	**₱84,733**	**₱8,768**	**₱78,863**	**₱7,170,668**
Additions through business combination (Note 23)	**393,630**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**393,630**
Additions during the year	**–**	**–**	**–**	**–**	**–**	**29,473**	**–**	**–**	**12,065**	**41,538**
Exchange differences	**(172,054)**	**(60,652)**	**–**	**(279)**	**–**	**(7,620)**	**–**	**(363)**	**(950)**	**(241,918)**
At December 31	**5,496,710**	**1,202,746**	**4,128**	**4,105**	**177,114**	**295,999**	**84,733**	**8,405**	**89,978**	**7,363,918**
Accumulated amortization and impairment loss										
At January 1	**1,689,466**	**871,922**	**4,128**	**4,384**	**11,886**	**182,352**	**84,733**	**1,349**	**8,285**	**2,858,505**
Amortization (Note 22)	**–**	**77,616**	**–**	**–**	**–**	**61,750**	**–**	**1,712**	**11,201**	**152,279**
Exchange differences	**(31,747)**	**(39,171)**	**–**	**(279)**	**–**	**9,670**	**–**	**–**	**–**	**(61,527)**
At December 31	**1,657,719**	**910,367**	**4,128**	**4,105**	**11,886**	**253,772**	**84,733**	**3,061**	**19,486**	**2,949,257**
Net book value	**₱3,838,991**	**₱292,379**	**₱–**	**₱–**	**₱165,228**	**₱42,227**	**₱–**	**₱5,344**	**₱70,492**	**₱4,414,661**

	2011									
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Total
	(In Thousands)									
Cost										
At January 1	₱4,484,283	₱846,365	₱4,128	₱4,384	₱–	₱212,093	₱84,733	₱–	₱–	₱5,635,986
Additions through business combination (Note 23)	782,072	402,674	–	–	172,912	19,323	–	8,560	33,602	1,419,143
Additions during the year	–	–	–	–	–	41,805	–	–	44,445	86,250
Exchange differences	8,779	14,359	–	–	4,202	925	–	208	816	29,289
At December 31	5,275,134	1,263,398	4,128	4,384	177,114	274,146	84,733	8,768	78,863	7,170,668
Accumulated amortization and impairment loss										
At January 1	1,549,855	835,618	4,128	4,384	–	99,340	28,723	–	–	2,522,048
Amortization (Note 22)	–	35,913	–	–	11,791	82,694	56,010	1,335	8,191	195,934
Impairment loss (Note 22)	139,170	–	–	–	–	–	–	–	–	139,170
Exchange differences	441	391	–	–	95	318	–	14	94	1,353
At December 31	1,689,466	871,922	4,128	4,384	11,886	182,352	84,733	1,349	8,285	2,858,505
Net book value	₱3,585,668	₱391,476	₱–	₱–	₱165,228	₱91,794	₱–	₱7,419	₱70,578	₱4,312,163

Goodwill mainly comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Impairment testing of goodwill for the Group

IMI Group
Goodwill acquired through business combinations have been allocated to four individual CGUs of IMI for impairment testing as follows (amounts in thousands):

	2012		2011	
	In US$	**In Php***	In US$	In Php*
Speedy Tech Electronics, Ltd. (STEL)	**US$45,128**	**₱1,852,505**	US$45,128	₱1,978,412
PSI	**7,479**	**307,012**	7,479	327,879
EPIQ CZ	**650**	**26,954**	650	28,496
IMI	**657**	**26,699**	657	28,803
IMI Philippines	**441**	**18,110**	441	19,333
	US$54,355	**₱2,231,280**	US$54,355	₱2,382,923

**Translated using the closing exchange rate at the statement of financial position date (US$1:₱41.05 in 2012, US$1:₱43.84 in 2011).*

STEL Group, PSi and IMI USA and Trixell
The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections for STEL Group, PSi, and IMI USA are 11.85%, 13.47%, and 11.41%, respectively, in 2012 and 11.12%, 12.60%, and 10.16%, respectively, in 2011. The pre-tax discount rate applied to cash flow projections for EPIQ CZ in 2012 is 12.40%.

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global EMS industry.

For PSi, the impairment test resulted in an impairment loss of US$2.7 million (₱118.6 million) in 2011 included in "Other charges" in the consolidated statement of income (see Note 22). The comparison of the recoverable amount and the carrying amount resulted in no impairment for the years 2012 and 2010.

Key assumptions used in value in use calculations
The calculations of value in use for the CGUs are most sensitive to the following assumptions:

- Budgeted gross margins - Gross margins are based on the mix of business model arrangements with the customers whether consigned or turnkey.
- Growth rate - The forecasted growth rate is based on a very conservative steady growth rate that does not exceed the compounded annual growth rate for the global EMS industry.
- Pre-tax discount rates - Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

With regard to the assessment of value in use of STEL Group, IMI USA and EPIQ CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

No impairment loss was assessed for STEL Group, IMI USA and EPIQ CZ in 2012, 2011 and 2010.

IMI Philippines
This pertains to the goodwill arising from the purchase of M. Hansson Consulting, Inc. (MHCI) in 2006. MHCI was subsequently merged to IMI Philippines as testing and development department.

MWC and Philwater
Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million. The recoverable amount in 2012 and 2011 was based on the market price of MWC shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

CWC
This pertains to the goodwill arising from the purchase of CWC in 2011. MWC's impairment tests for goodwill are based on value in use and fair value less cost to sell calculations. The value in use calculations in 2012 used a discounted cash flow model. The cash flows are derived from the budget for the next five years and assumes a steady growth rate. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model as well as expected future cash inflows and the growth rate used for extrapolation purposes.

The carrying value of goodwill amounted to ₱130.3 million as of December 31, 2012 and 2011. 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:

	2012	2011
	(In Thousands)	
Wind Power	**₱411,031**	₱411,031
Hydro Power	**55,424**	55,424
	₱466,455	₱466,455

Wind Power Companies
The recoverable amount of the Wind Power CGU is based on value in use calculations using cash flow projections from financial budgets approved by ACEHI management covering the period the CGU is expected to be operational. The pre-tax discount rates applied to cash flow projections for the Wind Power CGU is 10% which is based on weighted average cost of capital of comparable entities. The value in use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEHI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the Wind Power CGU to exceed its recoverable amount.

No impairment loss was assessed for the Wind Power CGU in 2012.

Hydro Power Companies
The recoverable amount of Hydro Power CGU is based on fair value less cost to sell calculations using cash flow projections from financial budgets approved by ACEHI management covering the period the Hydro Power CGU is expected to be operational. The pre-tax discount rates applied to cash flow projections for the Hydro Power CGU is 12% which is based on weighted average cost of capital of comparable entities. The value in use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEHI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the units to exceed their recoverable amount.

No impairment loss was assessed for the Hydro Power CGU in 2012.

Customer relationships
Customer relationships pertain to STEL Group's and EPIQ EA's noncontractual and contractual agreements, respectively, with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Unpatented technology
Unpatented technology pertains to products which are technologically feasible. IMI Group's patents were applied for the following technologies, both of which are unique, difficult to design around and which meet the separability criteria:

- Self bias double-ended switching circuit; and
- A zero power consumption switch circuit to simplify the energy star solution for external power adapter.

Developed software
Developed software pertains to IQ BackOffice's (IQB) internally developed web-based process management tool that is used jointly with customers to manage transactions in real-time. The developed software augments IQB's existing accounting system and automates traditionally paper-based processes (e.g., electronic/paper receipt, electronic routing, approvals. etc.).

Licenses
These pertain to the IMI's acquisitions of computer applications and modules. EPIQ subsidiaries also have computer software with carrying value of US$0.57 million (₱23.4 million) and US$3.55 million (₱155.5 million) as of December 31, 2012 and 2011, respectively.

16. Other Noncurrent Assets

This account consists of the following:

	2012	2011
	(In Thousands)	
Deposits	**₱2,573,043**	₱1,662,224
Deferred charges	**366,909**	243,446
Deferred FCDA	**–**	742,588
Others	**277,196**	412,141
	₱3,217,148	₱3,060,399

Deposits include escrow deposits and security deposits on land leases, electric and water meter deposits. 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). Interest income earned on the escrow account amounted to ₱1.1 million in 2012.

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

Deferred FCDA refers to the unrecovered amounts from/or amounts for refund to customers of MWC for realized gains (losses) from loan payments of foreign loans. This is the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains (losses) from loan valuations, accrual of interest and accretion of transaction and related costs.

Others includes leasehold right of a subsidiary amounting to ₱113.5 million and ₱120.2 million as of December 31, 2012 and 2011, respectively. This pertains to the right to use an island property expiring on December 31, 2029. The cost amounted to ₱127.4 million and accumulated amortization expense as of December 31, 2012 and 2011 amounted to ₱13.9 million and ₱7.2 million, respectively. Amortization expense amounted to ₱6.7 million in 2012 and 2011.

17. Accounts Payable and Accrued Expenses

This account consists of the following:

	2012	2011
	(In Thousands)	
Accounts payable	**₱47,355,281**	₱29,432,808
Accrued expenses		
Accrued project costs	**10,810,152**	7,458,627
Accrued personnel costs	**1,614,684**	1,290,373
Rental and utilities	**1,126,337**	319,263
Professional and management fees	**1,046,784**	256,351
Advertising and promotions	**560,726**	165,159
Repairs and maintenance	**288,725**	405,600
Various operating expenses	**206,114**	3,414,148
Taxes payable	**5,643,232**	2,899,006
Related parties (Note 30)	**2,728,590**	1,226,606
Retentions payable	**2,089,161**	1,174,760
Dividends payable	**1,781,965**	1,831,318
Interest payable (Note 30)	**1,676,825**	1,139,681
Share in excess losses of an associate (Note 11)	**249,680**	–
	₱77,178,256	₱51,013,700

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 2012, accounts payable includes non-interest bearing liability of the Parent Company to DBS Ltd. in relation to the acquisition of BPI common shares and ADHI Class B common shares amounting to ₱12.57 billion.

In 2011, accounts payable includes PSi's liability to a certain supplier amounting to US$2.07 million (₱90.7 million) as of December 31, 2011, which is covered by an MPC amounting to US$3.0 million (₱131.5 million) under PSi's MTI with a local bank.

Accrued expenses consist mainly of accruals already incurred but not yet billed for project costs, personnel, rental and utilities, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, security, insurance, and representation.

Accrued project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials.

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

Accrued expenses also includes provisions on restructuring of operations by the IMI Group. In 2011, PSi and IMI Singapore announced a restructuring of operations due to unfavorable economic and business situation. PSi made actual payout in September and November 2011 aggregating to US$1.1 million. Part of this payout amounting to US$0.6 million is not covered by its retirement plan. This was recognized as provision in 2011. In addition, IMI Singapore recognized provision amounting to US$0.3 million, which was paid in 2012. In 2012, PSi and IMI Singapore recognized additional provision of US$1.2 million and US$0.7 million, respectively, which were also paid during the year.

18. Other Current Liabilities

This account consists of:

	2012	2011
	(In Thousands)	
Customers' deposits	**₱4,338,242**	₱1,340,148
Installment payable	**1,021**	3,793
Derivative liability (Note 31)	**–**	1,515
Others	**1,974,743**	1,359,262
	₱6,314,006	₱2,704,718

Customers' deposits consist of tenants' deposits and construction bonds to be refunded by the Group through the application of the amount thereof against the rent and service due.

Derivative liability pertains to IMI's investments into various short-term currency forwards that have one or more underlying and one or more notional amounts.

Others mainly pertains to non-interest bearing real estate-related payables to contractors and various non-trade suppliers amounting to ₱1,321.0 million payable within one year. This account also includes finance lease payable and miscellaneous non-interest bearing non-trade accounts of the Group due within one year.

19. Short-term and Long-term Debt

Short-term debt consists of:

	2012	2011
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 1.21% to 8.0% per annum in 2012 and 3.5% to 8.0% per annum in 2011	**₱7,966,400**	₱3,318,500
Foreign currency debt - with interest rates ranging from 1.05% to 8.0% in 2012 and 1.16% to 8.0% in 2011	**3,880,757**	3,347,341
	₱11,847,157	₱6,665,841

ALI Group

The short-term debt of ₱9,282.8 million and ₱4,638.8 million in 2012 and 2011, respectively, represent unsecured peso-denominated bank loans and dollar-denominated bank loans of ALI and its subsidiaries. Interest rates for peso-denominated bank loans ranged from 1.21% to 5.15% per annum (p.a.) in 2012 and from 3.50% to 5.00% p.a. in 2011. Interest rates for dollar-denominated bank loans of ALI, which amounted to ₱1,885.8 million and ₱1,509.8 million in 2012 and 2011, respectively, ranged from 1.05% to 1.95% in 2012 and 1.18% to 2.01% in 2011.

AAHC Group
The Philippine peso debt of AAHC Group pertains to short-term loans with various banks amounting to ₱442.9 million and ₱144.5 million as of December 31, 2012 and 2011, respectively. These loans are unsecured and bear interest rate of 4.25% per annum in 2012 and 4.0% to 5.1% per annum in 2011.

AIVPL Group
The Philippine peso debt of AIVPL Group pertains to short-term loans with various banks amounting to ₱126.5 million and ₱45.0 million as of December 31, 2012 and 2011, respectively. These loans are unsecured and bear interest rates ranging from 7.0% to 8.0% in 2012 and interest rate of 8.0% per annum in 2011.

BHL Group
BHL's loans are unsecured dollar-denominated bank loans amounting to US$4.8 million (₱196.6 million) and US$4.5 million (₱197.3 million) as of December 31, 2012 and 2011, respectively, and bear interest rate of 4.01% and 4.13% in 2012 and 2011, respectively.

IMI Group
As of December 31, 2012, IMI Philippines has short-term loans aggregating to US$22.0 million (₱903.1 million). The loans have maturities ranging from 32-60 days and fixed interest rates ranging from 1.64% to 2.00%.

EPIQ EA has short-term loans from the following banks (in thousands):

	2012		2011	
	In US$	**In Php***	In US$	In Php*
UniCredit Bulbank	**US$9,275**	**₱380,738**	US$10,352	₱453,832
BNP Paribas	**425**	**17,446**	715	31,346
	US$9,700	**₱398,184**	US$11,067	₱485,178

**Translated using the exchange rate at the reporting date (US$1:₱41.05 in 2012, US$1:₱43.84 in 2011)*

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one year. The loans bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively. Interest expense recognized on the loans in 2012 and 2011 amounted to US$0.48 million (₱20.3 million) and US$0.45 million (₱19.5 million), respectively (see Note 22).

The credit facility with UniCredit Bulbank is subject to the following collaterals:

- First ranking pledge on materials, ready made and unfinished production at balance sheet value, minimum of €8.0 million;
- First ranking pledge on receivables from a certain customer; and
- Notary signed Soft Letter of Comfort from IMI Philippines.

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with UniCredit Bulbank amounted to €16.0 million (₱870.3 million) and €5.46 million (₱317.4 million), respectively (see Note 6). IMI Philippines also provided a Soft Letter of Comfort to the creditor.

The credit facility with BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of EPIQ EA, subject to pre- financing in the amount of 125% of the utilized portion of the facility but not more than €3,750.0 million; and
- First rank pledge on goods of EPIQ EA in the amount of 125% of the utilized portion of the facility but not more than €3,750.0 million.

As of December 31, 2012 and 2011, EPIQ EA's pledged inventories and receivables with BNP Paribas amounted to €0.64 million (₱35.3 million) (see Note 7).

PSi has short-term loans and trust receipts payable to the following banks (in thousands):

	2012		2011	
	In US$	**In Php***	In US$	In Php*
Metropolitan Bank & Trust Co. (MBTC)	**US$9,100**	**₱373,551**	US$9,248	₱405,416
Philippine Veterans Bank (PVB)	**–**	**–**	920	40,346
	US$9,100	**₱373,551**	US$10,168	₱445,762

**Translated using the exchange rate at the reporting date (US$1:₱41.05 in 2012, US$1:₱43.84 in 2011)*

PSi has an unsecured Omnibus Line Credit Facility of US$10.0 million (₱410.5 million) with a local bank granted on November 24, 2010 and which will expire on October 30, 2012, which includes 30 to 360 days Promissory Notes (maybe denominated in USD or Philippine peso), Letter of Credit/Trust Receipt (LC/TR) Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates ranging from 2.57% to 2.71% in 2012 and 2.27% to 2.85% in 2011 and 2.56% in 2010. As of December 31, 2012 and 2011, the outstanding trust receipts payable amounted to US$0.4 million and US$1.8 million. On January 13, 2012, the credit facility with the local bank was renewed for one (1) year until January 6, 2013. Also, in January 2013, the local bank extended the expiration of the credit facility to March 5, 2013. As of March 1, 2013, PSI is in the process of completing the requirements for renewal of the credit facility. The outstanding trust receipts payable to the local bank amounted to US$0.4 million (₱16.4 million) and US$1.7 million (₱74.5 million) as of December 31, 2012 and 2011, respectively.

The undrawn credit facility amounted to US$0.9 million (₱37.0 million) and US$0.8 million (₱32.9 million) as of December 31, 2012 and 2011, respectively.

In 2010, PSi had a Revolving Promissory Note Line (RPNL) of US$3.0 million, including the availability of LC/TR up to US$1.5 million. This short-term credit facility, which expired in April 2011, is secured by trade receivables from certain customers and MTI on machinery and equipment (see Notes 6 and 9). This was renewed on April 20, 2011, through an Omnibus Line Facility of US$5.0 million, which includes unsecured RPNL of US$3.0 million, which may be available for LC, and 5-year term loan of US$2.0 million secured by the MTI on machineries and equipment. As of December 31, 2011, PSi has not yet availed of the 5-year term loan, hence, the MPC of PVB is temporarily not effective. In February 2012, PSi terminated this short-term credit facility. As of December 31, 2012 and 2011, there are no outstanding trust receipts payables under this facility.

The loans of STEL amounting to ₱57.6 million and ₱53.8 million as of Decemeber 31, 2012 and 2011, respectively, are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 3.55% and from 3.35% to 3.45% in 2012 and 2011, respectively, and have maturities of 30 to 240 days from the date of issue with renewal options.

Loan covenant on BHL's short-term debt requires maintenance of certain financial ratios and restricition on changes of ownership in BHL. These restrictions and requirements were complied by BHL as of December 31, 2012 and 2011. There are no other restrictions or requirements for the remaining short-term loans.

Long-term debt consists of:

	2012	2011
	(In Thousands)	
The Company:		
Bank loans - with interest rates ranging from 0.9% to 3.8% per annum in 2012 and 1.7% to 3.8% per annum in 2011 and varying maturity dates up to 2019	**₱13,181,138**	₱6,464,991
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 6.7% to 8.4% per annum and varying maturity dates up to 2016	**5,310,734**	9,320,169
Bonds due 2017	**9,927,975**	9,914,149
Bonds due 2019	**9,900,012**	–
Bonds due 2021	**9,913,921**	9,907,987
Bonds due 2027	**9,907,642**	–
Syndicated term loan	**1,485,510**	1,485,929
	59,626,932	37,093,225
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 0.75% over 90-day LIBOR to 13.5% in 2012 and 0.4% to 13.5% in 2011 (Note 23)	**31,520,537**	20,191,382
Philippine peso - with interest rates ranging from 0.5% to 9.48% in 2012 and 6.7% to 17.0% in 2011 (Note 23)	**17,655,338**	14,419,831

(Forward)

	2012	2011
	(In Thousands)	
Bonds:		
Due 2012	**₱–**	₱325,390
Due 2013	**4,540,680**	4,327,900
Due 2014	**397,705**	173,715
Due 2015	**999,950**	–
Due 2019	**9,228,063**	–
Due 2022	**5,576,316**	–
Floating Rate Corporate Notes (FRCNs)	**4,500,000**	1,000,000
FXCNs	**23,864,213**	22,520,583
	98,282,802	62,958,801
	157,909,734	100,052,026
Less current portion	**18,816,920**	7,459,658
	₱139,092,814	₱92,592,368

Reconciliation of carrying amount against nominal amount follows:

	2012	2011
	(In Thousands)	
Nominal amount	**₱159,037,031**	₱100,937,012
Unamortized discount	**(1,127,297)**	(884,986)
	₱157,909,734	₱100,052,026

The Company
Generally, the Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Parent Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱10.6 billion and ₱6.2 billion as of December 31, 2012 and 2011, respectively, in accordance with Bangko Sentral ng Pilipinas (BSP) regulations (see Note 6).

All credit facilities of the Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

In June and October 2007, the Company issued ₱3.5 billion FXCNs consisting of 5- and 7-year notes to a local bank with fixed interest rates of 6.73% and 6.70% per annum, respectively. In June 2011, the Parent Company prepaid in full the ₱2.0 billion 5-year FXCN with a fixed interest rate of 6.73% per annum.

In November 2007, the Company issued 6.83% Fixed Rate Bonds with an aggregate principal amount of ₱6.0 billion to mature in 2012. Prior to maturity, the Parent Company may redeem in whole the outstanding bonds on the twelfth and sixteenth coupon payment date. The bonds have been rated "PRS Aaa" by the Philippine Ratings Services Corporation (PhilRatings). In 2011, the Parent Company fully redeemed its ₱6.0 billion Fixed Rate Bonds and recognized ₱30.0 million prepayment penalty on early redemption under "Interest and other financing charges" in the consolidated statement of income.

In February 2008, the Company availed of a syndicated term loan amounting to ₱1.5 billion which bears fixed interest rate of 6.75% per annum and will mature in 2018.

In February 2009, the Company issued ₱4.0 billion FXCNs consisting of ₱3.0 billion 5-year notes and ₱1.0 billion 6-year note to various financial institutions with fixed interest rates of 7.75% and 7.95% per annum for the 5-year notes and 8.15% per annum for the 6-year note. In February 2012, the Company prepaid in full the ₱3.0 billion 5-year notes and ₱1.0 billion 6-year note and recognized ₱18.5 million prepayment penalty on early redemption under "Interest and other financing charges" in the consolidated statement of income.

In March 2009, the Company issued ₱1.0 billion FXCNs consisting of 7-year note to a local financial institution with fixed interest rate of 8.40% per annum.

In August 2009, the Company issued ₱3.0 billion FXCNs consisting of a 5-year note to various institutions with fixed interest rate of 7.45% per annum.

In April 2010, the Company issued 7.20% Fixed rate Putable Bonds with an aggregate principal of ₱10.0 billion to mature in 2017. On the twentieth (20th) Coupon Payment Date (the "Put Option Date"), each Bondholder shall have the option (but not the obligation) to require the Company to redeem the outstanding bonds. The Bonds have been rated "PRS Aaa" by the PhilRatings.

In May 2011, the Company issued 6.80% Fixed Rate Multiple Put Bonds with an aggregate principal amount of ₱10.0 billion to mature in 2021. On the fifth (5th) anniversary of the Issue Date, Bondholders shall have the right, but not the obligation, to require the Company to redeem up to 20% of all outstanding Bonds registered in such Bondholder's name at such time (the "Five Year Put Option"); and on the eighth (8th) anniversary of the Issue Date, Bondholders shall have the right, but not the obligation, to require the Company to redeem up to 100% of all outstanding Bonds registered in such Bondholder's name at such time (the "Eight Year Put Option"). The Bonds have been rated PRS Aaa by PhilRatings.

In May 2012, the Company issued 6.88% Fixed Rate Bonds with an aggregate principal amount of ₱10.0 billion to mature in May 2027. On the tenth (10th) anniversary from the Issue Date and every year thereafter until the fourteenth (14th) anniversary from the Issue Date, the Issuer shall have the right, but not the obligation, to redeem and pay the principal and all amounts due on the outstanding bonds. The Bonds have been rated PRS Aaa by PhilRatings.

In November 2012, the Company issued 5.45% Fixed Rate Bonds with an aggregate principal amount of ₱10.0 billion to mature in November 2019. On the fourth (4th) anniversary from the Issue date and every year thereafter until the sixth (6th) anniversary from the Issue Date, the Issuer shall have the right, but not the obligation, to redeem and pay the principal and all amounts due on the outstanding bonds. The Bonds have been rated PRS Aaa by PhilRatings.

In October and December 2012, the Company availed of a ₱2.0 billion and ₱5.0 billion loan from various banks to mature in 2017 and 2019, respectively. The ₱2.0 billion loan shall bear interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) per annum, or BSP overnight reverse repurchase (RRP) rate, whichever is higher. The ₱5.0 billion loan shall bear interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) or the BSP overnight RRP rate plus spread of twenty five (25) basis points, whichever is higher. The interest rate shall be set on the first drawdown date and every three months thereafter.

The loan agreements on long-term debt of the Company provide for certain restrictions and requirements with respect to maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Company as of December 31, 2012 and 2011.

