PHINMA Corporation believes that the process of self-improvement and innovation, and the quest for excellence, are never-ending tasks.

PHINMA

Life Can Be Better

2013 Annual Report

"We will aggressively seek opportunities primarily in the services sector that will allow us to address the basic needs of our society, while being globally competitive and generating attractive stakeholder values."

Photo by Jay Jallorina

OUR MISSION

The PHINMA GROUP'S MISSION is to help build our Nation through competitive and well-managed business enterprises that enable Filipinos to attain a better quality of life. With effective management as our distinctive edge, we aim to give Filipinos improved access to the essentials of a dignified life.

We will focus our ongoing enterprises and seek new opportunities in pursuit of our Mission. We will build not only affordable and decent homes, but also wholesome communities in urban areas. We will offer not only affordable high quality education, but also a brighter future for globally competitive Filipino professionals and workers. We will explore opportunities in the energy sector to offer not only reliable and affordable power, but also more productive lives – particularly to communities in greatest need. We will offer attractive investment opportunities and sound investment advice to encourage capital formation. We will aggressively seek opportunities primarily in the services sector that will allow us to address the basic needs of our society, while being globally competitive and generating attractive stakeholder values.

In pursuit of our Mission, we look to our tradition, our experience, our reputation and, above all, our people, as the principal factors that will enable us to achieve our lofty goals. We believe that a well-qualified and competitively compensated work force, treated with trust and respect, will be a highly motivated and productive partner in the pursuit of our goals. We shall continue to conduct ourselves according to the highest ideals of competence, patriotism, integrity and professionalism. The PHINMA Group believes that the process of self-improvement and innovation, and the quest for excellence, are never-ending tasks.

The PHINMA Group shall forge strategic alliances with partners who share our values and concerns and who can provide capital, expertise, technology, market access and other strategic elements. As a general rule, the PHINMA Group shall invest in enterprises to the extent needed to support a continuing and meaningful management role.

In focusing on providing for the basic needs of the Filipino through well-managed enterprises, the PHINMA Group shall demonstrate that private business can mutually serve the aspirations of shareholders and the needs of society.

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

	2013	2012 Restated	2011 Restated
INCOME AND DIVIDENDS (In Thousand Pesos)			
Revenues	**4,784,179**	4,536,633	3,953,505
Net Income Attributable to PHN Equity Holders	**224,040**	(37,250)	79,287
Cash Dividend	**103,562**	103,095	103,095
FINANCIAL POSITION (In Thousand Pesos)			
Current Assets	**3,259,628**	3,299,026	3,649,310
Total Assets	**9,930,280**	9,642,802	9,678,376
Current Liabilities	**1,281,235**	1,809,956	1,400,814
Non-current Liabilities	**1,617,064**	941,680	1,166,871
Equity Attributable to PHN Equity Holders	**6,437,423**	6,305,135	6,455,381
PER SHARE (In Pesos)			
Earnings	**0.86**	(0.14)	0.31
Cash Dividend Per Share	**0.40**	0.40	0.40
Book Value of Common Shares	**24.79**	24.35	25.05
FINANCIAL RATIOS			
Current Ratio	**2.54**	1.82	2.61
Debt to Equity Ratio	**0.41**	0.40	0.36

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

The year 2013 was another year of robust growth for the Philippine economy. It grew 7.2% on the heels of already strong growth of 6.8% in 2012, marking a two-year period of Philippine growth unrivalled in over 50 years. The growth was buoyed by strong contribution from the manufacturing sector which grew 10% in 2013 due to strong domestic demand. The economy also received a boost from a 29% increase in foreign and domestic investment as well as government spending which increased 8.6%. This strong performance was despite the dampening effect of a series of calamities in the last quarter of 2013, including Typhoon Haiyan, the strongest storm ever to make landfall in the country. Despite elevation of the country into investment grade status by ratings agencies such as Standard & Poor's, Moody's, and Fitch in 2013, the local stock market, which was up double digits for most of the year, closed the year sideways as international investors reallocated funds out of the emerging markets back into the US economy.