Subsidiaries

Foreign Currency Debt

In August 2008, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated term loan with a foreign bank, with the Company as guarantor, for US$50.0 million at a rate of 52 points over the 1-, 3- or 6- month LIBOR at the Company's option. As of December 31, 2012 and 2011, the outstanding balance of the loan amounted to US$45.0 million and US$50.0 million, respectively.

In October 2007, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated loan for US$150.0 million at a rate of 71.4 basis points over the 1-, 3- or 6-month LIBOR at the Company's option.

IMI Group

In October 2011, IMI Philippines obtained a five-year term clean loan from a Philippine bank amounting to US$40.0 million payable in a single balloon payment at the end of the loan term. IMI Philippines may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. Interest on the loan is payable quarterly and re-priced quarterly at the rate of three-month LIBOR plus margin of 0.8%.

On February 29, 2012, IMI Philippines obtained a €5.0 million (US$6,624.0 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.

IMI's long-term debt includes deferred payment aggregating to US$18.9 million arising from the acquisition of EPIQ shares and receivables of EPIQ NV from the EPIQ subsidiaries (see Note 23). This is subject to interest rate of 1.6% plus 1.5%.

AIVPL Group

AIVPL's long-term debt amounting to US$0.2 million (₱6.2 million) and US$0.3 million (₱12.3 million) in 2012 and 2011, respectively, pertains to borrowings of Affinity Express India Private Limited (Affinity India) and Global Advertisement Services Pvt. Ltd. (GASPL).

As of December 31, 2012 and 2011, the long term loan represents the syndicate term loan obtained by GASPL with interest of 15.25% p.a. with maturity in December 2014. The loans were secured by hypothecation of computer equipment, machinery and equipment. Net book value of property mortgaged in relation to loans amounted to US$0.1 million (₱4.1 million) and US$0.2 million (₱8.8 million) as of December 31, 2012 and 2011, respectively (see Note 13).

MWC Group
On July 1, 2002, MWC entered into a loan agreement with Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG) to partially finance capital expenditures required to expand water supply and sanitation services and improve the existing facilities of MWC. The loan was made available in US Dollars in the aggregate principal amount of US$20.0 million and is payable in 10 years, inclusive of the 3-year grace period. As of December 31, 2012 and 2011, the outstanding balance amounted to US$2.2 million and US$4.1 million, respectively.

On March 28, 2003, MWC entered into a loan agreement with International Finance Corporation (IFC) (the "First IFC Loan") to partially finance MWC's investment program from 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of the MWC, and concession fee payments. The First IFC Loan will be made available in Japanese Yen (JPY) in the aggregate principal amount of JPY3,591.6 million equivalent to US$30.0 million and shall be payable in 25 semi-annual installments, within 12 years starting on July 15, 2006. As of December 31, 2012 and 2011, the outstanding balance amounted to JPY1,867.6 million and JPY2,155.0 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 has made a full drawdown on the said facility. As of December 31, 2012 and 2011, the outstanding balance amounted to US$13.6 million and US$17.4 million, respectively.

On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (LBP Loan) to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JPY6.6 billion payable via semi-annual installments after the 5-year grace period. As of December 31, 2012 and 2011, outstanding loans amounted to JPY3,195.8 million and JPY3,310.3 million, respectively.

On June 20, 2007, MWC entered into a Finance Contract (the "EIB Loan") with the European Investment Bank (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.

The carrying value of the EIB loan amounted to JPY3,115.2 million and US$16.8 million in 2012 and JPY3,811.9 million and US$20.4 million in 2011.

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 drawdown, second drawdown and third drawdown of the loan amounted to US$84.0 million, US$30.0 million and US$36.0 million. The carrying value of this loan as of December 31, 2012 and 2011 amounted to US$142.4 million and US$79.0 million, respectively.

BHL Group
In 2010, BHL entered into a secured loan agreement with a foreign bank at variable interest of 3.5% spread over 90-day LIBOR with floor of 6.0% and a ceiling of 14.25% which will mature on January 1, 2013. This loan is secured by certain inventories (see Note 7). As of December 31, 2012 and 2011, the outstanding balance of the loan amounted to US$1.1 million and US$2.8 million, respectively.

ALI Group
In 2012, ALI executed and fully drew on 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 LIBOR, repriceable quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date.

Philippine Peso Debt
The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2018 with floating interest rates at 50 basis points to 200 basis points spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 4.50% to 9.72% per annum. The term loan facility of an ALI subsidiary is secured by a Mortgage Trust Indenture over land and building with a total carrying value of ₱690.0 million and ₱1,041.3 million as of December 31, 2012 and 2011, respectively.

On August 22, 2006, MWC entered into a Credit Facility Agreement with five banks and four financial institutions to finance the capital expenditures of MWC pursuant to the Concession Agreement. This 7-year term loan with an aggregate principal amount of ₱2.0 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱1.5 billion (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱500.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, the MWC prepaid a portion of the ₱2.0 billion loan from one financial institution amounting to ₱600.0 million. As of December 31, 2012 and 2011, the carrying value for this loan amounted to ₱1,367.0 million and ₱1,381.0 million, respectively.

On October 9, 2006, MWC entered into a Credit Facility Agreement with three banks and a financial institution to finance the capital expenditures of MWC pursuant to the Concession Agreement. This 7-year term loan with an aggregate principal amount of ₱1.5 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱950.0 million (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of one percent (1%) of the Tranche 1 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱550.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of one percent (1%) of the Tranche 2 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, MWC prepaid a portion of the ₱1.5 billion loan from a financial institution amounting to ₱400.0 million. As of December 31, 2012 and 2011, the carrying value for this loan amounted to ₱1,072.0 million and ₱1,076.0 million, respectively.

On September 7, 2010, LAWC, a subsidiary of MWC, 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 draw down of the loan was made in November 2010 amounting to ₱250.0 million and was fully drawn by July 2011. The carrying value of the loans amounted to ₱496.4 million and ₱493.9 million as of December 31, 2012 and 2011, respectively.

On July 29, 2011, BIWC, a subsidiary of MWC, entered into an omnibus loan and security agreement with the Development Bank of the Philippines (DBP) and Security Bank Corporation (SBC) to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for the Service Area under the Concession Agreement, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.0 million or as the context may require, the amount thereof then outstanding and is payable in twenty (20) years inclusive of a three (3)-year grace period.

The loan shall be available in three sub-tranches, as follows:
- Sub-tranche 1A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through its internally-generated funds.

The first loan drawdown made on August 25, 2011 amounted to ₱150.0 million and second drawdown which was drawn on August 25, 2012 amounted ₱155.0 million. The carrying value of the loan as of December 31, 2012 and 2011 amounted to ₱300.8 million and ₱146.9 million, respectively.

The Agreement provided BIWC the option to borrow additional loans from the lenders. On November 14, 2012, BIWC entered into the second omnibus loan and security agreement with DBP and SBC. The agreed aggregate principal of the loan amounted to ₱500.0 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF)
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF
- Sub-tranche 2C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through BIWC's internally-generated funds.

On November 23, 2012, BIWC made its first loan drawdown amounting to ₱75.0 million. The carrying value of the loan as of December 31, 2012 amounted to ₱72.6 million.

Homestarter Bond due 2012
ALI launched a new issue of the Homestarter Bond in October 2009. The bond is to be issued over a series of 36 issues, once every month which commenced on October 16, 2009, up to ₱14.0 million per series or up to an aggregate issue amount of ₱504.0 million over a 3-year period. The bond carries an interest rate of 5% per annum, payable on the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond (the "bonus credit"). The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2012 and 2011, bond issued amounted to nil and ₱325.4 million, respectively.

Homestarter Bond due 2013
ALI launched another new issue of the Homestarter Bond in April 2010. The bond is to be issued over a series of 36 issues, once every month which commenced on April 16, 2010, up to ₱28.0 million per series or up to an aggregate issue amount of ₱1,008.0 million over a 3-year period. The bond carries an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2012 and 2011, bond issued amounted ₱630.7 million and ₱417.9 million, respectively.

5-Year Bonds due 2013
In 2008, ALI issued ₱4.0 billion bonds due 2013 with fixed rate equivalent to 8.75% per annum. The PhilRatings assigned a "PRS Aaa" rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS Aaa is the highest credit rating possible on PhilRatings' rating scales for long-term issuances. PhilRatings maintained its rating of PRS Aaa for the ₱4.0 billion bond in 2012 and 2011.

On October 22, 2008, MWC issued ₱4.0 billion bonds having a term of five years from the issue date with a fixed interest rate equivalent to 8.25% payable quarterly. Prior to maturity, MWC may redeem in whole, and not in part only, the relevant outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date.

On September 2, 2011, MWC approved the early redemption of its ₱4.0 billion bonds due 2013. The bonds were redeemed by payment in cash at a redemption price set at 102% of the principal amount and accrued interest computed up to October 23, 2011 to bondholders as of October 19, 2011. Upon payment, the listing of the bonds on the Philippine Dealing & Exchange Corp. (PDEx) was terminated. The loss incurred on the early redemption of the bonds amounted to ₱6.15 million.

Homestarter Bond due 2014
In May 2011, ALI launched a new issue of the Homestarter Bond. The bond is to be issued over a series of 36 issues, once every month which commenced on May 16, 2011, with an initial issue amount of up to ₱56.0 million or up to an aggregate issue amount of ₱2.02 billion over a 3-year period. The bond carries an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for a property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is also subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2012 and 2011, bond issued amounted to ₱397.7 million and ₱173.7 million, respectively.

Philippine Peso Homestarter Bond due 2015
In October 2012, ALI issued ₱1,000.0 million bond due 2015 with fixed rate equivalent to 5.0% p.a. The Credit Rating and Investors Services Philippines, Inc. (CRISP) assigned a AAA issuer rating indicating that it has the smallest degree of investment risk for the bond. AAA is the highest credit rating possible on CRISP's rating scale for issuers. CRISP also assigned a stable credit outlook for ALI's issuer rating as CRISP continues to believe that ALI's strong financial performance will continue and roll out of its new development projects will sustain its leadership position.

Philippine Peso 7-Year and 10-year Bonds due 2019 and 2022
In 2012, ALI issued a total of ₱15,000.0 million bonds, broken down into a ₱9,350.0 million bond due 2019 at a fixed rate equivalent to 5.625% p.a. and a ₱5,650.0 million bond due 2022 at a fixed rate equivalent to 6.000% p.a. The PhilRatings assigned a PRS AAA rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS AAA is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

5-,7- and 10-year FXCNs due in 2011, 2013 and 2016
In 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 7.3% to 7.8% per annum 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 on to ₱875.0 million worth of notes maturing in 2013 and 2016 accepted the offer to be prepaid. Loss on prepayment of the FXCNs amounted to ₱25.7 million. On September 23, 2011, the 5-year and one (1) day FXCNs amounting to ₱1,830.0 million matured and were fully paid by ALI.

5-, 7- and 10-year FXCN due 2014, 2016 and 2019
In 2009, ALI issued an aggregate ₱2.38 billion in 5-, 7- and 10-year notes to various financial institutions and retail investors. The notes will mature on various dates up to 2019. The FXCNs bear fixed interest rates ranging from 7.76% to 8.90%.

7-year FRCN due 2016
In 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 initial note drawn, together with any future drawings, will mature on the seventh anniversary of the initial drawdown date.

5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026
In 2011, ALI issued ₱10.0 billion FXCNs to various financial institutions and retail investors. The notes will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.62% to 7.50% p.a. depending on the term of the notes.

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 redeem in 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, 2012 and 2011 amounted to ₱9.89 billion and ₱9.92 billion, respectively.

10-year FRCN due 2022
In 2012, ALI executed a ₱5,000.0 million committed Corporate Note facility with a local bank, of which an initial ₱3,500.0 million was drawn in 2012. The FRCN currently bears a floating interest rate of 4.0% based on the 3-month PDST-R1 plus a spread of 0.75%, repriceable quarterly. The Corporate Notes will mature on the third month succeeding the tenth anniversary of the initial drawdown date.

The loans of MWC were secured by way of first ranking charge over all assigned interests, including the right to receive payments or other consideration under the Agreement, all receivables and bank accounts, interests over all fixed assets (subject to the limitations under the Agreement) and assignment of proceeds of insurance policies. The agreement for the signing of these rights and interests were signed with the lenders at various dates of the loan signing.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC (including the bondholders) are considered Concessionaire Lenders and are on *pari passu* status with one another.

The loan agreements on long-term debt of the Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2012 and 2011.

Total interest paid amounted to ₱6.4 billion in 2012, ₱5.5 billion in 2011 and ₱4.0 billion in 2010.

Interest capitalized by subsidiaries amounted to ₱533.8 million in 2012 and ₱279.0 million in 2011. The average capitalization rate is 2.06% to 7.23% in 2012 and 2.10% to 6.88% in 2011.

20. Other Noncurrent Liabilities

This account consists of the following:

	2012	2011
	(In Thousands)	
Deposits and deferred credits	**₱12,702,455**	₱7,450,083
Retentions payable	**2,180,590**	2,338,399
Provisions (Note 36)	**745,711**	739,626
Others	**221,183**	510,719
	₱15,849,939	₱11,038,827

Deposits include rental deposits that serve as security for any damages to the leased property and which will be refunded at the end of lease term.

Deposits are initially recorded at fair value, which was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is recorded as deferred credits.

Deferred credits also include prepayments received from customers before the completion of delivery of goods or services.

Retentions payable pertains to retention from the contractors' progress billings which will be later released after the completion of contractors' project. The retention serves as a security from the contractor should there be defects in the project.

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.

Other liabilities mainly include nontrade payables (see Note 30). It also includes liabilities arising from PSi's Subcontracting Service Agreement (SSA) with a local customer. On June 28, 2010, PSi and a local customer entered into a SSA for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The SSA shall take effect upon the execution thereof and effective until August 14, 2020, unless mutually terminated by both parties. However, the subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received non-interest bearing cash advances amounting to US$3.0 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the local customer. The local customer and PSi agree that the full cash advances amounting to US$3.0 million will be applied to prepay and cover any, and all of the fees payable under Annex B of the SSA for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2012 and 2011, the current and noncurrent portion of the advances from the local customer follow:

	2012		2011	
	In US$	**In Php**	In US$	In Php
Total outstanding advances from the local customers	**$2,303,765**	**₱94,569,553**	$2,564,594	₱112,431,801
Less: Current portion	**272,747**	**11,196,264**	260,829	11,434,743
Noncurrent portion	**$2,031,018**	**₱83,373,289**	$2,303,765	₱100,997,058

**Translated using the closing exchange rate at the reporting date (US$1:₱41.05 in 2012, US$1:₱43.84 in 2011)*

The current portion is included under "Accounts payable and accrued expenses".

21. **Equity**

On February 22, 2011, the BOD approved the increase in authorized capital stock of the Company from ₱37.0 billion to ₱56.2 billion, consisting of 900 million shares with par value of ₱50 per share; 12 million Preferred A shares with par value of ₱100 per share; 58 million of Preferred B shares with par value of ₱100 per share; a new series of 40 million Preferred C shares with a par value of ₱100.0 per share; and 200 million voting preferred shares with par value of ₱1 per share. On June 17, 2011, the SEC approved the Company's application for increase in capital stock.

The BOD likewise approved the declaration of a 20% stock dividends to all common stockholders to be issued from the increase in authorized capital stock which was approved by SEC on June 17, 2011.

The details of the Company's preferred and common shares follow:

Preferred shares

	Preferred A shares			**Preferred B shares**			**Preferred C shares**			**Voting Preferred shares**		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010	**2012**	2011	2010
	(In Thousands, except for par value figures)											
Authorized shares	**12,000**	12,000	12,000	**58,000**	58,000	58,000	**40,000**	40,000	–	**200,000**	200,000	200,000
Par value per share	**₱100**	₱100	₱100	**₱100**	₱100	₱100	**₱100**	₱100	₱–	**₱1**	₱1	₱1
Issued and subscribed shares	**12,000**	12,000	12,000	**58,000**	58,000	58,000	**–**	–	–	**200,000**	200,000	200,000

Preferred B shares
In February 2006, the BOD approved the reclassification of the unissued preferred shares and redeemed preferred shares of the Company into 58.0 million new class of Preferred B shares with a par value of ₱100 per share or an aggregate par value of ₱5,800.0 million. The Preferred B shares have the following features: (a) optional redemption by the Company; (b) issue value, dividend rate and declaration thereof to be determined by the BOD; (c) cumulative in payment of current dividends as well as any unpaid back dividends and non-participating in any other further dividends; (d) nonconvertible into common shares; (e) preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance; (f) nonvoting except in those cases specifically provided by law; (g) no pre-emptive rights to any issue of shares, common or preferred; and (h) reissuable when fully redeemed.

In July 2006, the Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100 per share to be listed and traded on the Philippine Stock Exchange (PSE). The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 9.5% per annum. The Preferred B shares may be redeemed at the option of the Company starting in the fifth year.

On March 14, 2011, the BOD approved and authorized the exercise of call option on Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

Preferred A shares
On January 31, 2008, the BOD approved the reissuance and reclassification of 1.2 billion redeemed Preferred A and AA shares with a par value of ₱1.0 per share into 12.0 million new Preferred A shares with a par value of ₱100 per share with the same features as the existing Preferred B shares, except on the issue price and dividend rate and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the redeemed Preferred shares into new Preferred A shares. On April 4, 2008, the Company's stockholders ratified the reissuance and reclassification.

On July 9, 2008, the SEC approved the amendments to the Company's Articles of Incorporation embodying the reclassification of the redeemed Preferred shares.

In November 2008, the Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500 per share to be listed and traded on the PSE. The Preferred A shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.9% per annum. The Preferred A shares may be redeemed at the option of the Company starting in the fifth year.

Preferred C shares
Preferred C shares are cumulative, non-participating, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares
On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50 per share into 200.0 million Voting Preferred shares with a par value of ₱1 per share and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares. On April 16, 2010, the Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum.

Common shares

	2012	2011	2010
	(In Thousands, except par value figures)		
Authorized shares	**900,000**	900,000	596,000
Par value per share	**₱50**	₱50	₱50
Issued and subscribed shares	**598,873**	597,441	500,322
Treasury shares	**5,184**	20,184	14,677

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 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

The details of the Company's paid-in capital follow:

2012

	Preferred Stock - A	**Preferred Stock - B**	**Preferred Stock - Voting**	**Common Stock**	**Subscribed**	**Additional Paid-in Capital**	**Subscriptions Receivable**	**Total Paid-in Capital**
				(In Thousands)				
As of January 1, 2012	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱29,655,833**	**₱216,209**	**₱6,339,593**	**(₱578,816)**	**₱42,832,819**
Exercise/Cancellation of ESOP/ESOWN	**–**	**–**	**–**	**127,177**	**(55,557)**	**610,193**	**97,215**	**779,028**
Reissuance of Treasury Stock	**–**	**–**	**–**	**–**	**–**	**1,471,278**	**–**	**1,471,278**
As of December 31, 2012	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱29,783,010**	**₱160,652**	**₱8,421,064**	**(₱481,601)**	**₱45,083,125**

2011

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
As of January 1, 2011	₱1,200,000	₱5,800,000	₱200,000	₱24,784,980	₱231,114	₱6,243,383	(₱604,011)	₱37,855,466
Exercise/Cancellation of ESOP/ESOWN	–	–	–	28,536	(14,905)	96,210	25,195	135,036
Stock dividend	–	–	–	4,842,317	–	–	–	4,842,317
As of December 31, 2011	₱1,200,000	₱5,800,000	₱200,000	₱29,655,833	₱216,209	₱6,339,593	(₱578,816)	₱42,832,819

2010

	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, 2010	₱1,200,000	₱5,800,000	₱–	₱24,773,540	₱235,251	₱6,080,755	(₱611,671)	₱37,477,875
Exercise/Cancellation of ESOP/ESOWN	–	–	–	11,440	(4,137)	163,628	7,660	178,591
Issuance of shares	–	–	200,000	–	–	(1,000)	–	199,000
As of December 31, 2010	₱1,200,000	₱5,800,000	₱200,000	₱24,784,980	₱231,114	₱6,243,383	(₱604,011)	₱37,855,466

The movements in the Company's outstanding number of common shares follow:

	2012	2011	2010
		(In Thousands)	
At January 1	**577,258**	485,645	498,332
Stock dividends	–	96,846	–
Exercise of ESOP/ESOWN	**1,432**	273	146
Treasury stock	**15,000**	(5,506)	(12,833)
At December 31	**593,690**	577,258	485,645

On July 17, 2012, the BOD approved the sale of 15.0 million treasury shares at a price of ₱430.0 per share. As of December 31, 2012, 15.0 million shares were sold at a total consideration of ₱6.4 billion.

On September 10, 2007, the BOD approved the creation of a share buyback program involving ₱2.5 billion worth of common capital stock. On June 2, 2010, the BOD approved to increase the share buyback program from ₱2.5 billion to ₱5.0 billion. In 2011, the Parent Company acquired 5.5 million common shares at a total cost of ₱1,776.6 million.

In addition, ₱250.0 million Preferred A shares of the Company have been acquired by ALI (₱100.0 million) and MWC (₱150.0 million). This has been accounted for as "Parent Company Preferred shares held by subsidiaries" and presented as a reduction in equity.

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Company's track record of registration of securities.

	Number of shares registered	Issue/offer price	Date of approval	**2012** Number of holders of securities as of December 31	2011 Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 21, 1976	**7,215**	7,451
Preferred A shares	12,000,000	₱100 par value; ₱500 issue price	November 11, 2008	**54**	55
Preferred B shares	58,000,000	₱100 par value; ₱100 issue price	July 5, 2006	**None*** **	None***
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 15, 2010	**980**	980

**Initial number of registered shares only.*
***Par value now is ₱50.00*
****The Preferred B shares are fully redeemed on July 21, 2011.*

Retained Earnings
Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and jointly controlled entities accounted for under the equity method amounting to ₱55,658.2 million, ₱49,628.5 million and ₱41,655.3 million as of December 31, 2012, 2011 and 2010, respectively, which are not available for dividend declaration by the Company until these are declared by the investee companies.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with the SRC Rule 68, as Amended (2011), Annex 68-C, the Company's retained earnings available for dividend declaration as of December 31, 2012 and 2011 amounted to ₱20,416.5 million and ₱13,848.4 million, respectively.

Dividends consist of the following:

	2012	2011	2010
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱2,344,246**	₱2,124,004	₱1,944,830
Cash dividends per share	**4.00**	4.00	4.00
Stock dividends	**–**	4,842,317	–
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred A shares	**532,800**	532,800	532,800
Cash dividends to Preferred B shares	**–**	–	411,414
Cash dividends to Voting Preferred shares	**10,563**	21,126	–

On December 14, 2012, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Parent Company amounting to ₱1,187.2 million or ₱2 per share, payable to all common shares shareholders of record as of January 8, 2013. The said dividends are payable on February 1, 2013. Also on the same date, the BOD approved the declaration and payment of the quarterly cash dividends of 8.88% to all shareholders of the Parent Company's Preferred A shares for the calendar year 2013 and declaration and payment of the annual cash dividends of 5.2817% per annum to all shareholders of the Company's Voting Preferred shares.

On December 9, 2011, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Parent Company amounting to ₱1,154.5 million or ₱2 per share, payable to all common shares shareholders of record as of December 28, 2011. The said dividends are payable on January 24, 2012. Also on the same date, the BOD approved the declaration and payment of the quarterly cash dividends of 8.88% to all shareholders of the Company's Preferred A shares for the calendar year 2012 and declaration and payment of the annual cash dividends of 5.2817% per annum to all shareholders of the Company's Voting Preferred shares.

On December 10, 2010, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Parent Company amounting to ₱971.4 million or ₱2 per share, payable to all common shares shareholders of record as of January 7, 2011. The said dividends are payable on February 2, 2011. Also on the same date, the BOD approved the declaration and payment of the quarterly dividends to all shareholders of the Company's Preferred A for the calendar year 2011 and the declaration and payment of the quarterly dividends for the first three quarters of 2011 to all Preferred B shareholders for calendar year 2011.

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2012 and 2011.

The Company is not subject to externally imposed capital requirements.

The Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents and short-term investments. The Company considers as capital the equity attributable to equity holders of the Company.