Your Company's consolidated revenue in this continued positive business environment amounted to P4.8 billion in 2013, a growth of 6% over the P4.5 billion posted in 2012, on increased demand for our steel products and education services. Consolidated net income of your Company amounted to P261.7 million in 2013 compared to a net loss of P91.6 million in the previous year. This includes growth in income contribution from affiliates Trans-Asia Oil and Energy Development Corporation (TA Oil) and Phinma Property Holdings Corporation (Phinma Properties), offsetting a loss from our competitive intelligence business which incurred costs to roll out a new line of business in 2013. Net income attributable to shareholders of the parent amounted to P224.0 million for the year.

2013 Highlights

We are pleased to report that Trans-Asia Oil and Energy Development Corporation (TA Oil), your Company's investee company in the energy sector, continued to post strong results in 2013. Net income increased by 22% to P572.8 million, of which P 150.2 million was equitized by the Company. During the year, TA Oil's power group contracted additional capacity from various parties and commenced commercial operation of the 21 MW CIP II bunker power plant, in aggregate increasing generation capacity by 35% to 260 MW by year end. In 2013, the construction of the 20 MW Maibarara geothermal power plant was completed and TA Oil secured the winning bid for a 40 MW strip of power from the Unified Leyte Geothermal Power Plant.

In all our endeavors, we are further guided by our commitment toward nation building and our belief that good businesses not only provide attractive returns to shareholders but also improve the lives of Filipinos.

Income from the four schools under the Phinma Education Network (PEN) for 2013 amounted to P160.8 million, an increase of 55% from P103.9 million in 2012. Total enrollment reached over 31,000 students at June 2013, reflecting a 16% increase over enrollment in the previous year. In 2013, PEN piloted its new teaching system, designing 16 classes using a new framework which integrates online materials with drills and guided learning.

In June 2013, PEN opened the Cagayan de Oro College (COC) Basic Education complex and Araullo University (AU) South, AU's new campus in the Southern district of Cabanatuan. PEN schools continued to perform well in terms of board examination passing rates. COC remains one of the top Criminology schools in the country with an 84% board exam passing rate and a top ten placer in the board exams. Both AU and University of Pangasinan (UPang) produced top ten board exam placers for the Education board exams.

During the year, your Company's affiliate, Phinma Property Holding Corporation (Phinma Properties), was challenged by an influx of new development in the vertical housing space. Total sales of the company for its condominium projects were 5% less than sales of the previous year. Despite this, Phinma Properties recovered in its contracted segment, posting a net income of P15.5 million in 2013.

Union Galvasteel Corporation (UGC), our subsidiary engaged in steel roofing, posted a 9% growth in sales revenues in 2013 due to strong growth in the construction sector, despite natural calamities and low demand in the fourth quarter. Net income increased by 53% from P67.7 million in 2012 to P103.8 million in 2013. In 2013, UGC started construction on its new color coating line which will increase capacity to 60,000 metric tons per year and will equip UGC with the latest coating technology to further strengthen the company's comparative advantage and competitiveness in the industry.

In 2013, Fuld & Company (Fuld) nearly doubled staff headcount in Manila, where Fuld launched Omniscope, a new business unit specializing in customized research and analytics. Although revenue of the Fuld group increased 10% in 2013, the group posted a net loss of P34.4 million due to additional costs in launching the new business. Moving forward, Fuld's new integrated US and Philippine strategy involves employing a deeper set of consulting services made possible by Omniscope, to access new clients and enhance services to existing clients.

Phinma Corporation ended 2013 with a strong balance sheet, with total assets of P10.0 billion and a current ratio and debt-to-equity ratio of 2.54:1 and 0.40:1, respectively. Your Company also has funds of approximately P1.0 billion available for investment, should attractive opportunities arise.

We are furthermore pleased to report that, given the favorable results for the year, your Board has declared a cash dividend of P0.40 per share payable on April 15, 2014.

2014 Outlook

For 2014, the Philippine economy is expected to maintain a robust growth rate ranging from 6.5% to 7.3% in the face of strong domestic fundamentals, boosted by reconstruction activity and investment. Government infrastructure spending is expected to accelerate given the notable 40% budget increase to P404 billion this year. To curb inflation rates to a target 3% to 5%, the Bangko Sentral ng Pilipinas is expected to tighten policy rates up by 25 basis points to 3.75% in the second semester of the year.

Your Company has long been optimistic about the energy sector. This year, TA Oil continues its aggressive expansion plan, beginning with the commercial operation of the 20 MW Maibarara Geothermal Plant in February, to be continued with the 135 MW South Luzon Thermal Energy Corporation (SLTEC) Unit 1 plant scheduled for completion toward the end of 2014 and the 54 MW San Lorenzo wind project which is expect to commence commercial operations with the year. This new capacity, together with the 40 MW power strip from the Unified Leyte Geothermal Plant awarded to TA Oil in 2013, will result in an increase in TA Oil's portfolio by an additional 249 MW, to 509 MW by year end. Beyond 2014, TA Oil and joint venture partner AC Energy Holdings have already approved and begun construction of the second 135-MW clean coal-fired power plant for SLTEC which will be operational toward the end of 2015.

For 2014, Phinma Properties intends to focus on its contracted housing division which is scheduled to develop a 600-unit socialized housing project for the National Housing Authority within the year. Phinma Properties is also in discussions with Local Government Units (LGUs) of Quezon City, Caloocan City and Bacoor, Cavite for additional mass housing projects involving socialized housing communities.

UGC is poised to cement its leadership in the pre-painted roofing industry as it completes an expansion program which will make it the largest manufacturer of color-coated steel roofing products in the country, assuring a stable supply of GI sheets and other roofing products as the nation rebuilds in the aftermath of calamity. PEN, for its part, intends to accelerate the roll out of its new teaching system to improve efficiency and service delivery. It is also looking at expanding course offerings in areas such as pharmacy and health sciences, maritime, and culinary services.

In March 2014, your Company converted its preferred shares and accumulated dividends in Coral Way City Hotel Corporation to common shares, effectively becoming a 23.8% shareholder in the holding company of the Microtel by Wyndham Mall of Asia hotel. This year, Coral Way is scheduled to break ground on Microtel by Wyndham Esplanade, a new 195-room hotel in the Mall of Asia complex. The new hotel will increase our Microtel by Wyndham hotel rooms in the area to 345 rooms when it begins commercial operations by the fourth quarter of 2015.