	2012	2011
	(In Thousands)	
Short-term debt	**₱11,847,157**	₱6,665,841
Long-term debt	**157,909,734**	100,052,026
Total debt	**169,756,891**	106,717,867
Less:		
Cash and cash equivalents	**76,760,668**	53,577,252
Short-term investments	**296,503**	1,613,058
Net debt	**₱92,699,720**	₱51,527,557
Equity attributable to owners of the parent	**₱125,601,586**	₱107,044,063
Debt to equity	**135.2%**	99.7%
Net debt to equity	**73.8%**	48.1%

22. **Other Income and Costs and Expenses**

Other income consists of:

	2012	2011	2010
		(In Thousands)	
Revenue from rehabilitation works (Note 14)	**₱6,037,467**	₱7,198,190	₱5,704,322
Remeasurement gain arising from business combination (Note 23)	**593,853**	–	4,386,789
Foreign exchange gain (Note 31)	**306,431**	90,060	39,105
Dividend income	**180,547**	234,333	146,962
Mark to market gain on financial assets at FVPL and derivatives (Notes 8 and 31)	**72,698**	337,679	146,299
Gain on sale of investments (Note 11)	**67,847**	539,713	13,972
Gain on sale of other assets	**26,588**	131,078	162,156
Insurance claim (Note 6)	**25,458**	–	–
Gain on deemed disposal of a subsidiary (Note 11)	**–**	–	2,110,272
Bargain purchase gain (Note 23)	**–**	558,233	53,327
Others (Note 7)	**882,737**	599,830	287,707
	₱8,193,626	₱9,689,116	₱13,050,911

"Other" mainly includes income derived from ancillary services of consolidated subsidiaries. This may include, among others, marketing fees, collateral income from vehicle sales and income from sale of scraps.

Details of costs of services included in the consolidated statement of income are as follows:

	2012	2011	2010
		(In Thousands)	
Personnel costs (Notes 26, 27 and 30)	**₱6,440,028**	₱6,043,245	₱6,715,873
Depreciation and amortization (Notes 12, 13, 14 and 15)	**5,587,639**	5,579,278	3,823,056
Rental, utilities and supplies	**4,237,141**	3,008,625	3,439,918
Professional and management fees	**2,131,775**	1,927,082	2,105,147
Taxes and licenses	**999,769**	910,876	800,097
Repairs and maintenance	**938,902**	635,499	624,675
Transportation and travel	**195,341**	228,244	169,079
Insurance	**191,296**	167,958	153,224
Construction costs	**189,167**	–	–
Contract labor	**117,518**	124,828	175,976
Others	**1,961,228**	320,993	692,983
	₱22,989,804	₱18,946,628	₱18,700,028

"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:

	2012	2011	2010
		(In Thousands)	
Personnel costs (Notes 26, 27 and 30)	**₱6,476,914**	₱5,890,790	₱5,564,564
Depreciation and amortization (Notes 12, 13, 14 and 15)	**976,658**	1,020,981	1,405,338
Professional fees	**965,776**	792,331	593,636
Taxes and licenses	**524,508**	520,075	771,534
Donations and contributions	**499,680**	128,226	245,674
Provision for doubtful accounts (Note 6)	**396,588**	107,908	426,699
Rental and utilities	**276,915**	336,206	229,798
Transportation and travel	**267,896**	259,705	261,659
Advertising and promotions	**237,756**	222,804	236,992
Repairs and maintenance	**226,856**	227,392	201,046
Postal and communication	**164,424**	156,601	162,493
Insurance	**130,253**	85,459	86,135
Entertainment, amusement and recreation	**118,474**	185,804	170,805
Dues and fees	**106,082**	230,464	150,087
Supplies	**104,220**	99,772	81,024
Research and development	**90,164**	67,562	45,600
Contract labor	**48,577**	208,159	113,482
Others (Note 6)	**809,277**	334,733	259,110
	₱12,421,018	₱10,874,972	₱11,005,676

"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:

	2012	2011	2010
		(In Thousands)	
Included in:			
Costs of sales and services	**₱5,587,846**	₱5,579,278	₱3,823,056
General and administrative expenses	**976,658**	1,020,981	1,405,338
	₱6,564,504	₱6,600,259	₱5,228,394

Personnel costs included in the consolidated statement of income follow:

	2012	2011	2010
		(In Thousands)	
Included in:			
Costs of sales and services	**₱6,440,028**	₱6,243,245	₱6,715,873
General and administrative expenses	**6,476,914**	5,890,790	5,564,564
	₱12,916,942	₱12,134,035	₱12,280,437

Interest and other financing charges consist of:

	2012	2011	2010
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱248,961**	₱199,717	₱236,906
Long-term debt	**5,932,477**	5,276,219	3,832,346
Amortization of service concession obligations and deposits	**418,362**	345,978	546,528
Amortization of discount on long-term debt	**267,612**	206,258	50,495
Others	**1,007,005**	147,171	89,714
	₱7,874,417	₱6,175,343	₱4,755,989

"Others" include, among others, various charges such as, pretermination costs, bond offering fees, and credit card charges.

Other charges consist of:

	2012	2011	2010
		(In Thousands)	
Cost of rehabilitation works (Note 14)	**₱6,033,936**	₱7,195,936	₱5,695,373
Provision for impairment losses			
Inventories (Note 7)	**330,822**	49,937	–
AFS financial assets (Note 9)	**61,076**	157,314	235,114
Investment properties (Note 12)	**19,500**	–	–
Property, plant and equipment (Note 13)	**11,575**	–	–
Write-offs and other charges	**150,392**	142,741	221,306
Loss on derecognition of derivative asset (Note 16)	**–**	229,613	–
Impairment loss on goodwill (Notes 15 and 23)	**–**	139,170	914,118
Remeasurement loss arising from business combination (Note 23)	**–**	–	595,925
Others	**285,267**	18,586	105,446
	₱6,892,568	₱7,933,297	₱7,767,282

"Others" include cost and expenses relating to income derived from ancillary services of subsidiaries as shown in the other income.

For the year ended December 31, 2012, the Group presented revenue from rehabilitation works and costs of rehabilitation works as part of "Other income" in revenue and "Other charges" in cost and expenses to align its presentation with the MWC group. In prior years, revenue from rehabilitation works was presented under "Income from rendering of services" and costs of rehabilitation works under "Costs of rendering services". The change was accounted for retrospectively, and accordingly, the Group restated its consolidated statements of income. The change is not a material reclassification on the total income and total expense and has no impact on consolidated net income, earnings per share, cash flows and statement of financial position.

23. **Business Combinations**

2012 Acquisitions

ALI Makati Hotel & Residences, Inc. (AMHRI) and ALI Makati Hotel Property, Inc. (AMHPI)
On October 2, 2012, AyalaLand Hotels and Resorts Corp. (AHRC), a wholly owned subsidiary of ALI, entered into an agreement to acquire the interests of Kingdom Manila B.V., an affiliate of Kingdom Hotel Investments (KHI), and its nominees in KHI-ALI Manila Inc. (now renamed AMHRI) and 72,124 common shares in KHI Manila Property Inc. (now renamed AMHPI).

AMHRI and AMHPI are the project companies for the Fairmont Hotel and Raffles Suites and Residences project in Makati which opened last December 2012.

A total of ₱2,430.4 million was paid to acquire the interests of KHI in AMHRI and AMHPI.

The acquisition is in line with KHI's value realization strategy and with ALI's thrust to grow its commercial leasing business. It adds 32 Raffles Suites and 280 Fairmont Hotel rooms to AHRC's growing hotel portfolio. The continuing sale of units in the Raffles Residences will also generate immediate cash, while the operations of the hotel and serviced apartments will augment and diversify the sources of recurring revenues. Furthermore, this landmark project will complement the various offerings of the Makati Central Business District, and fortify its position as the country's premier financial district.

Prior to the acquisition, ALI effectively owns 20% economic interest in AMHRI and AMHPI, and through this acquisition, AHRC and the ALI's ownership in AMHRI and AMHPI now stands at 100%. Remeasurement of ALI's equity interest in both companies resulted in the recognition of a gain (included under "Other income") amounting to ₱593.9 million (see Note 22).

The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. Below are the preliminary fair values of the identifiable assets and liabilities assumed (amounts in thousands):

Assets	
Cash	₱1,334,000
Trade and other receivables	1,708,000
Real estate inventories	936,000
Other current assets	202,000
Hotel property and equipment	5,421,000
	9,601,000
Liabilities	
Accounts and other payables	2,973,000
Loans payable	3,594,000
Deferred tax liabilities	390,398
	6,957,398
Net assets	₱2,643,602
Goodwill	393,630
Acquisition cost	₱3,037,232

From the date of acquisition, the Group's share in AMHRI and AMHPI's revenue and net income amounted to ₱898.9 million and a loss of ₱96.4 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱113.1 billion, while the Group's net income would have been ₱18.3 billion.

2011 Acquisitions

EPIQ subsidiaries
On April 28, 2011, IMI Philippines infused additional capital to its subsidiary, IMI Singapore, consisting of US$7.0 million cash and 200 million of IMI Philippines' own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.0 per share. This was used by IMI Singapore to set up Monarch and Cooperatief as holding companies and facilitate the acquisition of EPIQ subsidiaries from EPIQ NV.

On May 4, 2011, IMI Philippines, Cooperatief (the Purchaser), and EPIQ NV (the Seller), entered into a Sale and Purchase Agreement (SPA), for the Purchaser to buy the Seller's 100% direct or indirect ownership shares (EPIQ shares) in the EPIQ subsidiaries.

IMI Philippines, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200 million of IMI Philippines' shares (the IMI Consideration Shares); deferred payment of EUR€7.3 million (₱443.1 million) from 2013 to 2018 subject to interest rate of 1.599% plus 1.5%; and assumption of liabilities of EPIQ NV to the EPIQ subsidiaries aggregating to EUR€2.5 million (₱153.6 million).

The acquisition costs are allocated as follows:

	EPIQ EA	EPIQ CZ	EPIQ MX	Total
		(In Thousands)		
Issuance of 200 million IMI Consideration Shares	US$20,639	US$525	US$7,645	US$28,809
Deferred payment	7,533	191	2,791	10,515
Assumed liabilities of EPIQ NV to EPIQ subsidiaries	115	9	3,521	3,645
	US$28,287	US$725	US$13,957	US$42,969

On July 29, 2011, all of the completion conditions under the SPA were fulfilled by the responsible parties, and the acquisition of the EPIQ subsidiaries by Cooperatief was completed.

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from the EPIQ subsidiaries aggregating to €11.7 million (₱707.9 million). On July 29, 2011, €4.8 million (₱291.4 million) of this was settled through cash payment, while the rest will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.599% plus 1.5% (see Note 19).

The provisional fair values of the identifiable assets and liabilities acquired and goodwill (gain from bargain purchase) arising as at the date of acquisition follow:

	EPIQ EA		**EPIQ CZ**		**EPIQ MX**	
	In US$	In Php*	In US$	In Php*	In US$	In Php*
			(In Thousands)			
Assets						
Cash and cash equivalents	US$1,153	₱48,569	US$515	₱21,711	US$3,386	₱142,668
Receivables	26,486	1,116,115	3,334	140,492	10,508	442,811
Inventories	20,701	872,338	2,985	125,769	4,476	188,632
Property, plant and equipment	24,811	1,045,517	5,734	241,639	8,618	363,172
Intangible assets	6,925	291,838		–	300	12,631
Deferred tax assets	–	–	444	18,720	–	–
Other assets	193	8,141	–	–	121	5,092
	80,269	3,382,518	13,012	548,331	27,409	1,155,006
Liabilities						
Accounts payable	17,651	745,824	2,445	103,025	6,410	270,107
Bank loans	12,871	542,394	–	–	–	–
Accrued charges and deferred income	1,159	48,831	378	15,919	–	–
Taxes payable	352	14,857	–	–	1,090	45,932
Provisions	1,320	55,615	–	–	–	–
Deferred tax liabilities	2,139	90,131	–	–	1,686	71,060
Long term debt	4,780	201,424	10,114	426,224	2,909	122,591
	40,272	1,699,076	12,937	545,168	12,095	509,690
Net Assets	US$39,997	₱1,683,442	US$75	₱3,163	US$15,314	₱645,316
Cooperatief's share in the fair value of net assets acquired	39,949	1,683,442	75	3,163	15,314	645,316
Goodwill (gain from bargain purchase)	(11,662)	(491,423)	650	27,408	(1,357)	(57,175)
Acquisition cost	US$28,287	₱1,192,019	US$725	₱30,571	US$13,957	₱588,141

**Translated using the exchange rate at the transaction date (US$1:₱42.14)*

The purchase price allocation for the acquisition of the EPIQ subsidiaries has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets, contingent liabilities and goodwill.

In 2012, IMI Phillippines finalized the purchase price allocation. As shown above, no changes were made to the provisional values as the impact of additional information subsequently obtained was not significant to affect the preliminary values.

Acquisition related costs which consist of professional fees, representation and travel expenses amounting to US$2.1 million (₱92.7 million) were recognized as expense in 2011.

From the date of acquisition in 2011, the Group's share in the revenue and net income of EPIQ subsidiaries amounted to US$66.2 million (₱2.9 billion) and US$2.4 million (₱104.8 million), respectively. If the combination had taken place at the beginning of 2011, the Group's total revenue and net income would have been ₱99.4 billion and ₱16.1 billion, respectively.

CWC
On November 8, 2011, MWC and Veolia Water Philippines, Inc. (VWPI) entered into a share sale and purchase agreement whereby VWPI will sell to MWC its 100% interest in CWC and receivable from Bonifacio Water Corporation (BWC). On November 29, 2011, MWC completed the acquisition of VWPI's 100% interest in the common shares of CWC and the BWC receivable at a total contract price of ₱1.8 billion, broken down as follows:

BWC Receivable (Note 6)	₱0.6 billion
Investment in CWC	1.2 billion
	₱1.8 billion

The terms of the BWC receivable provide that payments will be made on a quarterly basis at an amount based on a certain percentage of BWC's revenue until 2022, the end of BWC's concession period. The fair value of the BWC receivable has been determined based on the present value of forecasted collections of the receivable.

The purchase price allocation of CWC has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash	₱31,621
Receivable - net	38,854
Materials and supplies - at cost	1,132
Other current assets	1,324
Property, plant and equipment	5,188
Service concession assets	1,077,361
Other noncurrent assets	13,900
	1,169,380
Liabilities	
Accounts and other payables	₱22,178
Income tax payable	838
Service concession liabilities	37,013
Deferred tax liability	244
Customers' deposits	27,429
Pension liability	11,339
	99,041
Net assets	₱1,070,339
Goodwill	130,319
Acquisition cost	₱1,200,658

Cash on acquisition follows:

Cash acquired from CWC	₱31,621
Cash paid	1,200,658
Net cash flow	₱1,169,037

The fair value of receivables amounts to ₱38.9 million. The gross amount of receivables is ₱42.6 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

Transaction costs of ₱2.6 million have been expensed and are included in administrative expenses.

From the date of acquisition, the Group's share in the revenue and net income of CWC amounted to ₱27.6 million and ₱6.8 million, respectively. If the contribution had taken place at the beginning of the year, the revenue of the Group would have been ₱97.3 billion and net income would have been ₱15.9 billion in 2011.

In 2012, MWC finalized the purchase price allocation and there were no changes made to the fair values of the assets acquired and liabilities assumed for CWC.

IQ BackOffice, LLC (IQB)
On April 29, 2011, AIVPL through LIL and HRMall acquired IQB for a total consideration of US$12.5 million. IQB is engaged in the business of providing outsourced back office accounting and financial management services. AIVPL dissolved IQB upon its acquisition to create a new company in the name of IQ BackOffice, Inc. (IQB Delaware) to serve as a marketing arm for AIVPL Group.

The purchase price has been allocated based on management's estimates after considering independent appraisals of the fair values of the acquired identifiable assets and assumed liabilities at the date of acquisition as follows (amounts in thousands):

	In US$	In Php*
Assets		
Cash	US$323	₱13,807
Receivables	259	11,065
Property and equipment	486	20,821
Intangibles	7,771	332,603
	8,839	378,296
Liabilities		
Accounts and other payables	28	1,185
Net assets	8,811	377,111
Goodwill	3,689	157,889
Acquisition cost	US$12,500	₱535,000

**Translated using the exchange rate at the transaction date (US$1:₱42.80).*

The cost of acquisition pertains to cash paid in the amount of US$12.5 million (₱535.0 million).

From the date of acquisition, the Group's share in the revenue and net income of IQB amounted to US$2.3 million (₱100.6 million) and US$0.1 million (₱3.6 million), respectively. If the contribution had taken place at the beginning of the year, the revenue would have been US$2.2 billion (₱94.1 billion) and net income of the Group would have been US$0.4 billion (₱15.9 billion) in 2011.

Concurrently, LIL entered into a share purchase agreement with certain IQB officer to sell a portion of HR Mall Holdings (HMHL) shares, giving the IQB officer a combined ownership interest of 17.48% in HMHL.

Wind power companies

On March 15, 2011, ACEHI entered into a share purchase agreement with Viage Holdings, Presage Holdings, Moorland Philippines Investments, Inc. and BDO Capital Corporation for their respective holdings in Viage Corporation (Viage), Presage Corporation (Presage) and Moorland Philippines Holdings, Inc. (Moorland). The acquisition gave ACEHI 100% ownership interest in Viage, Presage and Moorland (collectively "Wind power companies") which collectively owns a 50% effective stake in NorthWind Power Development Corporation (Northwind). Northwind owns and operates the 33-MW wind farm located in Bangui Bay, Ilocos Norte.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash	₱683
Receivables	42,548
Other current assets	165
Investments in stocks	457,180
	500,576
Liabilities	
Accounts payable	1,078
Advances	21,136
	22,214
Net assets	478,362
Goodwill	411,031
Acquisition cost	₱889,393

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱492,423
Contingent consideration liability	396,970
	₱889,393

Cash on acquisition follows (amounts in thousands):

Cash acquired from Wind power companies	₱683
Cash paid	492,423
Net cash flow	₱491,740

As part of the share purchase agreement with the previous owners of the Wind power companies, a contingent consideration has been agreed. There will be additional payments to the previous owners for Feed-in-Tariff (FiT) Adjustment and Achieved Capacity Factor Adjustment within one year from closing date (March 15, 2012).

As at the acquisition date, the fair value of the contingent consideration is ₱396.97 million.

As of December 31, 2011, Northwind was able to exceed the agreed capacity factor with the previous owners. However, the FiT provision of the Renewable Energy Act of 2008 is pending approval by the Energy Regulatory Commission (ERC).

From the date of acquisition, the Group's share in the revenue and net income of the Wind power companies amounted to ₱3.6 million and ₱2.2 million, respectively. If the combination had taken place at the beginning of the year, the revenue of the Group would have been ₱94.0 billion and net income would have been ₱15.8 billion in 2011.

Hydro power companies

On April 19, 2011, ACEHI and Sta. Clara Power Corporation (SCP) entered into a Shareholder's Agreement (the Agreement) to develop various mini-hydro power projects in various locations in the Philippines. ACEHI and SCP shall carry out the Agreement through Quadriver Energy Corporation (QEC), Philnew Hydro Power Corporation (PHPC) and Philnew River Power Corporation (PRPC) (collectively "Hydro power companies"), wholly owned subsidiaries of SCP. QEC and PHPC were incorporated on April 5, 2011 while PRPC was incorporated on June 24, 2011.

Under the Agreement, SCP issued an irrevocable proxy in favor of ACEHI wherein ACEHI will hold 70% of the subscribed capital stock, vote on any and all corporate actions therein, and elect such number of directors as corresponds to its intended 70% stake in QEC, PHPC and PRPC. This enabled ACEHI to exercise control over QEC, PHPC and PRPC.

Simultaneous with the signing of the Agreement, SCP transferred 25% of its ownership interest in QEC and PHPC to ACEHI.

The following is a summary of the fair values of the asset acquired from QEC and PHPC as of the date of the acquisition (amounts in thousands).

Assets	
Cash	₱500
Share in the fair value of the asset acquired (25%)	125
Goodwill	55,423
Acquisition cost	₱55,548

The acquisition cost pertains to the cash consideration paid to SCP.

Cash on acquisition of QEC and PHPC follows (amounts in thousands):

Cash acquired from PRPC	₱500
Cash paid	55,548
Net cash flow	₱55,048

As of December 31, 2011, ACEHI does not own any shares of PRPC but the balances were still consolidated by virtue of the irrevocable proxy issued by SCP.

The asset of PRPC as of acquisition date pertain to cash amounting to ₱0.25 million.

Cash on acquisition of PRPC follows (amounts in thousands):

Cash acquired from PRPC	₱250
Cash paid	–
Net cash flow	₱250

Subsequent to acquisition date, renewable energy contracts under the name of SCP were transferred to the respective Hydro power companies.

From the date of acquisition, the Group's share in the revenue and net loss of Hydro power companies amounted to ₱0.1 million and (₱3.01 million), respectively. Since the business combination happened close to the date of incorporation of the Hydro power companies, the Group's total revenue and net income would be the same as presented in the consolidated statement of income.

2010 Acquisitions

PSi

On June 25, 2010, IMI and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the “New Investors”) entered into an Investors’ Agreement (the Agreement) with PSi Technology Holdings, Inc. and Merrill Lynch Global Emerging Markets Partners, LLC collectively referred to as the “Old Investors”), to take on 55.8% and 11.2% equity share in PSi, respectively.

Under the Agreement, IMI subscribed to 13.2 billion common shares or 55.8% of PSi’s outstanding common shares in exchange for a cash consideration of US$8.3 million.

The Agreement also provided for the following:

1) The grant of Put and Call Options as follows (see Note 31):

Put Option	Option to require the New Investors to purchase all but not some of the shares held by the Old Investors (Option Shares) at the time of exercise, at anytime during the Put Option Period.
Put Option Period	The period from acquisition date up to 24 months from completion date, with 7-day exercise notice.
Put Option Strike Price	The higher of (a) US$1.0 and (b) value of the shares calculated based on 5.5x trailing 12-month Earnings before interest, taxes, depreciation and amortization (EBITDA) of PSi as of receipt of the exercise notice less net debt.
Call Option	Option to require the Old Investors to sell all but not some only of the shares held by the Old Investors at the time of exercise, at anytime during the Call Option Period.
Call Option Period	The period commencing 6 days prior to the lapse of the Put Option Period and ending 30 days after the lapse of the Put Option Period.
Call Option Strike Price	The higher of (a) US$1.0 and (b) value of the shares calculated based on 6.0x trailing 12-month EBITDA of PSi as of the date of receipt of the exercise notice less net debt.

2) The assumption of the Old Investors of certain pre-completion liabilities of PSi. However, payment of such liabilities would come from and is limited to any proceeds from the exercise of either the Put Option or the Call Option.

3) The New Investors agreed to proportionately assume one-third (1/3) of the initial US$3.0 million of the pre-completion liabilities assumed by the Old Investors.

The equity subscription of the New Investors was finalized on October 6, 2010. On that date, IMI paid the US$8,325,000 subscription price and four (4) of its officers were appointed as members of PSi’s BOD. As of this date, IMI effectively obtained control of PSi.

The purchase price allocation has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition.

	In US$	In Php*
	(In Thousands)	
Assets		
Cash	US$10,528	₱461,966
Accounts receivable	18,420	808,263
Inventories	6,581	288,774
Property, plant and equipment	9,210	404,152
Other assets	1,312	57,568
	46,051	2,020,723
Liabilities		
Accounts payable and accrued expenses	35,783	1,570,180
Loans payable	2,348	103,013
Deferred revenue	2,923	128,259
Accrued rental noncurrent	902	39,581
Other long-term benefits	372	16,327
	42,328	1,857,360

(Forward)

	In US$	In Php*
	(In Thousands)	
Net assets	US$3,723	₱163,363
IMI's share in the fair value of net assets acquired (55.78%)	2,077	91,123
Goodwill	9,493	416,570
Acquisition cost	US$11,570	₱507,693

Translated using the exchange rate at the transaction date (US$1:₱43.88)

The cost of the acquisition is determined as follows:

	In US$	In Php*
	(In Thousands)	
Cash paid	US$8,325	₱365,301
IMI's share in acquisition-date fair value of Call Option granted to New Investors	(1,404)	(61,608)
IMI's share in acquisition-date fair value of Put Option granted to Old Investors	3,816	167,447
IMI's share in Pre-Completion liabilities assumed from the Old Investors	833	36,553
Cost of acquisition	US$11,570	₱507,693

Translated using the exchange rate at the transaction date (US$1:₱43.88)

Cash on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Cash acquired from PSi	US$10,528	₱461,966
Cash paid	8,325	365,301
Net cash flow	US$2,203	₱96,665

Translated using the exchange rate at the transaction date (US$1:₱43.88)

The non-controlling interest amounted to US$1.6 million (₱71.6 million) and is measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Acqusition related costs which consists of professional fees, representation and travel expenses amounting to US$0.2 million were recognized as expense in 2010.

From the date of acquisition, the Group's share in PSi's revenue and net loss amounted to ₱486.8 million and ₱20.8 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱82.8 billion, while the Group's net income would have been ₱16.0 billion.

In 2011, IMI finalized the purchase price allocation and the fair value computation of accounts receivable, accounts payable and accrued expenses, and goodwill.