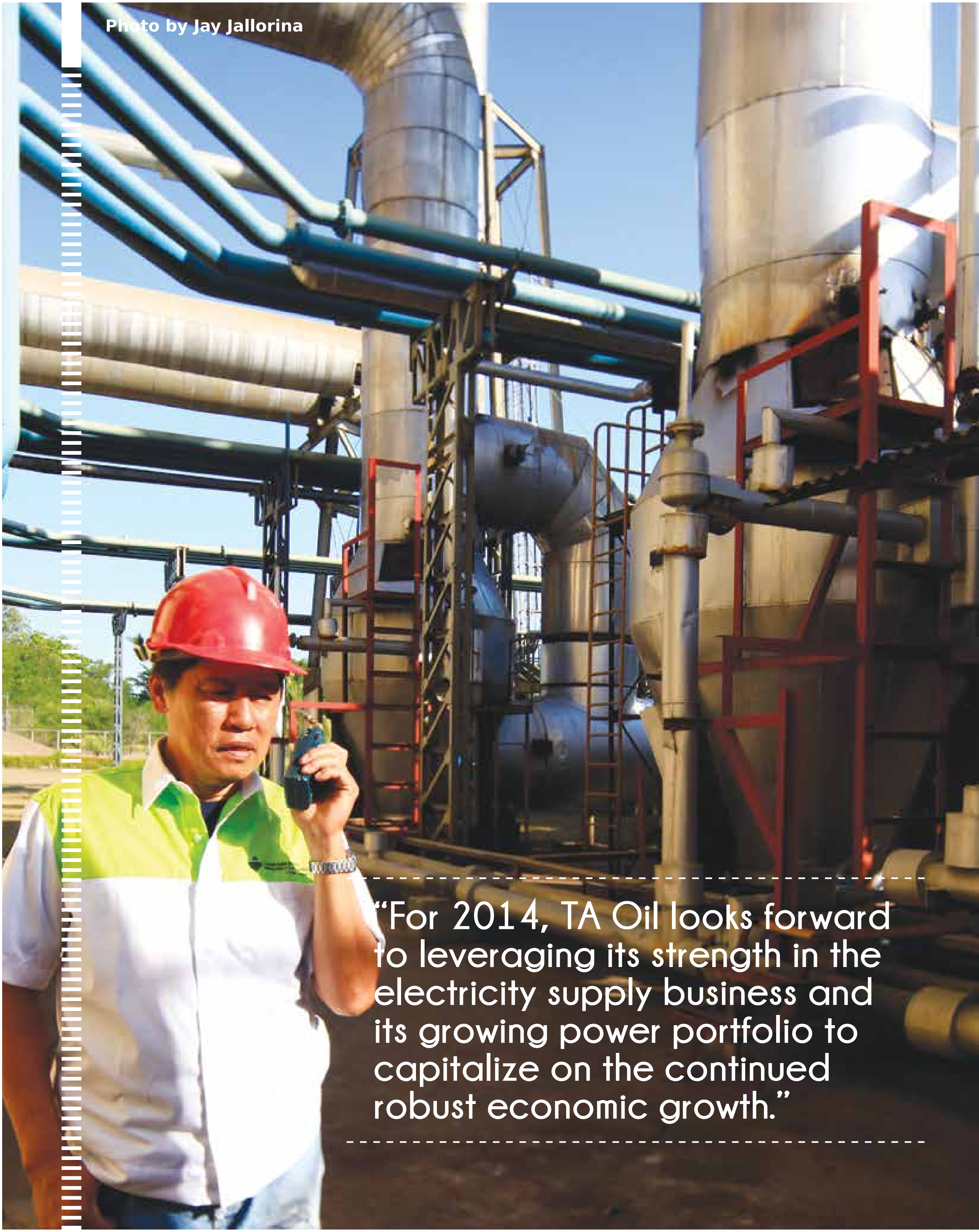
In our chosen areas of reliable and renewable power, affordable quality education, clean and comfortable hotel rooms, and affordable homes, your Company remains committed to its customers, employees, suppliers, business partners, and creditors. In all our endeavors, we are further guided by our commitment toward nation building and our belief that good businesses not only provide attractive returns to shareholders but also improve the lives of Filipinos.

In closing, we would again like to express our gratitude to our shareholders who have always provided steadfast support, as well as to our employees, management teams, and directors who are all invaluable in our mission to make life better in the country.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President and Chief Executive Officer

Photo by Jay Jallorina



"For 2014, TA Oil looks forward to leveraging its strength in the electricity supply business and its growing power portfolio to capitalize on the continued robust economic growth."

ENERGY

Phinma Corporation, through its affiliate Trans-Asia Oil and Energy Development Corporation (TA Oil), provides sustainable and reliable power to its customers.

We are again pleased to report that TA Oil continued its strong performance in 2013, with the company posting consolidated net income of P572.8 million, an increase of 22% over net income of P471.2 million for 2012. As of December 31, 2013, total consolidated assets stood at P 10.9 billion, total liabilities at P 3.9 billion and total equity at P 7.1 billion.

In 2013, TA Oil signed various contracts with operators of the Sem Calaca, Cebu Power, and Bakun Hydro Power Plants, increasing TA Oil's available capacity by 53 MW. In addition, following the transfer of the plant to La Union in 2012, subsidiary CIP II Power Corporation's 21 MW Bunker power plant commenced commercial operation in 2013. All told, TA Oil increased generation capacity by 35%, from 192MW in 2012 to 260MW in 2013.

In November 2013, TA Oil secured the winning bid for a 40 MW strip of power from the Unified Leyte Geothermal Power Plant bid out by the Power Sector Assets and Liabilities Management Corporation (PSALM). Supply is expected to come on stream by 4Q 2014, providing for further additional capacity and entry of TA Oil into the Visayas grid.