	In US$	In Php*
	(In Thousands)	
Accounts receivable	US$12,454	₱546,490
Accounts payable and accrued expenses	31,591	1,386,242
Goodwill (Note 10)	10,196	447,419

Translated using the exchange rate at the transaction date (US$1:₱43.88)

The 2010 comparative information was restated to reflect the above adjustments. Accounts receivable, accounts payable and accrued expenses, and cost of acquisition decreased by US$5.97 million (₱261.8 million), US$4.19 million (₱183.9 million), and US$0.29 million (₱12.6 million), respectively. The final purchase price allocation resulted in goodwill of US$10.20 million (₱447.4 million).

Ten Knots

ALI entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a new company which will serve as a holding vehicle for Ten Knots Phils, Inc. (TKPI) and Ten Knots Development Corp (TKDC) (wholly-owned subsidiaries of the ACC Group before ALI's entry). TKPI/TKDC are mainly involved in the development of parcels of land and islands into resorts in Miniloc, Lagen, Pangulasian and Apulit islands in the municipalities of El Nido and Taytay in Northern Palawan.

The agreement will eventually result in ALI obtaining 60% interest in the new company and ACC Group acquiring 40%. ALI will infuse ₱2.0 billion cash to obtain the 60% stake.

As of December 31, 2010, ALI has subscribed to 60% of the shares of TKPI and TKDC, thereby providing ALI with the ability to exercise control over TKPI and TKDC effective April 23, 2010. Accordingly, TKPI and TKDC financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

The following are the fair values of the identifiable assets and liabilities assumed (amounts in thousands):

Assets	
Cash and cash equivalents	₱365,652
Trade and other receivables	1,455,940
Inventories	16,393
Other current assets	25,401
Land and improvements	1,361,645
Deposit on land purchase	444,622
Property and equipment	493,328
Other assets	140,640
	4,303,621
Liabilities	
Accounts and other payables	310,177
Deposits and other current liabilities	21,446
Due to related parties	89,232
Loans payable	81,621
Income tax payable	18,630
Deferred tax liabilities	399,155
	920,261
Net assets	₱3,383,360
Non-controlling interest in TKDC and TKPI	1,353,344
Total net assets acquired	2,030,016
Acquisition cost	2,029,500
Negative goodwill	₱516

ALI's share in the fair value of the net assets amounted to ₱2.0 billion, which resulted in a negative goodwill amounting to ₱0.5 million included under "Other income" in the consolidated statement of income (see Note 22).

The fair value of the trade receivables and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interest has been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, TKDC and TKPI contributed ₱260.0 million of revenue and ₱10.6 million to the net income of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been ₱82.3 billion and the net income of the Group would have been ₱16.0 billion.

Transaction costs of ₱1.0 million have been expensed and are included in administrative expenses.

In 2011, ALI finalized its purchase price allocation and there were no changes to the fair market values of the assets acquired and liabilities assumed for TKDC and TKPI.

Water Capital Works (WCW)

On November 11, 2009, the Company and United Utilities Pacific Holdings, BV (UU) entered into a share sale and purchase agreement whereby UU will sell to the Company its 28% interest (0.2 million common shares) in WCW. On January 18, 2010, the Company completed the acquisition of UU's interest in the common shares of WCW resulting in the Company obtaining 100% control in WCW. In prior years, WCW was treated as a jointly controlled entity of the Company.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash and cash equivalents	₱22,828
Receivable - net	90
	22,918

(Forward)

Liabilities	
Accounts payable and accrued expenses	₱63
Income tax payable	1,219
Deferred tax liability	25,420
	26,702
Net assets	(3,784)
Intangible asset (Note 15)	84,733
Bargain purchase gain	(52,811)
Acquisition cost	₱28,138

In accordance with PFRS 3, the bargain purchase gain is recognized as part of "Other income" in the consolidated statement of income (see Note 22).

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱8,490
Fair value of the Company's equity interest in WCW held before the business combination	19,648
	₱28,138

The Company recognized a gain of ₱3.0 million as a result of remeasuring to fair value its 72% equity interest in WCW held before the business combination. The gain is included as part of remeasurement gain under the "Other income" account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

Cash acquired from WCW	₱22,828
Cash paid	8,490
Net cash flows	₱14,338

From the date of acquisition, the Group's share in WCW's revenue and net income amounted to ₱51.4 million and ₱35.5 million, respectively. Since the business combination happened close to the beginning of the year, the Group's total revenue and net income would be the same as presented in the consolidated statement of income.

MWC and Philwater

On November 11, 2009, the Company and UU entered into a share sale and purchase agreement whereby UU will sell to the Company its interest in: a) 81.9 million common shares of MWC representing 3.4% interest in MWC and b) 133.4 million common shares of Philwater representing 40% interest in Philwater. On the same date, UU and Philwater entered into a share sale and purchase agreement for the sale of UU's interest in 666.7 million participating preferred shares of MWC to Philwater.

On March 4, 2010, the Company completed the acquisition of UU's interest in the common shares of MWC and Philwater and participating preferred shares in MWC resulting in the Company increasing its ownership interest in MWC to 43.1% and obtaining control to more than one-half (1/2) of the voting power in MWC and Philwater becoming a subsidiary. In prior years, MWC and Philwater were treated as jointly controlled entities of the Company.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

Assets	
Cash and cash equivalents	₱6,106,284
Short-term investments	1,854,763
Receivables	578,522
Materials and supplies	16,664
Other current assets	736,509
Property and equipment (Note 13)	1,341,081
Service concession asset (Note 14)	53,904,778
AFS financial assets	1,978,644
Other noncurrent assets	1,331,605
	67,848,850

(Forward)

Liabilities	
Accounts payable and accrued expenses	₱3,006,485
Long-term debt	15,761,983
Service concession obligation	8,006,437
Income tax payable	375,994
Payable to related parties	806,781
Customers' guaranty and other deposits	1,279,315
Pension liabilities	216,775
Deferred tax liability	5,014,393
Deferred credits	196,984
	34,665,147
Net assets	33,183,703
Goodwill	393,777
Acquisition cost	₱33,577,480

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱2,614,687
Fair value of the Company's equity interest in MWC and Philwater held before the business combination	10,317,101
Fair value of the non-controlling interests in MWC	20,645,692
	₱33,577,480

The non-controlling interests has been measured at fair value based on the share price of the MWC common shares as of acquisition date.

The Company recognized a gain of ₱4.4 billion as a result of remeasuring to fair value its equity interest in MWC and Philwater held before the business combination. The gain is included as part of remeasurement gain under the "Other income" account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

Cash acquired from MWC and Philwater	₱6,106,284
Cash paid	2,614,687
Net cash flow	₱3,491,597

From the date of acquisition, the Group's share in the revenue and net income of MWC and Philwater amounted to ₱13.7 billion and ₱2.5 billion, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱98.2 billion, while the Group's net income would have been ₱18.0 billion.

Wardley/WDF-AY, LLC (Wardley)
AY Saratoga, Inc. (AY Saratoga), a subsidiary of AINA, executed a settlement agreement and mutual general release and assignment of member interest in January 2010 whereby the 75% remaining interest owned by the other partner was transferred to AY Saratoga for US$2.4 million. As a result of the acquisition, Wardley became a subsidiary of WDF-AY, LLC.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

	In US$	In Php*
Assets		
Cash and cash equivalents	US$183	₱8,554
Short-term investments	500	23,371
Receivables - net	17	795
Real estate inventory	9,118	426,203
	9,818	458,923
Liabilities		
Loans payable	18,407	860,398
Net liability	8,589	401,475
Goodwill	10,989	513,659
Consideration paid	US$2,400	₱112,184

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

The cost of the acquisition is determined as follows (amounts in thousands):

	In US$	In Php*
Cash paid	US$2,400	₱112,184
Fair value of AINA's equity interest in Wardley held before the business combination	–	–
	US$2,400	₱112,184

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

AINA recognized remeasurement loss amounting to US$4.4 million (₱201.9 million) on its previously owned 25% equity interest in Wardley. The loss is included as part of remeasurement loss under "Other charges"account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

	In US$	In Php*
Cash acquired from Wardley	US$183	₱8,554
Cash paid	2,400	112,183
Net cash flow	(US$2,217)	(₱103,629)

**Translated using the exchange rate at the transaction date (US$1:₱46.74)*

From the date of acquisition, the Group's share in Wardley's revenue and net loss amounted to US$2.8 million (₱126.3 million) and US$17.1 million (₱771.6 million), respectively. Since the business combination happened close to the beginning of the year, the Group's total revenue and net income would be the same as presented in the consolidated statement of income.

Given the net liability position of Wardley, the goodwill arising from the acquisition amounting to US$10.9 million was fully impaired (see Note 22).

One Park Place, Inc. (OPPI)
On December 6, 2010, OPPI, one of the limited liability company investees of AINA, redeemed some of the limited partners' interests and paid a nominal amount of US$5 and recognized a loss on redemption amounting to US$8.7 million (₱394.0 million) included as part of remeasurement loss under "Other charges" account in the consolidated statement of income. The redemption of the limited partners' interests resulted in new equity interests for the remaining partners with AINA having a 57.1% equity share in OPPI.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands):

	In US$	In Php*
Assets		
Cash and cash equivalents	US$4,706	₱205,888
Receivables	8	350
Real estate inventory	37,739	1,651,081
	42,453	1,857,319
Liabilities		
Loans payable	US$57,886	₱2,532,513
Net liability before redemption	15,433	675,194
Share in the net liability of redeemed shares	8,672	379,400
Net liability after redemption	6,761	295,794
Partners' deficit from consolidation	2,464	107,800
Goodwill	US$9,225	₱403,594

**Translated using the exchange rate at the transaction date (US$1:₱43.75)*

The fair value of the non-controlling interests has been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, the Group's share in OPPI's revenue and net loss amounted to US$0.4 million (₱18.0 million) and US$9.5 million (₱426.4 million), respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱82.1 billion, while the Group's net income would have been ₱15.9 billion.

Given the net liability position of OPPI, the goodwill arising from the acquisition of US$9.2 million was fully impaired (see Note 22).

24. **Income Tax**

The components of the Group's deferred taxes as of December 31, 2012 and 2011 are as follows:

Net deferred tax assets

	2012	2011
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱1,530,231**	₱1,071,486
Allowance for probable losses	**894,084**	908,155
Service concession obligation	**814,960**	750,240
Retirement benefits	**252,384**	257,628
Share-based payments	**116,434**	90,057
Advanced rental	**80,076**	129,087
NOLCO and MCIT	**19,351**	17,711
Revaluation of property, plant and equipment	**18,236**	19,476
Unrealized foreign exchange loss	**16,881**	13,154
Allowance for inventory obsolecense	**9,493**	4,878
Allowance for doubtful accounts	**7,988**	–
Others	**347,170**	310,078
	4,107,288	3,571,950
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(543,529)**	(477,015)
Excess of financial realized gross profit over taxable realized gross profit	**(22,791)**	–
Excess of financial realized gross profit over taxable realized gross profit	**(7,673)**	(14,279)
Others	**(15,906)**	(72)
	(589,899)	(491,366)
Net deferred tax assets	**₱3,517,389**	₱3,080,584

Net deferred tax liabilities

	2012	2011
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱360,289**	₱97,392
NOLCO	**113,689**	83,216
Fair value adjustments on:		
Long-term debt	**166,286**	117,426
AFS financial asset	**1,116**	1,116
Others	**2,530**	12,682
	643,910	311,832
Deferred tax liabilities on:		
Fair value adjustments on:		
Service concession assets	**(4,875,064)**	(5,119,478)
Land and improvements	**(625,490)**	(392,194)
Property and equipment	**(206,726)**	(58,548)
Service concession obligation	**(34,091)**	(34,091)
Customers' guaranty and other deposits	**(18,691)**	(18,691)
Excess of financial realized gross profit over taxable realized gross profit	**(264,901)**	(325,558)
Revaluation of property, plant and equipment	**(144,836)**	(173,902)
Unrealized foreign exchange gain	**(130,249)**	(72,275)
Unrealized mark-to-market gains from put and call option	**(32,945)**	(35,982)

(Forward)

	2012	2011
	(In Thousands)	
Retirement benefits	**(₱13,275)**	(₱11,308)
Unrealized gain on sale on AFS	**(11,487)**	–
Unrealized fair value gain less costs to sell of biological assets	**(4,531)**	(4,662)
Prepaid expenses	**–**	(120,134)
Others	**(138,080)**	(63,866)
	(6,500,366)	(6,430,689)
Net deferred tax liabilities	**(₱5,856,456)**	(₱6,118,857)

The Group has NOLCO amounting to ₱8.0 billion and ₱7.1 billion in 2012 and 2011, respectively, on which deferred tax have not been recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱42.7 million in 2012 and ₱51.7 million in 2011, respectively, were also not recognized, since management believes that there would be no sufficient taxable income against which the benefits of the deferred tax assets may be utilized.

As of December 31, 2012, 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)	
2010	2013	₱2,281,273	₱17,460
2011	2014	3,350,465	22,293
2012	2015	3,274,417	22,264
		₱8,906,155	₱62,017

As of December 31, 2012 and 2011, 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 ₱346.8 million and ₱813.8 million as of December 31, 2012 and 2011, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2012	2011	2010
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nontaxable share of profit of associates and jointly controlled entities	**(11.03)**	(11.79)	(9.73)
Interest income subjected to final tax at lower Rates	**(2.47)**	(2.14)	(1.98)
Income under income tax holiday	**(0.44)**	(0.17)	(0.98)
Others	**2.98**	3.77	(1.95)
Effective income tax rate	**19.04%**	19.67%	15.36%

Revenue Regulations (RR) No. 16-2008

RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the Optional Standard Deduction (OSD) for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. This became effective on July 1, 2008 and was applied by MWC for transactions for the year ended December 31, 2010.

The OSD results in an effective tax rate of 18% for MWC for the years in which OSD is projected to be utilized. This rate was used in computing the deferred income taxes on the net service concession obligation and capitalized borrowing costs starting 2009 that are considered in determining gross income for income tax purposes.

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.

IMI Group
IMI is registered with PEZA and is entitled to certain incentives, which include ITH. IMI entitlements to ITH under the current PEZA registrations have expirations beginning January 2010. In 2011, there are two remaining project activities with ITH entitlement which will expire in 2013. Upon the expiration of the ITH, IMI will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes.

PSi
PSi is a PEZA-registered entity, and is subject to a 5% tax on gross income less allowable deductions, as defined in RA No. 7916, as amended by RA No. 8748, in lieu of all national and local taxes, except real property tax on land being leased in FTI-SEZ. The 5% tax on gross income shall be paid and remitted as follows: (a) three percent (3%) to the National Government; and (b) two percent (2%) to the treasurer's office of the municipality or city where the enterprise is located.

PSi registered its subcontracted services with PEZA on July 9, 2010. Under the Supplemental Agreement, the subcontracted services are entitled to incentives granted to non-pioneer projects under RA No. 7916, as amended. PSi started rendering subcontracted services on July 15, 2010.

On August 9, 2010, PSi was registered by PEZA as an Ecozone Logistics Service Enterprise to provide warehousing logistics support services.

STHK and Monarch Elite
Hong Kong profits tax has been provided at the rate of 16.5% for the years ended December 31, 2012 and 2011, on the assessable profit for the year.

SZSTE, SZSTT, STJX and STCQ
In accordance with the "Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two (2) years and a 50% reduction in EIT for the next three (3) years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five (5) years.

SZSTE is subject to taxation at the statutory tax rate of 25% for the years ended December 31, 2012 and 2011 on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

SZSTT has been dormant for the financial year under audit and thus there is no current tax expense for SZSTT. Deferred income tax assets arising from the tax losses of SZSTT are not recognized in the consolidated financial statements due to uncertainty as to whether sufficient taxable income will be available against which the deferred income tax assets can be utilized.

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its seventh profitable year, and hence is subject to taxation at the rate of 25% in 2012 and 2011 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five (5) years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STCQ is in its second profitable year, and hence is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

STPHIL
STPHIL is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under R.A. No. 7916, in lieu of all local and national taxes.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking account of any losses carried forward from previous financial years (if applicable) and tax-exempt items and non-deductible expenses and using tax facilities.

IMI France
Income tax is computed based on the income earned by the corporation during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back three years. The tax rate applicable is 33.33% based on net profits.

EPIQ EA
Income taxes are calculated in accordance with the Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current income tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10% for both 2012 and 2011.

EPIQ MX
EPIQ MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in the results of the year they are incurred. Income tax rate for 2011 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

EPIQ CZ
Income tax due is calculated by multiplication of the tax base and the rate as defined by the income tax law. The tax base comprises the book income from operations which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (e.g. creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate is 19% for both 2012 and 2011.

25. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Company:

	2012	2011	2010
	(In Thousands, except EPS figures)		
Net income	**₱10,573,879**	₱9,394,887	₱11,161,092
Less dividends on preferred stock	**543,363**	965,341	1,081,352
	10,030,516	8,429,546	10,079,740
Less profit impact of assumed conversions of potential ordinary shares of investees	**23,953**	27,095	27,128
	₱10,006,563	₱8,402,451	₱10,052,612
Weighted average number of common shares	**585,027**	579,965	588,348
Dilutive shares arising from stock options	**2,341**	2,332	2,550
Adjusted weighted average number of common shares for diluted EPS	**587,368**	582,297	590,898
Basic EPS	**₱17.15**	₱14.53	₱17.13
Diluted EPS	**₱17.04**	₱14.43	₱17.01

26. Retirement Plan

The Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with minimum lump-sum guarantee of 1.5 months effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱477.7 million in 2012, ₱368.5 million in 2011 and ₱415.6 million in 2010.

The principal actuarial assumptions used to determine the pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. The Company's and certain subsidiaries' annual contributions to their respective plans consist of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The components of retirement expense in the consolidated statement of income are as follows:

	2012	2011	2010
		(In Thousands)	
Current service cost	**₱454,806**	₱541,001	₱349,035
Interest cost on benefit obligation	**358,326**	363,042	349,672
Expected return on plan assets	**(433,694)**	(529,652)	(341,339)
Net actuarial loss (gain)	**24,184**	(46,845)	54,944
Past service cost	**–**	20,468	3,292
Curtailment loss	**28,713**	7,209	–
Settlement gain	**45,317**	13,279	–
Effect of ceiling limit	**–**	–	30
Total retirement expense	**₱477,652**	₱368,502	₱415,634
Actual return on plan assets	**₱975,092**	₱292,529	₱862,727

The funded status and amounts recognized in the consolidated statement of financial position for the pension plans as of December 31, 2012 and 2011 are as follows:

	2012	2011
	(In Thousands)	
Benefit obligation	**(₱6,756,200)**	(₱5,956,615)
Plan assets	**5,899,906**	4,929,284
	(856,294)	(1,027,331)
Unrecognized net actuarial loss	**652,593**	772,669
Unrecognized past service cost	**26,639**	30,296
Effect of ceiling limit	**–**	(56)
Net pension obligation	**(₱177,062)**	(₱224,422)

The net pension obligation is presented in the consolidated statement financial position as follows:

	2012	2011
	(In Thousands)	
Pension assets	**₱184,743**	₱189,287
Pension liabilities	**(361,805)**	(413,709)
Net pension obligation	**(₱177,062)**	(₱224,422)

Changes in the present value of the combined defined benefit obligation are as follows:

	2012	2011
	(In Thousands)	
Balance at January 1	**₱5,956,616**	₱5,254,419
Interest cost on benefit obligation	**358,327**	363,042
Current service cost	**454,806**	541,001
Benefits paid	**(251,464)**	(476,486)
Actuarial loss on obligations	**499,381**	269,973
Addition arising from business combination	**(220)**	13,315
Curtailments	**(69,797)**	(7,209)
Settlements	**(191,449)**	(13,279)
Past service cost	**–**	2,505
Transfers in/out	**–**	9,334
Balance at December 31	**₱6,756,200**	₱5,956,615

Changes in the fair value of the combined plan assets are as follows:

	2012	2011
	(In Thousands)	
Balance at January 1	**₱4,929,284**	₱4,837,187
Expected return	**433,694**	529,652
Contributions by employer	**431,633**	192,208
Benefits paid	**(245,166)**	(401,974)
Settlements	**(191,449)**	–
Actuarial gains (losses) on plan assets	**541,910**	(237,123)
Transfers in/out	**–**	9,334
Balance at December 31	**₱5,899,906**	₱4,929,284

The assumptions used to determine pension benefits for the Group are as follows:

	2012	2011
Discount rates	**5.3% to 8.5%**	5.8% to 25.1%
Salary increase rates	**4% to 9%**	1.0% to 11.0%
Expected rates of return on plan assets	**5% to 10.5%**	3.7% to 8.0%

The allocation of the fair value of plan assets of the Group follows:

	2012	2011
Investments in debt securities	**48.2%**	56.9%
Investments in equity securities	**46.4%**	36.1%
Others	**5.4%**	7.0%

Amounts for the current and previous annual periods are as follows:

	2012	2011	2010	2009	2008
			(In Thousands)		
Defined benefit obligation	**(₱6,756,200)**	(₱5,956,615)	(₱5,254,419)	(₱3,774,239)	(₱3,442,841)
Plan assets	**5,899,906**	4,929,284	4,837,187	3,655,919	3,014,124
Deficit	**(₱856,294)**	(₱1,027,331)	(₱417,232)	(₱118,320)	(₱428,717)

Gains (losses) on experience adjustments are as follows:

	2012	2011	2010	2009	2008
			(In Thousands)		
Defined benefit obligation	**(₱22,877)**	₱44,076	₱69,045	₱19,482	(₱566,144)
Plan assets	**547,386**	178,877	(521,388)	198,818	(657,834)

Manpower Restructuring Program

In 2012, the MWC paid ₱621.9 million to its employees that will be separated as a result of a manpower restructuring program. The program aimed to address MWC's growing and changing customer and business requirements. Approximately 400 employees availed the benefits offered by the retirement program. The amount paid form part of "Cost of Services" and is included under "Salaries, wages and employee benefits".

The Group's fund is in the form of trust being maintained by various trustee banks. The investing decisions of the plan are made by certain officers of the Group duly authorized by the Board. The Group expects to contribute ₱98.2 million to its defined benefit pension plan in 2013.

As of December 31, 2012 and 2011, the plan assets include shares of stock of the Company with total fair value of ₱1,101.8 million and ₱239.9 million, respectively.

The carrying value and fair value of the plan assets of the Group as of December 31, 2012 amounted to ₱4,843.5 million and ₱5,899.9 million, respectively.

As of December 31, 2012, the fund include investment in securities to its related parties. Details of the investment per type of security is as follows (in thousands):

	Carrying Value	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	₱759,716	₱1,361,043	₱601,327
Debt securities	555,700	561,349	5,649
Unit investment trust funds	33,666	36,651	2,985
Others	17,438	17,461	23
	₱1,366,520	₱1,976,504	₱609,984

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The Group's transactions with the fund mainly pertain to contributions, benefit payments, settlements and curtailments.

27. **Stock Option Purchase Plans**

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3.0% of the Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

A summary of the Company's stock option activity and related information for the years ended December 31, 2012, 2011 and 2010 follows:

	2012		2011		2010	
	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	**5,313,474**	**₱174.63**	4,266,129	₱179.36	3,340,118	₱141.17
Exercised	**(1,019,194)**	**(183.49)**	(411,743)	(150.90)	(304,838)	(152.77)
Grants	**–**	**–**	894,371	316.87	1,230,849	273.03
Stock dividends	**–**	**–**	906,620	–	–	–
Cancelled	**(353,600)**	**–**	(341,903)	–	–	–
Outstanding, at end of year	**3,940,680**	**₱177.46**	5,313,474	₱174.63	4,266,129	₱179.36

The options have a contractual term of 10 years. As of December 31, 2012 and 2011, the weighted average remaining contractual life of options outstanding is 3.70 and 4.01 years, respectively, and the range of exercise prices amounted from ₱89.4 and ₱264.1, 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 18, 2011	April 16, 2010	June 30, 2005	June 10, 2004
Weighted average share price	₱352.08	₱303.70	₱327.50	₱244.00
Exercise price	₱316.87	₱273.03	₱295.00	₱220.00
Expected volatility	41.21%	41.31%	46.78%	46.71%
Option life	10 years	10 years	10 years	10 years
Expected dividends	0.86%	0.92%	1.27%	1.43%
Risk-free interest rate	6.64%	8.56%	12.03%	12.75%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in whole or in part to the shares awarded to them based on the 10% discounted market price as offer price set at grant date. To subscribe, the grantee must be an employee of the Group during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. In computing for the stock option value for the 2012 grant, the Company assumed volatility, dividend yield and interest rate as 29.8%, nil and 5.8%, respectively.

Shares granted and subscribed under the ESOWN in 2012 follows:

Granted	901,352
Subscribed	851,123
Exercise price	₱322

Subscriptions receivable from the stock option plans covering the Company's shares are presented as deduction under equity.