TA Oil affiliate Maibarara Geothermal Inc. completed the construction of the 20 MW Maibarara geothermal power plant in late 2013, with the project subsequently commencing commercial operation in

35%

increase in generation capacity

February 2014. This project is the first renewable energy undertaking declared commercial by the government under the Renewable Energy Act of 2008 and the first geothermal power station in Luzon in 16 years.

South Luzon Thermal Energy Corporation (SLTEC) is TA Oil's venture with Ayala Corporation's energy arm, AC Energy Holdings Corporation. The construction of two 135-MW environmentally friendly Circulating Fluidized Bed coal-fired plants are proceeding as scheduled, with the first plant expected to start operations toward the end of 2014, and the second plant expected to operate a year later. TA Oil has sole offtake on power produced by the Maibarara and SLTEC power plants, which will increase the company's available capacity as they come onstream.

The commitment of TA Oil towards other renewable energy sources such as wind projects remains steadfast through its wholly-owned subsidiary, Trans-Asia Renewable Energy Corporation (TAREC). In May 2013, TAREC's 54 MW San Lorenzo Wind Project received its Declaration of Commerciality from the Department of Energy (DOE). Subsequently, in December, a long-term loan agreement was signed with local commercial banks, completing funding for the project. Construction of the wind farm is proceeding as scheduled, with commercial operations expected within 2014.

On the Oil & Gas front, in July 2013, TA Oil declared a dividend of 2.55 shares in Trans-Asia Petroleum Corporation (TA Petroleum) for every 100 shares in TA Oil, with a nominal cash amount to settle transaction costs. The succeeding month, the TA Oil Board approved the listing by way of introduction of the TA Petroleum shares on the Main Board of the Philippine Stock Exchange (PSE). The spin-off and eventual listing of the oil and gas assets will bring focus to TA Oil's oil and gas exploration efforts and facilitate additional capital raising which may be required for oil and gas activities in the future.

For 2014, TA Oil looks forward to leveraging its strength in the electricity supply business and its growing power portfolio to capitalize on the continued robust economic growth. With the commercial operation of Maibarara in February 2014, and the operation of Unified Leyte, the San Lorenzo wind project, and SLTEC 1 by late 2014, the company anticipates a 249 MW increase in capacity. Moving forward, the company's goal is to increase its generation portfolio to ensure adequate and reliable supply of power and support the country's continued economic growth.

"PEN schools continue to improve efficiencies, innovate, and expand, pursuant to the continuing mission of your Company to provide a better life for its students and their families through affordable yet quality education."

EDUCATION

2013 Financial Highlights

	Enrollment SY 2013-2014	Revenue (PMn)	Net Income (PMn)	Dividends (PMn)
Araullo University	6,375	197.3	29.2	19.9
Cagayan de Oro College	7,957	263.3	35.4	26.9
University of Iloilo	7,505	215.1	34.6	17.5
University of Pangasinan	9,277	371.2	61.6	-
Total	**31,114**	**1046.9**	**160.8**	**64.3**

55%
increase in net income

Phinma Corporation, through the Phinma Education Network (PEN), seeks to provide a better future for thousands of students by offering quality education at affordable rates. The PEN network comprises four schools namely Araullo University (AU), Cagayan de Oro College (COC), University of Pangasinan (UPang) and University of Iloilo (UI), providing basic, secondary and tertiary education. In addition to offering affordable tuition ranging from P12,000 to P20,000 a semester, the schools offer financial assistance and, through various programs, provide tuition discounts and scholarships to underprivileged and deserving students.

Enrollment for the network grew by 16% to approximately 31,000 by June 2013. The increase in enrollment was across the board for all schools in the PEN network. Notably, freshman enrollment at UI increased to over 3,000, more than double the enrollment for the previous year. The school decreased tuition fees, making the school's strong academic programs even more attractive.

In 2013, the schools continued to perform well in terms of academic results. COC remains one of the top Criminology schools in the country with an 84% board exam passing rate and a top ten placer in the board exams. In Basic Education, both AU and UPang hit a 100% board exam passing rate, while in Secondary Education, AU and UI both also hit 100%. COC and Upang also fared well in Secondary Education, with board exam passing rates of 89% and 85% respectively. Both AU & UPang produced top ten board exam placers for the Education boards.

In 2013, income from the four schools under the Phinma Education Network (PEN) amounted to P160.8 million, an increase of 55% from P103.9 million in 2012. The combined assets of the network grew by 13% from P2.3 billion to P2.6 billion.

The positive results affirm PENs commitment to provide high value, high quality education to its students. In 2013, PEN continued to improve policies and processes in both academics and operations to reduce expenses and improve student services. Previously, PEN piloted a new learning system integrating online material with drills and guided self-learning, giving its students a more active role in the learning process. Results have been very positive, with improved passing rates and decreased costs per student. In 2013, PEN designed 16 subjects using the new framework. This year, PEN intends to add 16 more subjects using the new system and enable the schools to produce their own modules, further improving student services and decreasing costs.

In addition to improvements in education delivery, PEN is also looking at expanding course offerings in areas such as pharmacy and health sciences, maritime, and culinary services.

PEN also expanded its physical facilities in 2013. In June, PEN opened both the COC Basic Education complex, a five-storey building with 30 classrooms, and AU South, AU's new campus located in the Southern district of Cabanatuan. PEN expects AU South to gain further ground this year as it caters to underserved markets in towns and provinces of Cabanatuan.

PEN schools continue to improve efficiencies, innovate, and expand, pursuant to the continuing mission of your Company to provide a better life for its students and their families through affordable yet quality education.

"Phinma Properties remains steadfast in its mission of enhancing the landscape of the nation and providing a better life to Filipinos through a home to shelter their dreams."

HOUSING

Phinma Property Holdings Corporation (Phinma Properties), a 35%-owned affiliate of the Company, is a leading developer of affordable medium- and high-rise condominium units in Metro Manila. Phinma Properties is the Philippine's first triple ISO certified housing developer, recognized for its quality, safety, and environment-friendly designs.

Phinma Properties was challenged by a competitive business environment in 2013. An influx of development in the affordable vertical housing space resulted in market saturation of condominium units particularly in the National Capital Region. Developers adjusted to the competitive environment and low absorption rate by offering ready-for-occupancy units, larger discounts, and more attractive financing schemes. Total sales of the company for 2013 on its condominium unit projects including Arezzo Place, Solano Hills, and ASiA Enclaves were 5% less than unit sales of the previous year. The company recovered, however, in its contracted segment which includes socialized housing projects such as the Bistekville II project for the Quezon City (QC) Local Government Unit (LGU). Total unit sales in this segment increased 38% in 2013.

18%

increase in revenue to P1.04 biliion

In 2013, Phinma Properties posted revenue of P1,042 million, an increase of 18% compared to revenue of P880.7 million in 2012. Net income improved to P15.5 million compared to net income of P4.7 million in 2012. Total assets increased to P3.3 billion as of end 2013 from P2.87 billion in 2012.

Despite a challenging year, Phinma Properties continues its commitment to provide Filipino families with solid and well-planned homes. For 2014, the company looks forward to sales of Hacienda Balai, a 2.9-hectare community with 14 modern tropical-designed walk-up medium rise buildings (MRBs) in Quezon City. Phinma Properties is also scheduled to develop its first high rise project, three 20-storey buildings in Pasay City. Outside of Metro Manila, Phinma Properties is fast tracking the development of condominium projects in Sta. Rosa Laguna and Davao City.

The company is determined to make it easier for every family to afford their own homes. Phinma Properties has launched its AFFORDABEST program, a step-by-step process based on stretched down payment schemes which make its units more competitive and more affordable.

Phinma Properties is accelerating its socialized housing projects. In 2012, the company was contracted by the QC-LGU to build a total of 1,118 socialized units in Bistekville II. As of February of 2014, PPHC has delivered 746 units and is already in discussions involving more Bistekville communities. In October 2013, Phinma Properties started the foundation for a 600-unit socialized housing project for the National Housing Authority in San Jose, Del Monte, Bulacan. The company is also in discussions with LGUs of Bacoor, Cavite and Tala, Caloocan City for other mass housing projects.