For the unsubscribed shares, the employee still has the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant. Movements in the number of options outstanding under ESOWN as of December 31, 2012 and 2011 follow:

	2012		2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At January 1	**105,867**	**₱211.51**	141,906	₱260.72
Grants	**50,229**	**322.00**	–	–
Stock dividends	**–**	**–**	17,644	–
Exercised/cancelled	**(12,840)**	**(237.48)**	(53,683)	272.06
At December 31	**143,256**	**₱247.93**	105,867	₱211.51

The fair value of stock options granted on April 23, 2012 is estimated on the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

Number of unsubscribed shares	50,229
Fair value of each option	₱259.97
Weighted average share price	₱434.47
Exercise price	₱322.00
Expected volatility	41.78%
Dividend yield	0.74%
Interest rate	5.59%

Total expense arising from share-based payments recognized by the Group in the consolidated statement of income amounted to ₱500.6 million in 2012, ₱447.6 million in 2011 and ₱375.0 million in 2010.

ALI Group

ALI has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 2.5% of the ALI's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of ALI or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

Movements in the number of stock options outstanding under ESOP are as follows:

Pre-PFRS 2 Options

	2012	**Weighted average exercise price**	2011	**Weighted average exercise price**
At January 1	**14,013,033**	**₱4.34**	17,449,397	₱4.26
Exercised	**(4,776,273)**	**4.47**	(2,087,014)	3.80
Cancelled	**(2,812,690)**	–	(1,349,352)	–
At December 31	**6,424,070**	**₱4.23**	14,013,031	₱4.15

PFRS 2 Options

	2012	**Weighted average exercise price**	2011	Weighted average exercise price
At January 1	**12,886,159**	**₱4.34**	14,025,648	**₱4.26**
Exercised	**(1,846,493)**	**4.34**	(1,139,489)	**3.80**
At December 31	**11,039,666**	**₱4.23**	12,886,159	**₱4.26**

The options exercised had a weighted average exercise price of ₱4.47per share or ₱29.6 million in 2012 and ₱3.80 per share or ₱12.3 million in 2011. The average fair market value of the shares at the exercise date was ₱21.98 per share or about ₱145.6 million in 2012 and ₱15.50 per share or ₱50.0 million in 2011.

The fair value of stock options granted is estimated as at 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 ESOP at June 30, 2005 grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.30%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.60%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

In November 2001, ALI offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, ALI introduced a revised ESOWN and granted to qualified officers 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 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.

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:

	2012	**WAEP**	2011	WAEP
At January 1	**30,873,518**	**9.52**	27,412,217	8.67
Granted	**23,032,967**	**–**	19,670,333	–
Subscribed	**(25,669,757)**	**13.41**	(14,817,990)	13.63
Cancelled	**–**	**–**	(1,391,042)	–
At December 31	**28,236,728**	**8.28**	30,873,518	9.52

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 four 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 13, 2012	March 31, 2011	March 31, 2010	April 30, 2009
Number of unsubscribed shares	3,967,302	3,843,057	2,298,247	5,418,619
Fair value of each option	₱6.23	₱7.27	₱8.88	₱4.05
Weighted average share price	₱21.98	₱15.5	₱13.00	₱6.40
Exercise price	₱14.69	₱13.2	₱9.74	₱4.96
Expected volatility	33.00%	36.25%	43.57%	37.45%
Dividend yield	0.9%	1.01%	0.48%	0.85%
Interest rate	5.70%	5.60%	5.95%	5.94%

	Grant Date			
	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	15,057,840	494,400	5,270,333	3,036,933
Fair value of each option	₱6.77	₱6.93	₱7.33	₱5.58
Weighted average share price	₱10.50	₱15.00	₱13.00	₱9.30
Exercise price	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	32.04%	34.67%	46.03%	46.32%
Dividend yield	0.49%	0.41%	1.56%	0.77%
Interest rate	8.53%	6.93%	10.55%	11.30%

MWC Group

ESOP, Expanded ESOP and ESOWN

On February 26, 2004, MWC's BOD authorized the allocation of up to 20.0 million of the treasury shares for distribution from time to time as may be authorized by the Chairman of the Board (Chairman) as incentive and reward to deserving officers of MWC with rank of Manager 2 and above, including senior officers seconded from any parent company, under the ESOP.

On October 28, 2004, MWC's BOD approved the allocation of an additional 3.6 million shares for the ESOP, which will come from the MWC's unissued shares or common shares held in treasury. Accordingly, total allocation for the ESOP increased to 23.6 million shares.

On the same date, MWC's BOD approved the allocation of 136.40 million common shares for the Expanded ESOP covering 96.40 million common shares and the ESOWN covering 40.00 million common shares. The common shares for the ESOWN and the Expanded Executive SOP will come from the MWC's unissued common shares or common shares held in treasury. The common shares under the Expanded ESOP and ESOWN will be distributed from time to time as an incentive and reward to deserving MWC's executives (Expanded ESOP) and employees (ESOWN) of the MWC as may be authorized by the Chairman.

In March 2005, MWC granted 23.6 million options under the ESOP with an exercise price of ₱2.71 per share. To enjoy the rights provided for in the plan, the option holder should be with MWC at the time the options vest. The vesting schedule of the options is as follows:

Year	Vesting Percentage
2006	40%
2007	30%
2008	30%

On November 15, 2005, MWC's BOD approved the allocation of 25.0 million common shares, consisting of unissued shares and/or undisposed treasury shares, for distribution from time to time as may be authorized by the Chairman, as an incentive and reward to deserving executives of MWC with rank of Manager 1 and above, under the ESOWN.

On February 2, 2006, MWC's BOD authorized the migration of the ESOP covering 23.6 million common shares to ESOWN by giving ESOP grantees a one-time opportunity to convert their ESOP allocation into an ESOWN subscription using the ESOP subscription price of ₱2.71 per share. The ESOWN terms are described in the succeeding paragraphs.

The migration resulted in the recognition of the additional fair value of the replacement options amounting to ₱26.50 million. For the exercised options, the fair value was computed using the market price at the date of grant less the discounted strike price.

Details of MWC's grants under the ESOWN follow:

	Grant Dates					
	October 5, 2012	September 19, 2011	April 30, 2009	June 15, 2008	May 21, 2007	May 2, 2006
Number of shares granted	4,772,414	4,617,000	9,241,025	7,798,483	2,130,000	13,625,000
Number of unsubscribed shares	460,000	54,000	1,442,000	1,580,000	520,000	2,265,000
Fair value of each option	₱11.76	₱8.68	₱5.90	₱10.65	₱9.85	₱4.59
Weighted average share price	₱19.8	₱19.8	₱13.50	₱18.00	₱12.00	₱6.50
Exercise price	₱24.07	₱17.38	₱9.63	₱15.13	₱8.08	₱5.47
Expected volatility	30.66%	33.68%	44.66%	25.64%	27.29%	24.65%
Dividend yield	2.56%	2.68%	2.92%	1.96%	2.58%	3.40%
Risk-free interest rate	4.76%	4.76%	8.53%	6.93%	10.55%	11.30%
Expected life of option	4 years	4 years	4 years	4 years	7 years	7 years

The ESOWN grantees are allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of initial 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:

	2011	**Weighted average exercise price**	2011	Weighted average exercise price
At January 1	**5,476,000**	**₱17.38**	5,422,000	₱6.45
Granted	**4,772,414**	**24.07**	4,617,000	17.38
Exercised	**(4,312,414)**	**24.07**	(4,563,000)	17.38
At December 31	**5,936,000**		5,476,000	

The fair value of equity-settled share options granted was estimated 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 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 2011 grants, 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.

IMI Group

ESOWN

The IMI group has an ESOWN which is a privilege extended to IMI's eligible managers and staff whereby IMI allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the plan. Under the ESOWN, for as long as IMI remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of 10 comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once IMI becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of the BOD at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the plan. However, should the grantee cease to be employed by or connected with the IMI group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety (90) days from separation subject to the Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. Sixty (60) days after the due date and account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.

On February 21, 2007, IMI's BOD approved the granting of 45,150,000 shares of IMI under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to IMI's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to IMI's top performers and key personnel subject to the same terms as the shares subscribed in 2007.

All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of 8 years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the above two grants was on October 15, 2007. The fair value, determined based on a private bank's valuation of IMI to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, the management has approved a two-year moratorium on the scheduled payments due in 2008 and 2009 which resulted in an extension of the payment period from eight (8) to ten (10) years. This extension resulted in a net reversal of accretion amounting to US$0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.

On December 14, 2009, the Chairman of IMI's BOD approved the terms for granting 30,885,000 shares of IMI under ESOWN at the subscription price of ₱5.54 per share to various employees of the IMI group. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is ₱9.30, which is the closing price of IMI's stock at the PSE at the date of grant.

Movements in the number of shares outstanding under ESOWN for the years ended December 31, 2012 and 2011 follow:

	2012		2011	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
At January 1	**116,250,309**	**₱6.59**	120,987,477	₱6.59
Forfeitures	**(5,844,495)**	**6.59**	(4,737,168)	6.59
At December 31	**110,405,814**	**₱6.59**	116,250,309	₱6.59

28. **Operating Segment Information**

For management purposes, the Group is organized into the following business units:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and bancassurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agri-business loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.

- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.

- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.

- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.

- Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.

- Automotive - manufacture and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others - power and infrastructure, air-charter services, agri-business and others.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

In 2010, the Company re-organized AC Capital to focus on asset management and business development initiatives. The group was also subsequently renamed and re-assigned to report to the Chief Financial Officer. Segments formerly under AC Capital’s purview, including, Water Utilities, Electronics, Information Technology and BPO Services, International, and Automotive are now presented, monitored, and analyzed independently. This has no impact on the 2009 presentation of operating segment information.

The following tables regarding operating segments present assets and liabilities as of December 31, 2012 and 2011 and revenue and profit information for each of the three years in the period ended December 31, 2012 (amounts in millions):

2012

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱230	₱50,174	₱–	₱–	₱13,962	₱27,979	₱1,273	₱314	₱10,202	₱–	₱104,134
Intersegment	107	67	–	–	158	18	17	–	189	(556)	–
Share of profit of associates and jointly controlled entities	(51)	1,334	5,672	2,147	207	–	(574)	(222)	16	–	8,529
Interest income	858	2,716	–	–	237	25	73	305	9	(6)	4,217
Other income	1,070	234	–	–	6,672	31	95	405	278	(591)	8,194
Total income	2,214	54,525	5,672	2,147	21,236	28,053	884	802	10,694	(1,153)	125,074
Operating expenses	2,519	37,604	–	–	7,401	27,707	1,410	807	10,491	(830)	87,109
Operating profit	(305)	16,921	5,672	2,147	13,835	346	(526)	(5)	203	(323)	37,965
Interest expense and other financing charges	2,914	3,388	–	–	1,371	140	18	22	27	(6)	7,874
Other charges	44	313	–	–	6,117	3	139	276	1	–	6,893
Provision for income tax	172	2,892	–	–	1,385	165	17	(264)	47	3	4,417
Net income	(₱3,435)	₱10,328	₱5,672	₱2,147	4,962	₱38	(₱700)	(₱39)	₱128	(₱320)	₱18,781
Other information											
Segment assets	₱128,122	₱218,269	₱–	₱–	₱82,809	₱18,651	₱2,709	₱8,280	₱3,339	(₱85,987)	₱376,192
Investments in associates and jointly controlled entities	84,640	13,151	–	–	3,645	–	5,773	1,109	298	–	108,616
Deferred tax assets	2	2,290	–	–	830	36	14	–	46	299	3,517
Total assets	₱212,764	₱233,710	₱–	₱–	₱87,284	₱18,687	₱8,496	₱9,389	₱3,683	(₱85,688)	₱488,325
Segment liabilities	₱93,844	₱138,969	₱–	₱–	₱40,545	₱10,656	₱741	₱3,045	₱1,545	(₱10,371)	₱278,974
Deferred tax liabilities	11	718	–	–	4,898	182	–	43	4	–	5,856
Total liabilities	₱93,855	₱139,687	₱–	₱–	₱45,443	₱10,838	₱741	₱3,088	₱1,549	(₱10,371)	₱284,830
Segment additions to property, plant and equipment and investment properties	₱689	₱20,142	₱–	₱–	₱615	₱689	₱79	₱–	₱75	₱–	₱22,289
Depreciation and amortization	₱82	₱2,096	₱–	₱–	₱3,085	₱1,064	₱132	₱13	₱93	₱–	₱6,565
Non-cash expenses other than depreciation and amortization	₱82	₱313	₱–	₱–	₱83	₱15	₱139	₱319	₱–	(₱77)	₱874

2011

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱30	₱39,731	₱–	₱–	₱11,746	₱24,845	₱1,123	₱186	₱9,174	₱–	₱86,835
Intersegment	94	1,893	–	–	124	–	5	–	140	(2,256)	–
Share of profit of associates and jointly controlled entities	59	899	4,288	3,045	–	–	(596)	98	(66)	–	7,727
Interest income	1,165	1,460	–	–	575	14	49	12	10	(3)	3,282
Other income	501	276	–	–	7,273	1,094	89	467	254	(266)	9,688
Total income	1,849	44,259	4,288	3,045	19,718	25,953	670	763	9,512	(2,525)	107,532
Operating expenses	1,643	31,487	–	–	6,201	25,445	1,340	419	9,479	(2,258)	73,756
Operating profit	206	12,772	4,288	3,045	13,517	508	(670)	344	33	(267)	33,776
Interest and other financing charges	2,848	1,880	–	–	1,274	109	11	30	26	(3)	6,175
Other charges	(89)	143	–	–	7,548	149	1	177	4	–	7,933
Provision for income tax	221	2,619	–	–	790	201	33	30	45	(70)	3,869
Net income	(₱2,774)	₱8,130	₱4,288	₱3,045	₱3,905	₱49	(₱715)	₱107	(₱42)	(₱194)	₱15,799
Other information											
Segment assets	104,150	142,212	–	–	79,996	19,390	3,287	4,905	3,932	(82,985)	274,887
Investments in associates and jointly controlled entities	54,670	12,626	–	–	1,788	–	4,973	2,352	3,250	–	79,659
Deferred tax assets	–	1,949	–	–	760	24	–	–	46	302	3,081
Total assets	₱158,820	₱156,787	–	–	₱82,544	₱19,414	₱8,260	₱7,257	₱7,228	(₱82,683)	₱357,627
Segment liabilities	55,667	81,755	–	–	39,151	10,923	330	968	1,758	(10,282)	180,270
Deferred tax liabilities	–	744	–	–	5,109	204	9	43	10		6,119
Total liabilities	₱55,667	₱82,499	–	–	₱44,260	₱11,127	₱339	₱1,011	₱1,768	(₱10,282)	₱186,389
Segment additions to property, plant and equipment and investment properties	₱89	₱8,907	₱–	₱–	₱581	₱2,346	₱69	₱2	₱49	₱–	₱12,043
Depreciation and amortization	₱90	₱2,304	₱–	₱–	₱1,890	₱1,116	₱81	₱2	₱1,117	₱–	₱6,600
Non-cash expenses other than depreciation and amortization	₱21	₱143	₱–	₱–	₱331	₱149	₱1	₱177	₱5	₱–	₱827

2010

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱522	₱35,352	₱–	₱–	₱9,043	₱18,611	₱1,129	₱22	₱11,696	₱–	₱76,375
Intersegment	–	454	–	–	–	–	13	–	60	(527)	–
Share of profit of associates and jointly controlled entities	(85)	906	3,807	2,989	222	–	(1,603)	(161)	49	–	6,124
Interest income	1,152	1,044	–	–	244	16	53	41	2	(31)	2,521
Other income	4,748	27	–	–	6,121	199	2,111	35	250	(440)	13,051
Total income	6,337	37,783	3,807	2,989	15,630	18,826	1,703	(63)	12,057	(998)	98,071
Operating expenses	1,700	28,193	–	–	5,055	18,417	1,502	958	11,832	(995)	66,662
Operating profit	4,637	9,590	3,807	2,989	10,575	409	201	(1,021)	225	(3)	31,409
Interest and other financing charges	2,353	1,539	–	–	720	41	50	61	13	(21)	4,756
Other charges	349	221	–	–	5,680	5	–	1,513	10	(11)	7,767
Provision for income tax	209	1,562	–	–	948	155	(37)	2	61	–	2,900
Net income	₱1,726	₱6,268	₱3,807	₱2,989	₱3,227	₱208	₱188	(₱2,597)	₱141	₱29	₱15,986
Other information											
Segment assets	₱108,855	₱112,036	₱–	₱–	₱70,665	₱15,284	₱2,419	₱4,630	₱3,074	(₱ 76,347)	₱240,616
Investments in associates and jointly controlled entities	51,340	10,846	–	–	6	–	6,182	2,323	1,308	–	72,005
Deferred tax assets	–	2,917	–	–	32	5	–	–	27	(232)	2,749
Total assets	₱160,195	₱125,799	₱–	₱–	₱70,703	₱15,289	₱8,601	₱6,953	₱4,409	(₱76,579)	₱315,370
Segment liabilities	₱54,377	₱56,234	₱–	₱–	₱30,106	₱7,305	₱353	₱2,939	₱1,654	(₱10,243)	₱142,725
Deferred tax liabilities	–	598	–	–	5,279	–	4	7	5	–	5,893
Total liabilities	₱54,377	₱56,832	₱–	₱–	₱35,385	₱7,305	₱357	₱2,946	₱1,659	(₱10,243)	₱148,618
Segment additions to property, plant and equipment and investment properties	₱94	₱4,926	₱–	₱–	₱3,564	₱1,456	₱93	₱3	₱119	₱–	₱10,255
Depreciation and amortization	₱100	₱1,814	₱–	₱–	₱1,957	₱994	₱204	₱46	₱113	₱–	₱5,228
Non-cash expenses other than depreciation and amortization	₱498	₱279	₱–	₱–	₱–	₱22	₱369	₱1,219	₱ 6	₱–	₱2,393

Geographical Segments

	Revenue			Segment Assets		Investment Properties and Property, Plant and Equipment Additions	
	2012	2011	2010	**2012**	2011	**2012**	2011
Philippines	**₱105,627**	₱84,304	₱80,153	**₱478,227**	₱341,038	**₱22,223**	₱10,193
Japan	**240**	394	892	**37**	39	**–**	3
USA	**7,243**	6,465	5,642	**347**	1,350	**33**	9
Europe	**8,679**	12,292	7,358	**5,233**	4,979	**–**	1,542
Others (mostly Asia)	**3,285**	4,077	4,026	**4,481**	10,221	**32**	296
	₱125,074	₱107,532	₱98,071	**₱488,325**	₱357,627	**₱22,288**	₱12,043

Summarized financial information of BPI and Globe are presented in Note 11 to the consolidated financial statements.

29. **Leases**

Finance leases - as lessee
The Group conducts a portion of its operations from leased facilitites, which includes various equipment. These leases are classified as finance leases with a lease term of 3 to 10 years.

IMI Group
On June 30, 2009, IMI entered into a lease contract with IBM for the lease of servers for a three-year period starting on the same date. IMI has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides for monthly rental payments of US$17,141.

On March 31, 2010, the Parent Company entered into another lease contract with IBM for the lease of additional server for a one-year period starting on May 1, 2010. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides rental payments of $1,013,729 each in the first and last months of the lease. At the end of the lease term, the Parent Company exercised its bargain option to purchase the servers at a nominal of ₱45.45.

EPIQ EA has various finance lease contracts with its machinery and production equipment with terms of 3 to 5 years and final repayment dates between 2012 and 2016. The leases are subject to interests of 3-month Euribor plus 2% to 4%.

EPIQ CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of 5 to 10 years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment pertaining to a car is subject to interest of 12.26% per annum.

Carrying values of the leased assets as of December 31,2012 and 2011 amounted to US$2.05 million (₱84.15 million) and US$2.2 million (₱97.3 million), as of December 31, 2012 and 2011, respectively (see Note 13).

AIVPL Group
The Group has entered into finance lease agreements for some of its property and equipment. The said leased assets are capitalized and depreciated over their estimated useful lives of 1 to 3 years. Carrying value of the leased assets as of December 31, 2012 and 2011 amounted to ₱21.8 million and ₱0.9 million, respectively. Finance lease facility amounting to ₱10.0 million were approved at 8.86% interest.

Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2012		2011	
	Minimum Payments	**Present values of payments**	Minimum payments	Present values of payments
		(In Thousands)		
Within one year	**₱44,021**	**₱38,760**	₱66,855	₱67,050
After one year but not more than five years	**36,480**	**36,254**	15,539	17,404
Total minimum lease payments	**80,501**	**75,014**	82,394	84,454
Less amounts representing finance charges	**1,184**	**–**	2,592	–
Present value of minimum lease payments	**₱79,317**	**₱75,014**	₱79,802	₱84,454

Operating lease commitments - as lessee
The Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

IMI Group

IMI Japan
On February 15, 2010, IMI Japan entered into a two-year contract with Kabushikigaisha Tokyu Community for lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of JPY245,490, inclusive of tax and monthly maintenance fee of JPY35,070, inclusive of tax. The lease agreement provides for automatic renewal of the lease contract unless prior notice of termination is given to the lessor.

IMI USA
On July 17, 2008, IMI USA entered into a seven-year contract with Roy G.G. Harris and Patricia S. Harris for lease of office premises commencing on August 2008 up to November 2014. The lease contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payments of US$13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a six-year lease agreement with Fremont Ventures, LLC commencing two months from issuance of building permit or maximum of 3 months if Fremont caused the delay. The base monthly rental rate is US$3,687 on the first 6 months with escalation every 11 months as listed in the lease contract. Average monthly rental rate amounts to US$9,523.

IMI Singapore and STEL
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These noncancellable leases have remaining noncancellable lease terms of between 1 to 50 years commencing on January 1, 1992 to April 1, 2011 and ending on February 28, 2010 to April 30, 2050. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

PSi
PSi has a 15-year non-cancellable operating lease agreement with Food Terminal, Inc. (FTI) forits plant facilities, office spaces, and other facilities commencing on August 15, 2004 up to August 14, 2020. The lease agreement with FTI provides for increase in rental per year starting on the second year and annually thereafter until the end of the lease term. The lease agreement provides a late payment penalty of 2% per month for the monthly rental not paid on time.

Moreover, PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from RBF Development Corporation (RBF) for 36 months until March 31, 2011. PSi has the option to extend the term of the lease for another 2 years and the contract was extended up to March 2013. The lease agreement with RBF provides for increase in rental at varying rates over the term of the lease. The lease agreement provides penalty interest of 3% per month compounded for the late payment of monthly rental.

Other operating lease agreements for machinery and equipment and storage space entered into by PSi are for 1 year, subject to renewal options.

Future minimum rentals payable under noncancellable operating leases of lessee subsidiaries are as follows:

	2012	2011
	(In Thousands)	
Within one year	**₱397,816**	₱232,209
After one year but not more than five years	**780,160**	647,885
More than five years	**1,862,248**	1,269,150
	₱3,040,224	₱2,149,244

Operating leases - as lessor
Certain subsidiaries have lease agreements with third parties covering their investment properties portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

On August 1, 2009, IMI subleased the unused portion of its two leased office condominium units from Cyberzone Properties, Inc., with the consent of the latter. 102.5 square meters and 32.8 square meters were leased to Stratpoint Technologies Inc. and Xepto Computing Inc., respectively, at the rate of ₱475.0 per square meter in the first month and ₱502.3 per square meter in the subsequent months. The lease contract is for a term of one (1) year, renewable upon mutual agreement of both parties.

On June 8, 2010, an extension of the lease contract was executed by IMI and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to February 15, 2011. On March 15, 2011, the sublease agreement expired.

On January 28, 2011, a notice was given to ALI for the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. ALI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years by mutual agreement. The rental commencement date will be on the date when the first paying customer registers sale in any of the outlets in the building.

The project involves the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of Headquarter-and-BPO- type buildings with an estimated 8,000 square meters of office space. For the years ended December 31, 2012 and 2011, ALI has not yet recognized lease expense for this agreement as the project is still in progress.

Future minimum rentals receivable under noncancellable operating leases of the Group are as follows:

	2012	2011
	(In Thousands)	
Within one year	**₱2,584,779**	₱2,242,665
After one year but not more than five years	**6,921,085**	5,644,663
More than five years	**1,039,704**	1,384,795
	₱10,545,568	₱9,272,123

30. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

i. As of December 31, 2012 and 2011, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2012	2011
Cash in bank	**₱13,380,375**	₱4,004,411
Cash equivalents	**45,449,625**	29,085,143
Short-term investments	**280,000**	1,266,070

From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱72.1 million and ₱40.0 million as of December 31, 2012 and December 31, 2011, respectively. Interest income earned amounted to ₱1,166.7 million in 2012, ₱1,247.1 million in 2011 and ₱1,221.5 million in 2010.

ii. The Group also has short-term and long-term debt payable to BPI amounting to ₱14.6 billion and ₱7.5 billion as of December 31, 2012 and 2011, respectively. These loans and debt payables are interest bearing with varying rates, have various maturities starting 2013 and varying schedules of payments for interest. The Group has accrued interest payable pertaining to the outstanding loans amounting to ₱39.7 million and ₱5.7 million as of December 31, 2012 and 2011, respectively. Interest expense incurred from the debt amounted to ₱131.0.9 million in 2012, ₱165.5 million in 2011 and ₱228.3 million in 2010.

b. Outstanding balances of related party transaction follow (amounts in thousands):

	Receivable		Payable	
	2012	2011	**2012**	2011
Associates:				
Interest in limited partnerships of AINA	**₱389,368**	₱151,681	**₱–**	₱–
BPI	**329,492**	92,003	**166,346**	5,961
Stream	**323,403**	–	**–**	–
CHI	**64,103**	82,638	**340,237**	–
ASTI	**11,552**	16,120		153
First Gen Northern Energy (FGNEC)	**5,531**	5,531	**–**	–
BLC	**2**	50,522	**212,696**	–
FGU	**–**	–	**349**	–
Naraya Development Co. Ltd.	**–**	1,293	**–**	–
Others	**–**	–	**11,861**	139
	1,123,451	399,788	**731,489**	6,253
Jointly controlled entities:				
Integreon	**299,697**	475,751	**–**	356
ACC	**131,377**	17,802	**74,235**	–
Globe	**102,347**	66,475	**953**	123
NTDCC	**50,252**	17,160	**16,571**	–
Asiacom	**–**	–	**38,570**	94
BPI Globe Banko	**–**	–	**29,505**	–
Northwind Power Development Corp.	**–**	45,017	**–**	–
	583,673	622,205	**159,834**	573
Other related parties:				
Columbus Holdings, Inc. (Columbus)	**888,810**	888,810	**1,156,308**	988,808
Fort Bonifacio Development Corporation (FBDC)	**71,833**	271,096	**–**	–
Cebu Property Ventures Development (CPVD)	**8,074**	58,571	**200,236**	–
Honda Cars Philippines, Inc. (HCP)	**–**	2,428	**119,961**	34,682
Glory High	**–**	420,013	**–**	–
Isuzu Philippines Corporation (IPC)	**–**	33,787	**271,630**	183,371
Bonifacio Hotel Ventures, Inc.	**–**	4,067	**–**	–
Others	**159,757**	–	**89,132**	12,919
	1,128,474	1,678,772	**1,837,267**	1,219,780
	₱2,835,598	₱2,700,765	**₱2,728,590**	₱1,226,606

i. Receivables from AINA's interest in limited partnerships are nontrade in nature and bear interests ranging from 10% to 15% and will mature on May 31, 2013. Interest income earned amounted to ₱25.6 million and ₱9.5 million in 2012 and 2011, respectively.
ii. Receivable from BPI includes trade receivables on vehicles sold by AAHC and accrued interest receivables on short-term placements by the Group.
iii. Receivable from Stream represents a convertible promissory note entered into on April 27, 2012 for the principal sum of US$4.7 million, plus interest at the rate of 10% per annum maturing on April 29, 2013. To the extent the outstanding balance is not repaid in full on or prior to the maturity date, LiveIt may elect at any time after the maturity date, upon delivery of conversion notice to SGS Holdings LLC, to convert the note into a number of units of membership interests. Interest income earned for 2012 amounted to ₱11.9 million.
iv. Receivable from CHI represents management fee of the Group for CHI's Cebu Business Park & Amara projects in Cebu. It also includes advances for systems cost and interest due from CHI's subsidiary.
v. Receivables from ASTI and FGNEC are advances made for working capital requirements which are non-interest bearing and demandable.
vi. Receivable from Integreon has an interest rate of 14% in 2012 and 15% in 2011 which will mature on February 16, 2013. Interest income earned amounted to ₱54.6 million and ₱44.5 million in 2012 and 2011, respectively.
vii. Receivable from Columbus represents non-interest bearing advance for future acquisition of shares in BLC.
viii. Receivable from FBDC largely pertains to management fees which are included under "Other income."

ix. Other outstanding balances of receivable from related parties at year-end pertain mostly to advances and reimbursement of operating expenses. These are unsecured, interest free, will be settled in cash and are due and demandable.
x. Payable to CHI comprises substantially of the share of CHI's subsidiary, in the collections from joint development project with the Group.
xi. Payable to Columbus and BLC represent non-interest bearing advances for stock redemption.
xii. Payable to CPVD represents non-interest bearing advances for the cost of the lots acquired for joint development projects with the ALI's subsidiaries.
xiii. 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.
xiv. Payable to BPI includes interest payable on subsidiaries' borrowings payable at various payments terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days.
xv. The other outstanding balances of payable to related parties at year-end are unsecured, interest-free, will be settled in cash and are due and demandable.

Allowance for doubtful accounts on amounts due from related parties amounted to ₱133.0 million and ₱116.0 million as of December 31, 2012 and 2011, respectively. Provision for doubtful accounts amounted to ₱15.9 million, ₱16.5 million and ₱11.9 million in 2012, 2011 and 2010, respectively.

c. Receivables from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 6.0% to 13.5% per annum and have various maturity dates ranging from 2013 to 2026.

d. The Group has debt investments with its associates and jointly controlled entities which are included in "Investment in bonds and other securities" account in the consolidated statements of financial position. These debt instruments earn interest ranging from 6.0% to 8.75% in 2012 and 2011 with maturity dates up to 5 years. The fair values of these investments are as follows (amounts in thousands):

	2012	2011
Associate:		
BPI	**₱36,597**	₱130,074
Jointly controlled entity:		
Globe	**–**	101,401
	₱36,597	₱231,475

In addition, the Group holds 0.4 million units of Unit Investment Trust Fund (UITF) of BPI. As of December 31, 2011, the fair value of the UITF of BPI amounted to ₱51.4 million. During 2012, the Group disposed all of its UITF.

e. Revenue and expenses from related parties follow:

	Revenue			Expenses		
	2012	2011	2010	**2012**	2011	2010
			(In Thousands)			
Associates:						
BPI	**₱1,166,696**	₱1,247,133	₱1,221,468	**₱131,004**	₱165,529	₱228,276
Stream	**11,859**	–	–	**–**	245	–
CHI	**1,656**	16,614	60,650	**–**	4,700	–
Ayala System Technology	**1,101**	2,439	2,178		1,889	185
PPI	**339**	339	339	**–**	–	–
Quadriver	**140**	8	–	**–**	–	–
Philnew Hydro	**96**	–	–	**–**	–	–
Philnew Energy	**83**	136	–	**–**	–	–
	1,181,970	1,266,669	1,284,635	**131,004**	172,363	228,461
Jointly controlled entities:						
ACC	**144,246**	–	19	**–**	9,001	–
Integreon	**54,682**	44,456	–	**–**	–	–
Globe Telecom	**16,642**	88,860	66,685	**32,071**	75,236	121,122
NTDCC	**10,192**	–	8	**–**	–	–
Asiacom Philippines, Inc.	**6,998**	6,190	1,316	**–**	–	–
Northwind	**4,410**	2,728	–	**–**	–	–
BPI Globe Banko	**222**	92	–	**–**	–	–
	237,392	142,326	68,028	**32,071**	84,237	121,122

(Forward)

	Revenue			Expenses		
	2012	2011	2010	**2012**	2011	2010
			(In Thousands)			
Other related parties:						
BG South	**₱223**	₱–	₱–	**₱–**	₱–	₱–
Cebu Insular Hotel Company, Inc. (CIHCI)	**7,964**	–	7,585	**–**	–	–
Lamcor	**679**	650	–	**–**	–	–
MD Distripark	**115**	132	–	**–**	–	–
South Innovative Theater	**65**	65	–	**–**	–	–
Cebu Leisure Company, Inc.	**65**	–	130	**–**	6,828	–
IPC	**–**	–	–	**–**	1,840	1,889
Lagoon Development Corporation	**–**	–	–	**–**	1,817	**–**
HCPI	**–**	–	–	**–**	2,113	**–**
Fort Bonifacio Development Corp.	**–**	–	–	**–**	6,768	**–**
CPVDC	**–**	–	10	**–**	2,840	–
Sonoma	**–**	704	1,110	**–**	–	–
Others	**69**	195	–	**–**	–	373
	9,180	1,746	8,835	**–**	22,206	2,262
	₱1,428,542	₱1,410,741	₱1,361,498	**₱163,075**	₱278,806	₱351,845

Revenue recognized from related parties includes:
i. Leasing and developmental projects services rendered by ALI group.
ii. Water and sewerage services rendered by MWC.
iii. Automotive sales and repair services rendered by AAHC group.
iv. Interest income from cash deposits and money market placements in BPI.

Expenses recognized from related parties include:
i. Interest expense from short-term and long-term debt payable to BPI.
ii. Purchases of communications software and billings for cellphone charges and WiFi connections with Globe.
iii. Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.

f. Compensation of key management personnel by benefit type follows:

	2012	2011	2010
		(In Thousands)	
Short-term employee benefits	**₱1,401,840**	₱1,222,511	₱1,219,128
Share-based payments (Note 27)	**158,131**	195,154	207,746
Post-employment benefits (Note 26)	**77,177**	57,460	98,949
	₱1,637,148	₱1,475,125	₱1,525,823

The Parent Company's total compensation of key management personnel amounted to ₱655.2 million, ₱521.1 million and ₱558.9 million in 2012, 2011 and 2010, respectively.

31. Financial Instruments

Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and estimated fair values of all of the Group's financial instruments (amounts in thousands):

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL				
Held for trading	**₱4,532,323**	**₱4,532,323**	₱1,470,829	₱1,470,829
Derivative assets				
Embedded	**184,276**	**184,276**	119,939	119,939
Freestanding	**–**	**–**	2,765	2,765
Total financial assets at FVPL	**4,716,599**	**4,716,599**	1,593,533	1,593,533

(Forward)

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
LOANS AND RECEIVABLES				
Cash and cash equivalents	**₱76,760,668**	**₱76,760,668**	₱53,577,252	₱53,577,252
Short-term investments	**296,503**	**296,503**	1,613,058	1,613,058
Accounts and notes receivables				
Trade receivables				
Real estate	**27,261,823**	**27,261,823**	18,674,261	19,341,610
Electronics manufacturing	**5,950,948**	**5,950,948**	5,535,763	5,535,763
Water utilities	**1,213,644**	**1,213,644**	667,121	667,121
Automotive	**944,614**	**944,614**	498,972	498,972
Information technology and BPO	**153,371**	**153,371**	88,286	88,286
International and others	**6,507**	**6,507**	2,426	2,426
Total trade receivables	**35,530,907**	**35,530,907**	25,466,829	26,134,178
Nontrade receivables				
Advances to other companies	**6,443,660**	**6,443,660**	2,966,508	3,035,412
Related parties	**2,777,805**	**2,777,805**	2,700,637	2,700,637
Investment in bonds classified as loans and receivables	**1,000,000**	**1,040,801**	200,000	214,518
Dividend receivable	**36,636**	**36,636**	815,220	815,220
Receivable from BWC	**473,731**	**473,731**	599,342	599,342
Receivable from officers and employees	**440,238**	**440,303**	724,329	738,181
Other receivables	**81,892**	**81,892**	1,627,326	1,627,326
Total nontrade receivables	**11,253,962**	**11,294,828**	9,633,362	9,730,636
Total loans and receivables	**123,842,040**	**123,882,906**	90,290,501	91,055,124
AFS FINANCIAL ASSETS				
Quoted equity investments	**1,859,092**	**1,859,092**	992,612	992,612
Unquoted equity investments	**1,048,916**	**1,048,916**	1,439,324	1,439,324
Quoted debt investments	**99,501**	**99,501**	874,161	874,161
Unquoted debt investments	**236,411**	**236,411**	439,071	439,071
Total AFS financial assets	**3,243,920**	**3,243,920**	3,745,168	3,745,168
Total financial assets	**₱131,802,559**	**₱131,843,425**	₱95,629,202	₱96,393,825
FINANCIAL LIABILITIES AT FVPL				
Derivative liabilities				
Freestanding	**₱–**	**₱–**	₱1,515	₱1,515
OTHER FINANCIAL LIABILITIES				
Current other financial liabilities				
Accounts payable and accrued expenses				
Accounts payable	**47,355,281**	**47,355,281**	29,432,808	29,432,808
Accrued expenses	**3,228,686**	**3,228,686**	4,560,521	4,560,521
Accrued project costs	**10,810,152**	**10,810,152**	7,458,627	7,458,627
Related parties	**2,728,590**	**2,728,590**	1,226,606	1,226,606
Dividends payable	**1,781,965**	**1,781,965**	1,831,318	1,831,318
Retentions payable	**2,089,161**	**2,089,161**	1,174,760	1,174,760
Interest payable	**1,676,825**	**1,676,825**	1,139,681	1,139,681
Accrued personnel costs	**1,614,684**	**1,614,684**	1,290,373	1,290,373
Customers' deposits	**4,338,242**	**4,338,242**	1,340,148	1,340,148
Short-term debt	**11,847,157**	**11,847,157**	6,665,841	6,665,841
Current portion of service concession obligation	**840,563**	**840,563**	980,620	980,620
Current portion of long-term debt	**18,816,920**	**18,816,920**	7,459,658	7,459,658
Noncurrent other financial liabilities				
Service concession obligation	**7,371,965**	**12,345,548**	6,916,998	8,733,961
Other noncurrent liabilities	**14,925,619**	**14,880,642**	9,273,827	9,208,645
Long-term debt	**139,092,814**	**156,099,370**	92,592,368	100,397,093
Total other financial liabilities	**268,518,624**	**290,453,786**	173,344,154	182,900,660
Total financial liabilities	**₱268,518,624**	**₱290,453,786**	₱173,345,669	₱182,902,175

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:

Cash and cash equivalents, short-term investments and current receivables - Carrying amounts approximate fair values due to the relative short-term maturities of these investments.

Financial assets at FVPL - Fair values of investment securities are based on quoted prices as of the reporting date. For other investment securities with no reliable measure of fair value, these are carried at its last transaction price.

Derivative instruments - The fair value of the freestanding currency forwards is based on counterparty valuation. The embedded call and put options of IMI were valued using a binomial model. This valuation technique considers the probability of PSi's share price which is based on a 5-year discounted cash flow valuation to move up or down depending on the volatility, the risk free rate and exercise price that is based on a 12-month trailing EBITDA. The fair value of the embedded call option of MWC was determined using Black's option pricing model. Valuation inputs such as discount rates were based on credit adjusted interest rates while interest rate volatility was computed based on historical rates or data.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 0.30% to 6.08% in 2012 and 1.22% to 6.06% in 2011.

AFS quoted investments - Fair values are based on the quoted prices published in markets.

AFS unquoted shares - Fair value of equity funds are based on the net asset value per share. For other unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost less impairment, if any.

AFS unquoted debt investments - Fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 1% to 7% for both 2012 and 2011.

Accounts payable and accrued expenses, customers' deposits, short-term debt and current portion of long-term debt and service concession obligation - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Customers' deposits - non-current - The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used for Peso-denominated loans were 1.37% to 7.11% in 2012 and 1.35% to 7.60% in 2011 while the discount rates used for the foreign currency-denominated loans ranged from 0.13% to 3.01% in 2012 and 1.02% to 3.16% in 2011.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi annual/annual basis and deposits) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 2.88% to 7.60% in 2012 and 1.02% to 7.60% in 2011.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows the Group's financial instruments carried at fair value as of December 31, 2012 and 2011, based on fair value hierarchy (amounts in thousands):

	Level 1	Level 2	Level 3	Total
2012				
Financial assets at FVPL	**₱723,700**	**₱4,302**	**₱3,804,321**	**₱4,532,323**
Derivative assets				
Embedded	**–**	**–**	**184,276**	**184,276**
AFS financial assets				
Quoted equity investments	**1,859,092**	**–**	**–**	**1,859,092**
Unquoted equity investments	**–**	**1,048,916**	**–**	**1,048,916**
Quoted debt investments	**99,501**	**–**	**–**	**99,501**
Unquoted debt investments	**–**	**236,411**	**–**	**236,411**
	₱2,682,293	**₱1,289,629**	**₱3,988,597**	**₱7,960,519**

	Level 1	Level 2	Level 3	Total
2011				
Financial assets at FVPL	₱–	₱4,455	₱1,466,374	₱1,470,829
Derivative assets				
Embedded	–	–	119,939	119,939
Freestanding	–	2,765	–	2,765
AFS financial assets				
Quoted equity investments	992,612	–	–	992,612
Quoted debt investments	874,161	–	–	874,161
Unquoted debt investments	–	439,071	–	439,071
Derivative liabilities				
Freestanding	–	1,515	–	1,515
	₱1,866,773	₱447,806	₱1,586,313	₱3,900,892

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 fair value measurements are summarized below

	2012	2011
At January 1	**₱1,586,313**	₱903,851
Additions	**2,498,264**	871,555
Disposals	**–**	(229,613)
Recognized in profit or loss	**(95,980)**	40,520
At December 31	**₱3,988,597**	₱1,586,313

The sensitivity analysis for the TRG investments and ARCH Capital investment cannot be performed because there are no appropriate bases to value these unquoted investments.

The fair value of the embedded put and call option of IMI are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period and PSi's cost of equity as of valuation date.

The following are the estimated changes in the fair values of the embedded derivatives assuming the estimated EBITDA used in the fair value calculation would vary by 5% (amounts in thousands):

	2012	2011
	Increase (Decrease) in net income	Increase (Decrease) in net income
Estimated EBITDA is 5% higher		
Call option	**₱–**	(₱11,758)
Estimated EBITDA is 5% lower		
Call option	**–**	7,011

In 2012, an amendment to the investors' agreement regarding the call strike price was made. The new agreement defines call and put strike price at a fixed amount of US$150,000. Hence, the fair value of the put and call options would not be affected by the changes in the estimated EBITDA

Derivatives

	2012	2011
Derivative Assets		
Embedded call options of IMI	**₱117,280**	₱119,939
Conversion option of AIVPL	**66,996**	–
Freestanding currency forwards of IMI	**–**	2,765
	₱184,276	₱122,704
Derivative Liabilities		
Freestanding currency forwards of IMI	**₱–**	₱1,515

Freestanding Derivatives
In 2012 and 2011, IMI entered into various short-term currency forwards with an aggregate notional amount of US$13.0 million and US$71.7 million, respectively. As of December 31, 2012 and 2011, the outstanding forward contracts have a net positive fair value of nil and US$0.03 million, respectively. Net fair value gains recognized in 2012, 2011 and 2010 amounted to nil, US$0.9 million and US$2.08 million, respectively (see Note 22).

Embedded derivatives

MWC

₱2.0 Billion and ₱1.5 Billion Loans
MWC has two 7-year loans with an aggregate amount of ₱3.5 billion where it has the option to prepay the whole loan or any part of the loan. For each Tranche, MWC will pay the amount calculated as the greater of the present value of the remaining cash flows of the relevant Tranche discounted at the yield of the "comparable benchmark tenor" as shown on the Bloomberg MART1 page or one hundred percent (100%) of the principal amount of the relevant Tranche being prepaid.

The prepayment option of MWC effectively has two components: a long call option and a short put option. The long call option entitles MWC to buy back the issued loan at the face amount while the short put option enables the counterparty bank to sell back the loan to MWC at the market price (present value of future cash flows discounted at prevailing market rates).

The long call option has a strike price equal to the face amount. Most likely, MWC will exercise the long call option if the market value of the loan is higher than the face amount (in the money). However, if the market value of the loan is lower than the face amount (out of the money), the option will not be exercised.

On the other hand, the put option enables the counterparty bank to demand payment based on the market value of the loan. Therefore, the strike price of the option is identified as the market value of the loan. Based on analysis, the put option is not the usual option availed to protect the holder from future decline of an asset's market value. By setting the strike price at market value, the put option provides protection to the holder, as a writer of the call option, from possible losses resulting from the exercise of the call option.

Based on the payoff analysis, the value of the long call and the short put options are offsetting resulting to net payoff of zero. Consequently, no value for the embedded derivatives is recognized.

₱4.0 billion Bonds Embedded Call Option
MWC has an embedded call option on the ₱4.0 billion Peso Bonds issued on October 22, 2008. The embedded call option gives MWC the right to redeem all, but not in part, the outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date. On issue date, MWC recognized separately the fair value of the embedded call option, resulting in recognition of a derivative asset and loan premium amounting to ₱210.6 million. The embedded derivative is carried at FVPL while the loan premium is amortized at effective interest rate over the life of the loan.

On October 23, 2011, the derivative asset was derecognized upon redemption of the ₱4.0 billion Peso Bonds. The loss recognized due to the derecognition of derivative asset amounted to ₱229.6 million.

₱10.0 Billion Notes Payable
MWC has an embedded call option on the ₱10.0 Billion Corporate Notes issued on April 8, 2011.The embedded call option gives MWC the right to redeem all, but not in part, the outstanding notes starting on the seventh anniversary. The amount payable to the holder in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the notes on the optional redemption date. As of December 31, 2011, the option was assessed as not clearly and closely related to the host contract since the amortized cost of the loan does not approximate the prepayment at each option exercise date. However, as of inception date, the value of the option is not material. As of December 31, 2012, the option has been reassessed which resulted to the option as clearly and closely related to the host contract since the amortized cost of the loan approximates the prepayment at each option exercise date.

IMI

In 2012 and 2011, IMI entered into various short-term currency forwards with an aggregate notional amount of US$13.0 million and US$71.7 million, respectively. As of December 31, 2012 and 2011, the outstanding forward contracts have a net positive fair value of nil and US$0.03 million, respectively. Net fair value gains recognized in 2012, 2011 and 2010 amounted to nil, US$0.9 million and US$2.1 million, respectively.

PSi Equity Call and Put Option
As discussed in Note 23, the acquisition of PSi gave rise to a long equity call option and written equity put option for IMI. On September 26, 2012, amendments relating to the investors' agreement were made. Accordingly, call option period shall mean the period commencing from the amendment date and ending January 4, 2013 and put option period shall mean the period from January 4, 2013 up to January 30, 2013. In addition call and put strike price were fixed at US$150,000.

As of December 31, 2012 and 2011, the call option has a positive value of US$2.86 million (₱117.4 million) and US$2.7 million (₱119.9 million), respectively, while the put option has a zero value and negative value of US$3.8 million (₱168.0 million), respectively. Net fair value gain on the options amounted to US$0.12 million (₱5.1 million) in 2012 and US$5.36 million (₱232.1 million) in 2011. Net fair value loss amounted to US$0.21 million (₱9.4 million) in 2010. The call option is included as part of "Other current assets" while the the put option is included as part of "Other current liabilities" in the consolidated statement of financial position.

Fair Value Changes on Derivatives
The net movements in fair values of the Group's derivative instruments as of December 31 follow (amounts in thousands):

Derivative Assets

	2012	2011
Balance at beginning of year	**₱122,704**	₱288,836
Initial value of long call option	**1,027**	–
Net changes in fair value of derivatives	**128,945**	106,128
Translation adjustment	**–**	15,003
	252,676	409,967
Fair value of settled instruments	**(68,400)**	(287,263)
Balance at end of year	**₱184,276**	₱122,704

Derivative Liability

	2012	2011
Balance at beginning of year	**₱1,515**	₱168,016
Net changes in fair value of derivatives	**(1,515)**	(166,501)
Balance at end of year	**₱–**	₱1,515

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's freestanding currency forward are recognized in the consolidated statements of comprehensive income under "Foreign exchange gains (losses)" (see Note 22).

Financial Risk Management

General

The Ayala Group adopts a formal risk management process as an essential element of sound corporate governance and an integral part of good management practice. It is designed primarily to have a structured and disciplined approach of aligning strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the uncertainties the Group faces as it creates value for all stakeholders.

Enterprise Risk Management (ERM) policies and programs are in place, in accordance with an internationally recognized framework. These are periodically reviewed and improved to adapt to changes in the business and operating environment, and be responsive to emerging and changing risks. The risk management framework encompasses the identification and assessment of risks; development of risk management strategies; assessment of risk management capabilities and design and implementation of risk management capability-building initiatives; monitoring and evaluating the effectiveness of risk mitigation strategies and management performance; and identification of areas and opportunities for improvement in the risk management process. As part of the continuous improvement program, the Group aims to strengthen its ERM practices and benchmark with industry best practices to ensure they remain relevant, effective, and a key enabler in the achievement of business strategies and objectives.

A Chief Risk Officer (CRO) is the ultimate champion of enterprise risk management of the Group and oversees the entire risk management function. The Group Risk Management Unit provides support to the CRO and drives the implementation and continuous improvement of the risk management process. It also provides oversight and assistance to the Ayala group of companies' risk management functions. Under an expanded charter, the Audit and Risk Committee provides a more focused oversight role to the risk management process. The Group Risk Management Unit submits risk management reports to the Audit & Risk Committee on a quarterly basis, focusing on the implementation of risk management strategies and action plans for the identified top risks of the Ayala Group, any emerging risks, and developments in risk management. The Board monitors the effectiveness of risk management and receives regular updates on the strategic and operational risks facing the Group from management.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies
The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk. The Group also enters into derivative transactions, the purpose of which is to manage the currency risks arising from its financial instruments.