Phinma Properties, through its quality condominium projects, affordable payment offerings, and public partnerships, remains steadfast in its mission of enhancing the landscape of the nation and providing a better life to Filipinos through a home to shelter their dreams.

38%

increase in sales of contracted units

"The company is well poised for continued growth in view of its expanded production capacity and widespread nationwide distribution facilities."

STEEL PRODUCTS

60,000

metric tons per year: UGC's capacity for color roofing products

In 2013, Union Galvasteel Corporation (UGC) celebrated its 50th year as a key player in the Philippine steel roofing industry. Today, it is the market leader in the manufacture of pre-painted galvanized roofing and other steel products, such as steel decking, frames and insulated panels used for cold storage and other facilities. The company has the largest and most diversified distribution network in the industry, with roll-forming plants and warehouses in key locations throughout the country.

The construction sector posted strong growth in the first half of the year, only for this growth to be dampened in the last quarter by a series of natural calamities. Despite this, UGC leveraged its distribution network and operated its main production line in Calamba, Laguna at nearly full capacity, generating revenue of P3.2 billion in 2013, a 9% increase from revenue of P2.9 billion in 2012.

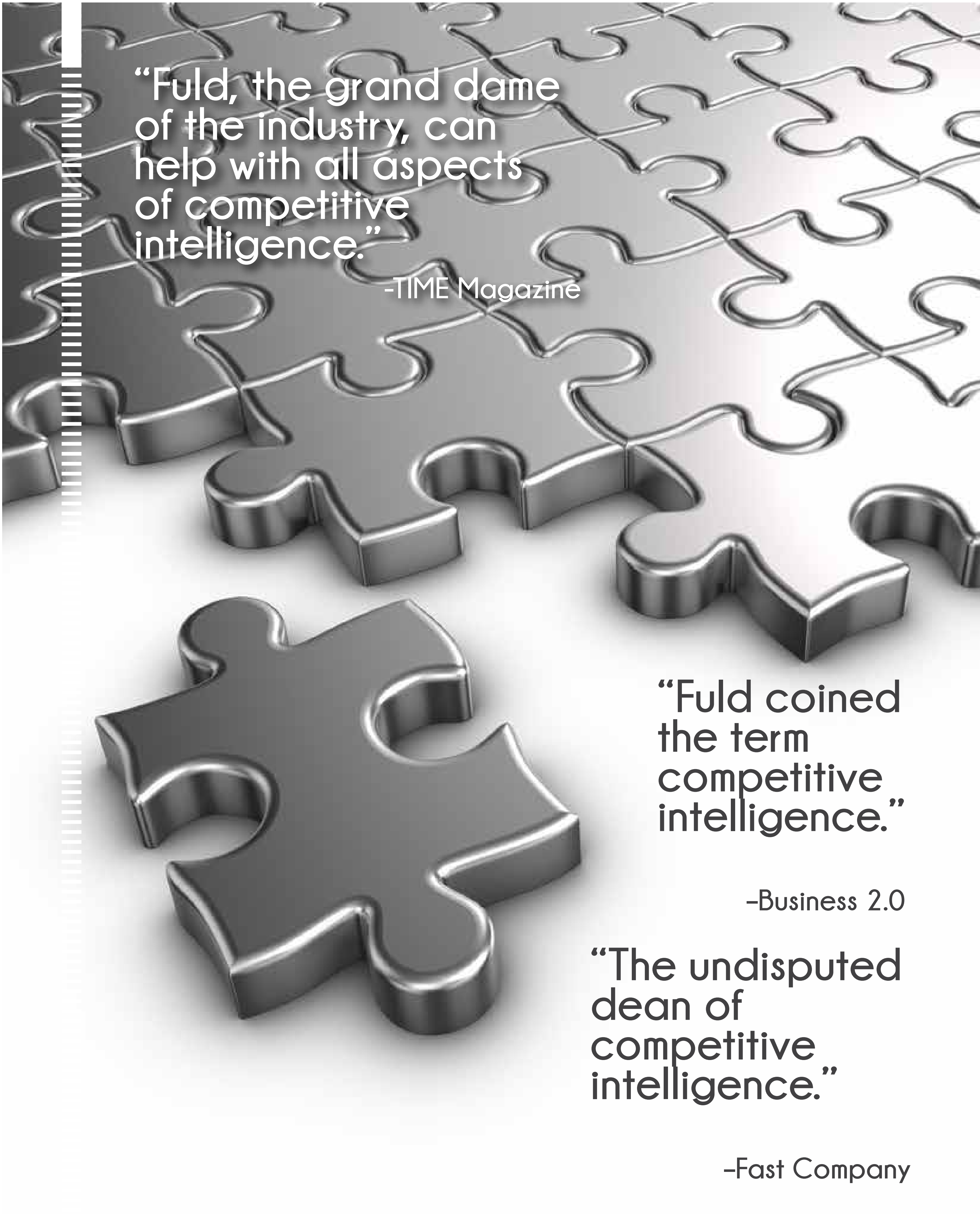
In anticipation of continued strong demand for steel roofing, UGC commenced in 2013 the conversion of its galvanizing line in Calamba into a higher-capacity color coating line (CCL). The new CCL line, which has just been commissioned to operate as scheduled on the first quarter of 2014, will increase UGC's capacity for colored roofing products by 50% to 60,000 metric tons per year and will equip UGC with the latest coating technology. This will further strengthen the company's comparative advantage and competitiveness in the industry.