The Group's risk management policies relevant to financial risks are summarized below:

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Company's and its subsidiaries' long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2012 and 2011, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of AFS financial assets and financial assets at FVPL).

December 31, 2012

Fair value interest rate risk

	Effect on profit before tax Change in basis points		**Effect on equity Change in basis points**	
	+100 basis points	**-100 basis points**	**+100 basis points**	**-100 basis points**
		(In Thousands)		
FVPL financial assets	**₱–**	**₱–**	**₱–**	**₱–**
AFS financial assets	**–**	**–**	**(16,163)**	**6,932**

Cash flow interest rate risk

	Effect on profit before tax Change in basis points	
	+100 basis points	**-100 basis points**
	(In Thousands)	
Parent Company - floating rate borrowings	**(₱53,317)**	**₱53,317**
Subsidiaries - floating rate borrowings	**(406,624)**	**406,624**
	(₱459,941)	**₱459,941**

December 31, 2011

Fair value interest rate risk

	Effect on profit before tax Change in basis points		Effect on equity Change in basis points	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
		(In Thousands)		
FVPL financial assets	₱–	₱–	₱–	₱–
AFS financial assets	–	–	(25,832)	27,391

Cash flow interest rate risk

	Effect on profit before tax Change in basis points	
	+100 basis points	-100 basis points
	(In Thousands)	
Parent Company - floating rate borrowings	(₱48,563)	₱48,563
Subsidiaries - floating rate borrowings	(231,242)	231,242
	(₱279,805)	₱279,805

There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values (in thousands), are shown in the following table:

2012

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱76,755,019	₱76,755,019	₱–	₱–	₱76,755,019
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	296,503	296,503	–	–	296,503
Accounts and notes receivable	Fixed at the date of investment or revaluation cut-off	Various	12,155,639	4,865,503	5,823,781	1,216,872	11,906,156
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	100,000	49,384	50,117	–	99,501
AFS financial asset - Unquoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	225,452	92,799	51,765	91,847	236,411
			₱89,532,613	₱82,059,208	₱5,925,663	₱1,308,719	₱89,293,590
Company							
Long-term debt							
Fixed							
	Fixed at 7.45%%	5 years	₱2,865,000	₱39,647	₱2,816,443	₱–	₱2,856,090
	Fixed at 6.70% to 8.40%	7 years	22,462,500	5,539	12,377,081	9,900,013	22,282,633
	Fixed at 6.75% to 6.80%	10 years	11,493,333	350	6,638	11,392,442	11,399,430
	Fixed at 6.88%	15 years	10,000,000	–	–	9,907,641	9,907,641
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	13,220,000	6,206,531	2,045,092	4,929,515	13,181,138
Subsidiaries							
Short-term debt	Ranging from 1.21% to8.0%	Monthly, quarterly	7,966,400	7,966,400	–	–	7,966,400
	Ranging from 1.05% to 4.13%%	Monthly, quarterly	3,880,757	3,880,757	–	–	3,880,757
Long-term debt							
Fixed							
	Fixed at 2.4753% to 13.50%	3,4,5,7, 10 and 15 years	56,044,488	8,609,684	20,071,009	27,071,660	55,752,353
Floating							
	Variable at Libor+0.50% to 3.50%	3 months, semi-annual	42,951,709	3,955,169	23,964,272	14,611,008	42,530,449
			₱170,884,187	₱30,664,077	₱61,280,535	₱77,812,279	₱169,756,891

2011

	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	₱53,524,835	₱53,524,835	₱–	₱–	₱53,524,835
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	1,613,058	1,613,058	–	–	1,613,058
Accounts and notes receivable	Fixed at the date of investment or revaluation cut-off	Various	16,183,396	7,372,039	5,930,444	151,585	13,454,068
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	874,161	132,332	723,664	18,165	874,161
AFS financial asset - Unquoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	420,000	126,053	268,905	44,113	439,071
			₱72,615,450	₱62,768,317	₱6,923,013	₱213,863	₱69,905,193
Company							
Long-term debt							
Fixed							
	Fixed at 7.45% to 7.95%	5 years	₱5,890,000	₱3,009,938	₱2,856,066	₱–	₱5,866,004
	Fixed at 8.15%	6 years	1,000,000	995,233	–	–	995,233
	Fixed at 6.70% to 8.40%	7 years	12,470,000	–	2,384,395	9,988,686	12,373,081
	Fixed at 6.75% to 6.80%	10 years	11,495,000	–	–	11,393,916	11,393,916
Floating							
	Variable at 0.60% to 0.67% over 3M PDST-R1	3 months	6,475,000	249,940	6,215,051	–	6,464,991
Subsidiaries							
Short-term debt	Ranging from 1.16% to 4.13%	Monthly, quarterly	3,347,341	3,347,341	–	–	3,347,341
	Ranging from 3.50% to 8.00%	Monthly, quarterly	3,318,500	3,318,500	–	–	3,318,500
Long-term debt							
Fixed							
	Fixed at 2.08% to 13.50%	3,5,7,10 and 12 years	41,204,600	2,345,485	30,065,253	8,394,537	40,805,275
Floating							
	Variable at Libor+0.50% to 3.50%	3 months, semi-annual	22,402,412	873,934	17,705,624	3,573,968	22,153,526
			₱107,602,853	₱14,140,371	₱59,226,389	₱33,351,107	₱106,717,867

Foreign exchange risk
The Group's foreign exchange risk results from movements of the Philippine Peso (₱) against foreign currency. The Group may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its US$ obligations.

IMI Group
The IMI Group's foreign exchange risk results primarily from movements of the U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, IMI Group's consolidated statements of comprehensive income can be affected significantly by movements in the U.S. Dollar versus the Philippine Peso. In 2012 and 2011, IMI Group entered into currency forward contracts and structured currency options, respectively, to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI Group's functional currency. Approximately 43% and 37% of IMI Group's sales for the years ended December 31, 2012 and 2011, respectively, and 35% and 51% of costs for the years ended December 31, 2012 and 2011, respectively, are denominated in other than IMI Group's functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.

MWC Group
The MWC Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the United States Dollar (US$) and Japanese Yen (JPY). Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 11% and 17% of debt as of December 31, 2012 and 2011, respectively, was denominated in foreign currency. Under Amendment 1 of the Agreement, however, the Group has a natural hedge on its foreign exchange risks on its loans and concession fee payments through a recovery mechanism in the tariff (see Note 35).

The table below summarizes the Group's exposure to foreign exchange risk as of December 31, 2012 and 2011. Included in the table are the Group's monetary assets and liabilities at carrying amounts, categorized by currency.

	2012		2011	
	US$	**Php Equivalent***	US$	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	**US$42,557**	**₱1,746,965**	US$101,318	₱4,441,781
Short term investments	**–**	**–**	2,199	96,404
Accounts and notes receivables	**17,660**	**724,943**	78,043	3,421,405
Other current assets	**–**	**–**	4	175
Investments	**16,990**	**697,440**	6	263
Other noncurrent assets	**–**	**–**	2,469	108,241
Total assets	**77,207**	**3,169,348**	184,039	8,068,269
Liabilities				
Accounts payable and accrued expenses	**US$24,841**	**₱1,019,723**	US$1,657	₱72,643
Short-term debt	**874**	**35,878**	39,440	1,729,050
Long-term debt	**272,124**	**11,170,690**	258,662	11,675,995
Service concession obligation	**–**	**–**	69,554	3,049,247
Other noncurrent liabilities	**81,707**	**3,354,072**	978	42,876
Total liabilities	**379,546**	**15,580,363**	370,291	16,569,811
Net foreign currency denominated liabilities	**(US$302,339)**	**(₱12,411,015)**	(US$186,252)	(₱8,501,542)

**Translated using the exchange rate at the reporting date (US$1:₱41.05 in 2012 and US$1:₱43.84 in 2011).*

	2012		2011	
	JPY	**Php Equivalent***	JPY	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY20,778**	**₱9,974**	JPY24,802	₱13,889
Accounts and notes receivable	**142,971**	**68,626**	137,928	77,240
Other noncurrent assets	**162,576**	**78,036**	2,392	1,340
Total assets	**326,325**	**156,636**	165,122	92,469
Liabilities				
Long-term debt	**360,283**	**172,936**	8,947,369	5,010,527
Service concession obligation	**7,892,050**	**3,788,184**	1,678,875	940,170
Total liabilities	**8,252,333**	**3,961,120**	10,626,244	5,950,697
Net foreign currency denominated liabilities	**(JPY7,926,008)**	**(₱3,804,484)**	(JPY10,461,122)	(₱5,858,228)

**Translated using the exchange rate at the reporting date (JPY1:₱0.48 in 2012 and JPY1:₱0.56 in 2011).*

	2012		2011	
	SGD	**Php Equivalent***	SGD	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**SGD3,137**	**₱105,715**	SGD4,465	₱151,140
Accounts and notes receivables	**(1,481)**	**(49,895)**	16	542
Other current assets	**24**	**802**	102	3,453
Other noncurrent assets	**–**	**–**	10,169	344,221
Total assets	**1,680**	**56,622**	14,752	499,356
Liabilities				
Accounts payable and accrued expenses	**1,178**	**39,687**	1,802	60,998
Other current liabilities	**1,352**	**45,570**	1,294	43,802
Short-term debt	**1,705**	**57,473**	1,633	55,277
Other noncurrent liabilities	**–**	**–**	262	8,869
Total liabilities	**4,235**	**142,730**	4,991	168,946
Net foreign currency denominated assets (liabilities)	**(SGD2,555)**	**(₱86,108)**	SGD9,761	₱330,410

**Translated using the exchange rate at the reporting date (SGD1:₱33.70 in 2012, SGD1:₱33.85 in 2011).*

	2012		2011	
	HKD	**Php Equivalent***	HKD	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**HKD3,137**	**₱16,660**	HKD988	₱5,582
Accounts and notes receivables	**75,383**	**400,283**	78,479	443,406
Investments	**8,579**	**45,555**	149	842
Other current assets	**645**	**3,423**	9,630	54,410
Total assets	**87,744**	**465,921**	89,246	504,240
Liabilities				
Accounts payable and accrued expenses	**6,181**	**32,823**	3,436	19,413
Net foreign currency denominated assets	**HKD81,563**	**₱433,098**	HKD85,810	₱484,827

**Translated using the exchange rate at the reporting date (HKD1:₱5.31 in 2012, HKD1:₱5.65 in 2011).*

	2012		2011	
	RMB	**Php Equivalent***	RMB	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB91,751**	**₱606,473**	RMB42,525	₱295,549
Accounts and notes receivables	**345,540**	**2,284,018**	271,962	1,890,136
Other current assets	**–**	**–**	17,377	120,770
Total assets	**437,291**	**2,890,491**	331,864	2,306,455
Liabilities				
Accounts payable and accrued expenses	**239,821**	**1,585,220**	186,654	1,297,245
Other current liabilities	**–**	**–**	38	264
Total liabilities	**239,821**	**1,585,220**	186,692	1,297,509
Net foreign currency denominated assets	**RMB197,470**	**₱1,305,271**	RMB145,172	₱1,008,946

**Translated using the exchange rate at the reporting date (RMB1: ₱6.61 in 2012, RMB1: ₱6.95 in 2011).*

	2012		2011	
	INR	**Php Equivalent***	INR	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**INR3,420**	**₱2,565**	INR15,552	₱12,924
Receivables	**9,667**	**7,250**	38,723	32,179
Other current assets	**1,027**	**771**	–	–
Total assets	**14,114**	**10,586**	54,275	45,103
Liabilities				
Accounts payable and accrued expenses	**6,032**	**4,524**	71,368	59,307
Long-term debt	**–**	**–**	14,951	12,424
Other noncurrent liabilities	**–**	**–**	15,105	12,552
Total liabilities	**6,032**	**4,524**	101,424	84,283
Net foreign currency denominated assets (liabilities)	**INR8,082**	**₱6,062**	(INR47,149)	(₱39,180)

**Translated using the exchange rate at the reporting date (INR1: ₱0.750 in 2012, INR1: ₱0.831 in 2011).*

	2012		2011	
	THB	**Php Equivalent***	THB	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**THB–**	**₱–**	THB226	₱314
Other current assets	**–**	**–**	41	57
Other noncurrent assets	**–**	**–**	100,875	140,216
Total assets	**–**	**–**	101,142	140,587
Liabilities				
Accounts payable and accrued expenses	**35,038**	**46,951**	–	–
Net foreign currency denominated assets (liabilities)	**(THB35,038)**	**(₱46,951)**	THB101,142	₱140,587

**Translated using the exchange rate at the reporting date (THB1: ₱1.34 in 2012, THB1: ₱1.39 in 2011).*

	2012		2011	
	MYR	**Php Equivalent***	MYR	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**MYR4,728**	**₱63,685**	MYR4,674	₱64,875
Short term investments	**9**	**121**	–	–
Other current assets	**24**	**323**		
Investments	**321**	**4,322**	321	4,455
Other noncurrent assets	**–**	**–**	6,785	94,176
Total assets	**5,082**	**68,451**	11,780	163,506
Liabilities				
Accounts payable and accrued expenses	**41**	**556**	49	680
Other noncurrent liabilities	**–**	**–**	26	361
Total liabilities	**41**	**556**	75	1,041
Net foreign currency denominated assets	**MYR5,041**	**₱67,895**	MYR11,705	₱162,465

Translated using the exchange rate at the reporting date (MYR1: ₱13.47 in 2012, MYR1: ₱13.88 in 2011).

	2012		2011	
	EUR	**Php Equivalent***	EUR	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**EUR1,836**	**₱100,093**	EUR3,533	₱200,816
Accounts and notes receivables	**31,188**	**1,700,681**	17,176	976,284
Total assets	**33,024**	**1,800,774**	20,709	1,177,100
Liabilities				
Accounts payable and accrued expenses	**10,380**	**566,018**	10,679	606,994
Other current liabilities	**–**	**–**	24,986	1,420,204
Short-term debt	**45,756**	**2,495,063**	13,552	770,296
Long-term debt	**–**	**–**	15,083	857,318
Other noncurrent liabilities	**–**	**–**	188	10,686
Total liabilities	**56,136**	**3,061,081**	64,488	3,665,498
Net foreign currency denominated liabilities	**(EUR23,112)**	**(₱1,260,307)**	(EUR43,779)	(₱2,488,398)

Translated using the exchange rate at the reporting date (EUR1: ₱54.53 in 2012, EUR1: ₱56.84 in 2011)

	2012		2011	
	CZK	**Php Equivalent***	CZK	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**CZK1,507**	**₱3,210**	CZK61	₱134
Accounts and notes receivables	**4,183**	**8,910**	1,063	2,339
Total assets	**5,690**	**12,120**	1,124	2,473
Liabilities				
Accounts payable and accrued expenses	**19,512**	**41,560**	20,420	44,924
Other current liabilities	**6,064**	**12,917**	4,172	9,178
Short-term debt	**351**	**747**	3,042	6,692
Long-term debt	**–**	**–**	5,256	11,563
Total liabilities	**25,927**	**55,224**	32,890	72,357
Net foreign currency denominated liabilities	**(CZK20,237)**	**(₱43,104)**	(CZK31,766)	(₱69,884)

Translated using the exchange rate at the reporting date (CZK1:₱2.13 in 2012, CZK1:₱2.20 in 2011).

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).

2012

Currency	**Increase (decrease) in Peso per foreign currency**	**Increase (decrease) in profit before tax**
US$	₱1.00	**(₱302,339)**
	(1.00)	**302,339**
JPY	1.00	**(7,926,008)**
	(1.00)	**7,926,008**
SGD	1.00	**(2,555)**
	(1.00)	**2,555**
HKD	1.00	**81,563**
	(1.00)	**(81,563)**
RMB	1.00	**197,470**
	(1.00)	**(197,470)**
INR	1.00	**8,082**
	(1.00)	**(8,082)**
THB	1.00	**(35,038)**
	(1.00)	**35,038)**
MYR	1.00	**5,041**
	(1.00)	**(5,041)**
EUR	1.00	**(23,112)**
	(1.00)	**23,112**
CZK	1.00	**(20,327)**
	(1.00)	**20,327**

2011

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax
US$	₱1.00	(₱186,252)
	(1.00)	186,252
JPY	1.00	(10,461,122)
	(1.00)	10,461,122
SGD	1.00	9,761
	(1.00)	(9,761)
HKD	1.00	85,810
	(1.00)	(85,810)
RMB	1.00	145,172
	(1.00)	(145,172)
INR	1.00	(47,149)
	(1.00)	47,149
THB	1.00	101,142
	(1.00)	(101,142)
MYR	1.00	11,705
	(1.00)	(11,705)
EUR	1.00	(43,779)
	(1.00)	43,779
CZK	1.00	(31,766)
	(1.00)	31,766

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).

2012

Market Index	Change in Variables	Effect on Equity Increase (decrease)
PSEi	**5%**	**₱720,597**
	-5%	**(720,597)**

2011

Market Index	Change in Variables	Effect on Equity Increase (decrease)
PSEi	5%	₱193,244
	-5%	(193,244)

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, 2012 and 2011 based on contractual undiscounted payments.

	2012				
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	**₱47,355,281**	**₱–**	**₱–**	**₱–**	**₱47,355,281**
Accrued project costs	**10,810,152**	**–**	**–**	**–**	**10,810,152**
Accrued expenses	**3,228,686**	**–**	**–**	**–**	**3,228,686**
Related parties	**2,728,590**	**–**	**–**	**–**	**2,728,590**
Retentions payable	**2,089,161**	**–**	**–**	**–**	**2,089,161**
Dividends payable	**1,781,965**	**–**	**–**	**–**	**1,781,965**
Accrued personnel costs	**1,614,684**	**–**	**–**	**–**	**1,614,684**
Service concession liability	**840,563**	**1,696,571**	**1,696,571**	**3,978,824**	**8,212,529**
Customers' deposit	**4,338,242**	**–**	**–**	**–**	**4,338,242**
Short-term debt	**11,847,157**	**–**	**–**	**–**	**11,847,157**
Long-term debt (LTD)	**19,186,744**	**26,905,317**	**36,988,402**	**75,956,568**	**159,037,031**
Other noncurrent liabilities	**–**	**13,976,407**	**519,102**	**1,354,430**	**15,849,939**
Interest payable on LTD	**7,261,075**	**7,008,889**	**6,668,588**	**27,701,131**	**48,639,683**
	₱113,082,300	**₱49,587,184**	**₱45,872,663**	**₱108,990,953**	**₱317,533,100**

	2011				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱29,432,808	₱–	₱–	₱–	₱29,432,808
Accrued expenses	7,109,950	–	–	–	7,109,950
Accrued project costs	5,684,761	–	–	–	5,684,761
Dividends payable	1,831,318	–	–	–	1,831,318
Related parties	1,226,606	–	–	–	1,226,606
Retentions payable	1,174,760	–	–	–	1,174,760
Accrued personnel costs	814,432	–	–	–	814,432
Derivative liability	1,515	–	–	–	1,515
Service concession liability	980,620	946,375	979,431	4,991,192	7,897,618
Customers' deposit	1,340,148	–	–	–	1,340,148
Short-term debt	6,665,841	–	–	–	6,665,841
Long-term debt (LTD)	7,421,861	19,329,254	9,781,964	64,403,934	100,937,013
Other noncurrent liabilities	–	7,299,133	455,701	1,518,993	9,273,827
Interest payable on LTD	5,054,350	4,870,537	4,002,544	14,027,950	27,955,381
	₱68,738,970	₱32,445,299	₱15,219,640	₱84,942,069	₱201,345,978

Cash and cash equivalents, short-term investments, financial assets at FVPL and AFS debt investments are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section. AFS unquoted debt investments with maturity of more than a year from December 31 are marketable securities and could be sold as and when needed prior to its maturity in order to meet the Group's short-term liquidity needs.

Credit risk

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The Group's Treasury Policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures.

ALI Group

For installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant as titles to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

IMI Group

The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

MWC Group

It is the Group's policy that except for connection fees and other highly meritorious cases, the Group does not offer credit terms to its customers. Credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and short-term investments and AFS financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the investments.

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

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

	2012	2011
	(In Thousands)	
Cash and cash equivalents	**₱76,755,019**	₱53,524,835
Short-term investments	**296,503**	1,613,058
Financial assets at FVPL	**4,532,323**	1,470,829
Derivative assets	**184,276**	122,704
Accounts and notes receivables		
Trade		
Real estate	**27,261,823**	18,674,261
Electronics manufacturing	**5,950,948**	5,535,763
Water utilities	**1,213,644**	667,121
Automotive	**944,614**	498,972
Information technology and BPO	**153,371**	88,286
International and others	**6,507**	2,426
Advances to other companies	**6,089,671**	2,966,508
Related parties	**2,777,805**	2,700,637
Dividend receivable	**36,636**	815,220
Receivable from BWC	**473,731**	599,342
Investment in bonds classified as loans and receivables	**1,000,000**	200,000
Other receivables	**81,892**	1,627,326
AFS financial assets		
Quoted equity investments	**1,859,092**	992,612
Unquoted equity investments	**1,048,916**	1,439,324
Quoted debt investments	**99,501**	874,161
Unquoted debt investments	**236,411**	439,071
Total credit risk exposure	**₱131,002,683**	₱94,852,456

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2012

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	**₱24,808,111**	**₱788,525**	**₱554,974**	**₱345,323**	**₱141,362**	**₱670,966**	**₱2,501,150**	**₱204,782**	**₱27,514,043**
Electronics manufacturing	**4,966,938**	**712,284**	**147,711**	**59,139**	**22,403**	**42,473**	**984,010**	**100,950**	**6,051,898**
Water utilities	**340,050**	**889,469**	**142,404**	**73,984**	**87,826**	**114,424**	**1,308,107**	**59,133**	**1,707,290**
Automotive	**460,477**	**276,974**	**72,241**	**89,891**	**21,474**	**45,411**	**505,991**	**1,688**	**968,156**
Information technology and BPO	**131,455**	**31,880**	**–**	**–**	**–**	**–**	**31,880**	**–**	**163,335**
International and others	**5,489**	**636**	**381**	**–**	**1**	**–**	**1,018**	**–**	**6,507**
Advances to other companies	**5,561,818**	**55,343**	**77,737**	**358,567**	**11,316**	**378,880**	**881,843**	**56,012**	**6,499,673**
Related parties	**2,237,696**	**164,178**	**23,620**	**52,514**	**17,629**	**282,168**	**540,109**	**57,793**	**2,835,598**
Dividend receivable	**36,636**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**36,636**
Receivable from officers and employees	**361,638**	**61,474**	**2,352**	**760**	**742**	**13,271**	**78,599**	**2,080**	**442,317**
Receivable from BWC	**473,731**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**473,731**
Investment in bonds classified as loans and receivables	**1,000,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,000,000**
Others	**59,461**	**1,067**	**18,648**	**1,405**	**699**	**612**	**22,431**	**–**	**81,892**
Total	**₱40,443,500**	**₱2,981,830**	**₱1,040,068**	**₱981,583**	**₱303,452**	**₱1,548,205**	**₱6,855,138**	**₱482,438**	**₱47,781,076**

December 31, 2011

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	₱16,118,809	₱718,215	₱466,170	₱285,440	₱187,830	₱867,490	₱2,525,145	₱277,731	₱18,921,685
Electronics manufacturing	4,646,243	492,454	168,404	53,159	27,377	148,126	889,520	92,797	5,628,560
Water utilities	309,182	347,096	55,170	82,763	75,914	173,272	734,215	42,992	1,086,389
Automotive	233,644	109,822	77,627	37,640	15,829	24,410	265,328	36,003	534,975
Information technology and BPO	34,482	47,824	5,276	2,535	2,040	–	57,675	25,148	117,305
International and others	1,950	–	476	–	–	–	476	67	2,493
Advances to other companies	2,834,066	66,537	36,916	37,146	54,960	77,021	272,580	140,516	3,247,162
Related parties	2,425,677	40,218	18,149	12,150	10,717	171,398	252,632	22,456	2,700,765
Dividend receivable	815,220	–	–	–	–	–	–	–	815,220
Receivable from officers and employees	646,786	51,627	8,030	1,667	1,132	15,087	77,543	14,220	738,549
Receivable from BWC	599,342	–	–	–	–	–	–	–	599,342
Investment in bonds classified as loans and receivables	200,000	–	–	–	–	–	–	–	200,000
Others	1,594,147	733	–	–	–	32,446	33,179	–	1,627,326
Total	₱30,459,548	₱1,874,526	₱836,218	₱512,500	₱375,799	₱1,509,250	₱5,108,293	₱651,930	₱36,219,771

The table below shows the credit quality of the Group's financial assets as of December 31, 2012 and 2011 (amounts in thousands):

December 31, 2012

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱76,755,019	₱–	₱–	₱76,755,019	₱–	₱–	₱76,755,019
Short-term investments	296,503	–	–	296,503	–	–	296,503
FVPL financial assets	4,532,323	–	–	4,532,323	–	–	4,532,323
Accounts and notes receivables							
Trade							
Real estate	22,686,783	1,057,821	1,063,507	24,808,111	2,501,150	204,782	27,514,043
Electronics manufacturing	144,585	4,750,375	71,978	4,966,938	984,010	100,950	6,051,898
Water utilities	335,493	4,557	–	340,050	1,308,107	59,133	1,707,290
Automotive	460,477	–	–	460,477	505,991	1,688	968,156
Information technology and BPO	–	131,455	–	131,455	31,880	–	163,335
International and others	3,548	1,941	–	5,489	1,018	–	6,507
Advances to other companies	5,197,845	363,973	–	5,561,818	881,843	56,011	6,499,672
Related parties	1,590,400	647,296	–	2,237,696	540,109	57,793	2,835,598
Dividend receivable	36,636	–	–	36,636	–	–	36,636
Receivable from BWC	473,731	–	–	473,731	–	–	473,731
Receivable from officers employees	268,690	7,603	85,345	361,638	78,600	2,080	442,318
Investments in bonds classified as loans and receivables	1,000,000	–	–	1,000,000	–	–	1,000,000
Other receivable	57,710	1,751		59,461	22,431	–	81,892
AFS Investments							
Quoted shares of stocks	1,932,782	–	–	1,932,782	–	–	1,932,782
Unquoted shares of stocks	1,048,916	–	–	1,048,916	–	–	1,048,916
Quoted debt investments	99,501	–	–	99,501	–	–	99,501
Unquoted debt investments	236,411	–	–	236,411	–	–	236,411
	₱117,157,353	₱6,966,772	₱1,220,830	₱125,344,955	₱6,855,139	₱482,437	₱132,682,531

December 31, 2011

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱53,524,835	₱–	₱–	₱53,524,835	₱–	₱–	₱53,524,835
Short-term investments	1,613,058	–	–	1,613,058	–	–	1,613,058
FVPL financial assets	1,470,829	–	–	1,470,829	–	–	1,470,829
Accounts and notes receivables							
Trade							
Real estate	13,834,616	1,463,154	821,039	16,118,809	2,525,145	277,731	18,921,685
Electronics manufacturing	4,247,002	284,263	114,978	4,646,243	889,520	92,797	5,628,560
Water utilities	171,249	137,933	–	309,182	734,215	42,992	1,086,389
Automotive	201,599	32,045	–	233,644	265,328	36,003	534,975
Information technology and BPO	34,482	–	–	34,482	57,675	25,148	117,305
International and others	689	1,261	–	1,950	476	67	2,493
Advances to other companies	2,551,047	3,856	279,163	2,834,066	272,580	140,516	3,247,162
Related parties	1,901,980	4,713	518,984	2,425,677	252,632	22,456	2,700,765
Dividend receivable	815,220	–	–	815,220	–	–	815,220
Receivable from BWC	599,342	–	–	599,342	–	–	599,342
Receivable from officers employees	452,365	4,235	190,186	646,786	77,543	14,220	738,549
Investments in bonds classified as loans and receivables	200,000	–	–	200,000	–	–	200,000
Other receivable	1,593,904	–	243	1,594,147	33,179	–	1,627,326
AFS Investments							
Quoted shares of stocks	992,612	–	–	992,612	–	–	992,612
Unquoted shares of stocks	1,439,324	–	–	1,439,324	–	–	1,439,324
Quoted debt investments	874,161	–	–	874,161	–	–	874,161
Unquoted debt investments	439,071	–	–	439,071	–	–	439,071
	₱86,957,385	₱1,931,460	₱1,924,593	₱90,813,438	₱5,108,293	₱651,930	₱96,573,661

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 utilities - 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.

Registration with the Philippine Export Zone Authority (PEZA) and Board of Investments (BOI) Incentives

Some activities of certain subsidiaries are registered with the PEZA. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

On February 9, 2010, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Celadon Park Tower 2, Felix Huertas Street, Manila in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from February 2010.

On March 23, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Laguna, Brgy. Barandal, Calamba City, Laguna. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of four (4) years commencing from March 2011.

On December 13, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Avida Towers Cebu Tower 1, Asiatown I.T. Park, Lahug, Cebu City. The project has been granted an Income Tax Holiday for a period of four (4) years commencing from December 2011.

On December 14, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Avida Towers San Lazaro Tower 5, Lot 5 E Block 50 C Pista St., Brgy. 350, Zone 035 Sta. Cruz, Manila, Avida Towers Cebu Tower 2, Asiatown I.T. Park, Lahug, Cebu City and Avida Towers Sucat Tower 7, Dr. A. Santos Ave., Brgy. San Dionisio, Parañaque City. The projects have been granted an Income Tax Holiday for a period of three (3) years commencing from December 2011.

33. **Note to Consolidated Statements of Cash Flows**

The Group's major noncash investing and financing activities are as follows:

2012

- The Parent Company acquired 309.3 million common shares of DBS in BPI and 15.0 million ADHI Class B common shares for a total consideration of ₱21.6 billion and ₱3.98 billion, respectively. As of December 31, 2012, outstanding payable to DBS and ADHI amounted to ₱10.8 billion and ₱2.0 billion, respectively (see Note 11).
- Reclassification of interest in ARCH Capital from investment in associates and jointly controlled entities to financial assets at FVPL (see Notes 8).
- Recognition of contingent consideration for the purchase of of KWD amounting to ₱89.02 million as of December 31, 2012 (see Note 11).

2011

- Exchange of interest in ARCH Capital for additional interest in TRG shares (see Note 11).
- Recognition of contingent consideration arising from the acquisition of wind power companies amounting to ₱397.0 million (see Note 23).
- Issuance of 200 million of IMI Philippines' shares in exchange for EPIQ shares (see Note 23).
- Declaration of a 20% stock dividend on all common stockholders of the Company.
- Conversion of notes receivable amounting to ₱47.5 million into Series G Preferred shares of stock of an investee company classified as investments in bonds and other securities.
- Certain investment properties with an aggregate carrying value of ₱15.1 million were donated by the Group to various organizations.

Details of the decrease in consolidated net assets resulting from the deconsolidation of Integreon in 2010 follows:

	In US$	In Php*
	(In Thousands)	
Assets		
Cash and cash equivalents	US$1,262	₱58,691
Accounts receivable	17,182	798,947
Other current assets	3,905	181,573
Intangible assets	43,348	2,015,689
Property, plant and equipment	6,572	305,601
Other noncurrent assets	4,328	201,283
Total	76,597	3,561,784
Liabilities		
Accounts payable and accrued expenses	US$12,976	₱603,369
Short-term debt	33,326	1,549,661
Long-term debt	2,672	124,258
Other current liabilities	3,057	142,158
Total	52,031	2,419,446
Net assets	US$24,566	₱1,142,338

**Translated using the exchange rate at the transaction date (US$1:₱46.50).*

For the period ended December 31, 2012, cash flows from service concession assets are presented as part of operating activities since these are related to the Group's operations. Likewise, the 2011 and 2010 amounts pertaining to cash flows from service concession assets are also presented as part of operating activities to conform with the 2012 presentation.

34. **Interest in a Joint Venture**

MDC has a 51% interest in MDC-First BalFour, Inc. JV (the Joint Venture), a jointly controlled operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig.

The Project, which started on January 31, 2007, is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 square meters, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation. The project was completed on October 30, 2009. Activities in 2012 and 2011 mainly pertain to winding down operations and punch listing works.

The share of MDC in the net assets and liabilities of the Joint Venture at December 31, 2012 and 2011 which are included in the consolidated financial statements follow:

	2012	2011
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**₱33,217**	₱24,622
Amounts due from customers for contract work	**10,582**	10,582
Other current assets	**55,317**	54,809
Total assets	**₱99,116**	₱90,013
Total liabilities	**₱49,330**	₱66,968

The following is the share of the MDC on the net income of the Joint Venture:

	2012	2011
	(In Thousands)	
Revenue from construction contracts	**₱–**	₱2,069
Contract costs	**(994)**	(9,687)
Interest and other income	**1,175**	2,490
Income (loss) before income tax	**181**	(5,128)
Provision for income tax	**(181)**	(148)
Net loss	**₱–**	(₱5,276)

The Joint Venture's Management Board declared and paid cash dividends amounting to ₱185.3 million in 2010. Based on 51% share, MDC received ₱94.5 million cash dividends in 2010.

Provision for income tax pertains to the final tax on interest income.

35. **Commitments**

The Parent Company acted as guarantor to AYCFL's term loans and credit facilities as follows (amounts in thousands):

Date	**Description of Facility**	**Amount drawn as of December 31, 2012**	**Outstanding balance as of December 31**	
			2012	2011
April 15, 2008	US$50.0 million transferable term loan facility	US$50,000	**US$40,000**	US$45,000
December 16, 2010	US$229.2 million transferable term loan facility	229,200	**229,200**	100,000
March 28, 2011	US$150.0 million transferable term loan facility	Undrawn	**–**	–
September 28, 2012	US$20.0 million revolving credit facility	Undrawn	**–**	–
			US$269,200	US$145,000

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.

ALI
On January 28, 2011, a notice was given to the ALI for the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. ALI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for a 58,000 square meters another 25 years by mutual agreement. The project involves the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of Headquarter-and-BPO- type buildings with an estimated 8,000 square meters of office space.

ALI has signed a 50-year 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.

On October 27, 2006, an ALI subsidiary entered into a land lease agreement with a third party for a term of 25 years. The lease generally provides for a monthly rent based on a certain percentage of gross revenue.

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to a subsidiary, in exchange for equity.

As part of the bid requirement, ALI procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the subsidiary obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

NTDCC was assigned development rights over certain areas of the MRT Depot in Quezon City by MRT Development Co. to construct and operate a commercial center under certain terms and conditions until the end of a 50-year development period renewable for another 25 years. NTDCC was primarily organized to own and operate the commercial center atop the MRT Depot. NTDCC officially started the construction of the shopping center, now known as TriNoma, in 2005 and became operational on May 16, 2007.

On October 18, 2010, ALI undertook to cause the planning, developing and construction of Anvaya Golf and Sports Club, Inc.'s leisure and recreational facilities. ALI shall ensure the development and construction by second quarter of the year 2013 for an estimated total development cost of ₱920.0 million.

Parent Company's Concession Agreement
The Parent Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari - SLEX Link Road (the Project). Under the concession agreement, the Parent Company will:

a. Purchase the advance works on Segment I of the Project from Alabang - Sto. Tomas Development, Inc. and finance and construct the remaining works thereof.
b. Finance, design, and construct Segment II of the Project.
c. Undertake the operations and maintenance of the Project.
d. Impose and collect tolls from the users of the Project.
e. Grant business concessions and charge and collect fees for non-toll user related facilities and toll user related facilities situated in the Project.

The 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.

As of December 31, 2012, the Parent Company's capital commitment for construction of service concession asset amounted to ₱665.8 million.

MWC

MWC's Concession Agreement (Agreement)

The significant commitments of MWC under the Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS amounting to US$70.0 million in favor of MWSS as a bond for the full and prompt performance of MWC's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70.0
Second (January 1, 2003 - December 31, 2007)	70.0
Third (January 1, 2008 - December 31, 2012)	60.0
Fourth (January 1, 2013 - December 31, 2017)	60.0
Fifth (January 1, 2018 - December 31, 2022)	50.0
Sixth (January 1, 2013 - December 31, 2027)	50.0
Seventh (January 1, 2028 - December 31, 2032)	50.0
Eighth (January 1, 2033 - May 6, 2037)	50.0

Within 30 days from the commencement of each renewal date, MWC shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.

Upon not less than 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100 million to ₱395 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with MWC);

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. To ensure that at all times, MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

Failure of MWC to perform any of its obligations that is deemed material by MWSS-RO may cause the Agreement to be terminated.

LAWC's Concession Agreement

The significant commitments of LAWC under its concession agreement with POL are as follows:

a. To pay POL concession fees;

b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;

c. To design, construct and commission the new facilities during the cooperation period;

d. To provide and manage the services;

e. To bill and collect payment from the customer for all services;

f. To extract raw water exclusively from all sources of Raw Water; and

g. To negotiate in good faith with POL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

<u>BIWC's Concession Agreement</u>
The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. To pay concession fees, subject to the following provisions:
   i. Assumption of all liabilities of the BWSS as of Commencement Date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within the Boracay island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;
   ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;

   iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable in semi-annual installments at the first month of each quarter and not exceeding:

Month	Maximum Amount
January	₱10,000,000
April	4,000,000
July	10,000,000
October	3,000,000

   iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	20,000,000, subject to annual CPI adjustments

c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;

d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

f. To operate, maintain, repair, improve, renew and as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);

g. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and

h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US$2.5 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.5
Second	2.5
Third	1.1
Fourth	1.1
Fifth	1.1

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

Upon not less than 10 days written notice to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

Technical services agreement
Simultaneous with the execution of BIWC's concession agreement, BIWC and the Parent Company executed a Technical Services Agreement by which the Parent Company is being paid by BIWC a technical services fee equivalent to 4% of the annual gross revenue of BIWC, for rendering the following services to BIWC:

a. Financial management, including billing and collection services, accounting methods and financial control devices; and

b. Operations and project management, including facility operations and maintenance, and infrastructure project management.

CWC's Concession Agreement
The significant commitments of CWC under its concession agreement with CDC are follows:

a. To pay franchise and rental fees of CDC;

b. Finance, design, and construct the New Facilities - defined as any improvement and extension works to (i) all Existing Facilities - defined as all fixed and movable assets specifically listed in the Concession Agreement; (ii) the Construction Work - defined as the scope of construction work set out in the Concession Agreement; and (iii) other new works that do not constitute refurbishment or repair of Existing Facilities undertaken after the Commencement Date;

c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the Existing Facilities, except for the private deep wells set out in the Concession Agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the Company; and manage, own, operate, repair, maintain, decommission and refurbish the New Facilities;

d. Treat raw water and wastewater in CFZ;

e. Provide and manage all water and wastewater related services (the Services) like assisting locator of relocating of pipes and assess internal leaks;

f. Bill and collect payment from all persons residing in CFZ (with the exception of SM City Clark) for the Services. SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

MWC Management Contracts

Vietnam Project
On July 22, 2008, MWC entered into a Performance-Based Leakage Reduction and Management Services Contract with Saigon Water Corporation. The contract involves the following components:

a. General requirements;
b. District Metering Area establishment;
c. Leakage reduction and management services;
d. System expansion work;
d. Emergency and unforseen works; and
e. Daywork schedule

In 2012, 2011 and 2010, total revenue from the Vietnam Project amounted to ₱169.5 million, ₱162.5 million and ₱72.8 million, respectively. Total costs related to the Vietnam Project amounted to ₱124.5 million, ₱171.7 million and ₱93.9 million in 2012, 2011 and 2010, respectively.

India Project
On May 25, 2007, MWC entered into a Secondment Agreement with Mahindra Water Utilities Limited relating to water management. Total revenue and costs related to the India Project in 2010 amounted to ₱2.1 million and ₱4.2 million, respectively.

Cebu Project
Following the execution of the Memorandum of Understanding on January 29, 2009, the Governor of Cebu Province has accepted the unsolicited proposal of the consortium of the MWC and Stateland, Inc. for a joint venture or investment with the Provincial Government of Cebu for the development of a treated bulk water supply project in the province of Cebu.

On February 3, 2012, Provincial Government of Cebu awarded the project. The project aims to deliver in bulk to the province of Cebu treated surface water extracted from the Luyang River in the town of Carmen (see Note 38).

MWC contracts with the Maynilad Water Services, Inc. (Maynilad)

In relation to the Concession Agreement with MWSS, MWC entered into the following contracts with Maynilad:

a. Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.

b. Joint Venture Arrangement that will operate, maintain, renew, and as appropriate, decommission common purpose facilities, and perform other functions pursuant to and in accordance with the provisions of the Agreement and perform such other functions relating to the concession (and the concession of the West Zone Concessionaire) as the Concessionaires may choose to delegate to the joint venture, subject to the approval of MWSS.

c. In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Project). Total loan facility is US$116,602,000 with maturity of 20 years including 5 years grace period. Interest rate is 3% per annum. MWSS then entered into a Memorandum of Agreement with MWC and Maynilad for MWC and Maynilad to shoulder equally the repayment of the loan, to be part of the concession fees.

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 management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group’s financial position and results of operations.

MWC
On October 13, 2005, the Municipality of Norzagaray, Bulacan jointly assessed the MWC and Maynilad Water Services, Inc. (the “Concessionaires”) for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. It is the position of the Concessionaires that these properties are owned by the Republic of the Philippines and that the same are exempt from taxation.

Total provisions for real property taxes arising from the property in Bulacan and other municipalities, based on the delinquency notice received, amounted to ₱554.8 million and ₱570.0 million as of December 31, 2012 and 2011.

The Group is contingently liable for lawsuits or claims filed by third parties (substantially labor-related and civil cases) which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. The Group has been advised by its internal and outside counsels that it is possible, but not probable, that the actions will succeed and accordingly, no provision for probable losses on these cases was recognized.

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.

A re-appraisal of the MWSS facilities mentioned above as of December 31, 2004 was conducted by Cuervo Appraisers. The final appraisal report was submitted last November 2006 showing a total reproduction cost of ₱27.0 billion with a sound value of ₱17.2 billion.

In 2009, MWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of the MWSS assets on record as of December 31, 2008. Total reproduction cost as of December 31, 2008 amounted to ₱37.7 billion with a sound value of ₱22.9 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On October 27, 2006, MWC has renewed the lease for 5 years, with expiry of October 27, 2011. Rent expense amounted to ₱19.8 million, ₱18.3 million and ₱16.8 million in 2012, 2011 and 2010, respectively. These are included under "Rental and utilities" in the consolidated statement of income.

POL

LAWC is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with POL. The legal title of all property in existence at the commencement date shall be retained by POL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to POL in its then condition at no charge to POL or LAWC.

TIEZA

BIWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to TIEZA in its then-current condition at no charge to TIEZA or MWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.3 million.

CDC

CWC is granted the right to occupy, operate, repair, maintain, decommission and refurbish all fixed and movable assets specifically listed in the concession agreement with CDC. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by CWC on the facilities as well as title to new facilities procured by CWC in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

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;

   Duty-free Importation of RE Machinery, Equipment and Materials - Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;

ii. Special Realty Tax Rates on Equipment and Machinery - Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed one and a half percent (1.5%) of their original cost less accumulated normal depreciation or net book value;

iii. NOLCO - the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;

iv. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of ten percent (10%) on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;

v. Accelerated Depreciation - If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;

vi. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy shall be subject to zero percent (0%) VAT;

vii. Cash Incentive of RE Developers for Missionary Electrification - An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to fifty percent (50%) of the universal charge for power needed to service missionary areas where it operates the same;

viii. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

ix. Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass will be promulgated which shall include, but not limited to, the following:

a. Priority connections to the grid for electricity generated from emerging renewable energy resources;

b. The priority purchase and transmission of, and payment for, such electricity by the grid system operators; and
c. Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years.

The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in the Act and in accordance with the feed-in-tariff rules to be promulgated by the Energy Regulatory Commission (ERC) in consultations with the National Renewable Energy Board. On July 27, 2012, ERC approved the feed-in tariff of 8.53kWh for wind renewable energy resource. The approved subsidy will be reviewed and readjusted, if necessary, after its three-year initial implementation or when the target installed capacity for each renewable resource set by the DOE has been met.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act. On May 25, 2009, the DOE issued the Implementing Rules and Regulations of the Act which became effective on June 12, 2009.

ACEHI and its subsidiaries expect that the Act will impact their future operations and financial results. The impact of the Act will be disclosed as the need arises.

Northwind
On January 18, 2010, Northwind filed its intent with the REMB for the conversion of its Negotiated Commercial Contract into Wind Energy Service Contract and Registration as RE Developer as provided for under the Act. On November 9, 2010, the DOE issued a Provisional Certificate of Registration as an RE Developer in favor of Northwind, subject to negotiation and execution of a Wind Energy Service Contract to replace the Negotiated Commercial Contract.

On April 6, 2011, Northwind filed with the ERC an application for a FiT. The FiT will provide for a fixed rate per kilowatt of electricity produced over a period of fifteen years. On June 6, 2011, the ERC granted Northwind a provisional FiT rate of ₱9.30 per kilowatt hour which shall be effective and collected only upon the final approval of the FiT for emerging renewable energy technologies, specifically for wind energy.

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39. **Events after the Reporting Period**

a. On January 7, 2013, Metropac Water Investments Corporation (MWIC) subscribed to 128,700,000 shares or 39% of MW Consortium at a subscription price of ₱1.04 per share. This transaction reduced the ownership of MWC in MW Consortium from 84% as of December 31, 2012 to 51% in January 2013. The remaining 10% interest is owned by Vicsal Development Corporation.

b. On January 19, 2013, the immediately succeeding FXCN interest payment date, ALI pursuant to Section 2.07(b) of the Fixed Rate Corporate Notes Facility Agreement dated January 18, 2011, prepaid ₱1.95 billion in Fixed Rate Corporate Notes Due 2016.

c. On January 28, 2013, the immediately succeeding FXCN interest payment date, ALI prepaid ₱220.0 million and ₱830.0 million of Fixed Rate Corporate Notes Due 2014 and 2016 pursuant to its option to prepay the foregoing notes under 2.07(a) of the Fixed Rate Corporate Notes Facility Agreement dated January 27, 2009.

d. In October 2012, Volkswagen AG, Europe's largest carmaker, appointed Ayala Automotive Holdings Corporation (the Company) as the Philippine distributor for Volkswagen passenger vehicles. Automobile Central Enterprise, Inc. and Iconic Dealership, Inc., both wholly owned subsidiaries of the Company, were incorporated last January 23, 2013 to handle the distribution and sales of the Volkswagen brand in the country.

e. The SEC approved last January 31, 2013 the following:
   i. The decrease in authorized capital stock of ALI by ₱1,303.5 million, the aggregate par value of the 13,034.6 preferred shares which have been redeemed and eliminated, from ₱22,803.5 million to ₱21,500.0 million; and
   ii. The amendments to ALI's Articles of Incorporation reflecting the decrease in capital stock.

f. On February 7, 2013, AHRC availed of a new 5-year dollar loan from BPI, the proceeds of which will be used to refinance its existing loan. Under the new loan agreement, interest is payable quarterly at interest rates with a yield for the 3-month USD LIBOR. Consequently, AHRC pre-terminated its 7-year peso loan agreement with BPI.

g. On March 6, 2013, the Parent Company's Executive Committee approved the placement for sale of 399.5 million listed ALI common shares from the Company's existing ALI shareholdings and to subscribe to newly issued ALI shares at a price of ₱30.50 per share (the "Offer price"). On same date, the placement was conducted via an overnight bookbuilt offering structured as a top-up placement with all the proceeds to be received by ALI. The equity placement is expected to raise an aggregate of ₱12.2 billion in proceeds which ALI intends to use for its next phase of expansion. As a result of this transaction, the Parent Company's holdings in common shares will be reduced to 49.0% from 50.4% but the Parent Company will retain voting control at over 70% ownership of the voting shares.

h. On March 7, 2013, the Parent Company's BOD approved the following:

   i. Infusion of up to ₱105.2 million capital in AC Infra to fund 2013 operating budget. The infusion will be in quarterly tranches subject to review and oversight by the AC Infra BOD.

   ii. Infusion of additional ₱100.0 million capital in BPI Globe BanKO to be released in tranches from 2013 up to 2014. This capital infusion , will allow Globe BanKO to strengthen its financials and be better positioned to take advantage of opportunities in the mobile finance space.

   iii. Donation of the Company's Museum Endowment Fund to Ayala Foundation, Inc. (AFI) and allow AFI to directly manage the fund under the supervision of the AFI Endowment Committee. The fund, presently booked under the Company's , has a market value of ₱424 million. The donation will be subject to conditions such use of earnings of the Fund to support Ayala Museum operations, AFI to restrict principal amount of ₱410 million from utilization for operating expenses and capital expenditures.

   iv. Amendment to the Company's Article 7 of Articles of Incorporation which entails one Hundred Million (100,000,000) common shares of the Corporation (the "Carved-out Shares") are reserved or allocated for issuance, in one or more transactions or offerings, to raise cash to acquire properties or assets needed for the business of the Corporation or in payment of a previously contracted debt. The issuance of all or any part of the Carved-out Shares is not subject to any pre-emptive right by any shareholder.

   On the same date, the BOD also ratified the placement for sale and subscription to 399.5 million ALI shares at Offer Price as approved by the Executive Committee on March 6, 2013.

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