The company ended 2013 with net income of P103.8 million, a 53% increase compared to net income of P67.7 million in 2012. Total assets amounted to P1.92 billion, with liabilities of P1.06 billion, half of which are long term. UGC ended the year with stockholders equity of P845 million, after cash dividends paid of P100 million.

53%

increase in net income in 2013

Moving forward, UGC anticipates a full recovery in the demand for steel roofing from government and private sector rebuilding and recovery efforts in the wake of the natural calamities of 2013. Demand is also anticipated to increase as the government rolls out an estimated US$ 4 billion worth of Public Private Partnership (PPP) projects over the next several years. The company is well-poised for continued growth in view of its expanded production capacity and widespread nationwide distribution facilities. UGC looks forward to more years of contribution toward building the country as it fulfills Phinma's commitment to a better life.


"Fuld, the grand dame of the industry, can help with all aspects of competitive intelligence."
-TIME Magazine
"Fuld coined the term competitive intelligence."
–Business 2.0
"The undisputed dean of competitive intelligence."
–Fast Company

STRATEGIC CONSULTING

10%
increase in revenues to P519.8 million

300
of the largest global firms served since 1979

Fuld & Company, Inc. and Fuld & Company (Philippines) Inc., acquired by PHINMA in 2011, have together completed their second full year of operations under the PHINMA group. The joint acquisitions were designed to create offshore research capability, showcasing Filipino talent to the world by producing high-value research services for the world's largest corporations. In August 2012, Fuld acquired Outward Insights, another Boston-based consultancy firm specializing in scenario planning and war games.

Fuld & Company is a global consulting firm that pioneered the use of competitive intelligence to improve corporate strategy and operations. Since 1979, Fuld has served more than 300 of the largest global firms, providing customized research and analysis on markets, competitors, suppliers, and customers. Fuld's well-known strategic gaming workshops help clients improve their market positions by evaluating the implications of planning decisions and anticipating market and competitive responses. The Fuld Group operates out of Cambridge, Massachusetts and London, Manila, and Singapore, offering multinationals a broad array of services to address client tactical market needs as well as longer term assessments of future markets.

In 2013, Fuld restructured its business operations to support a strong growth strategy for the integrated business. Early in the year Fuld launched Omniscope, a new business unit specializing in customized research and analytics. Omniscope operates a team in Manila, servicing clients directly as well as providing critical new capabilities for the core Fuld business. Fuld made key management hires and recruited additional staff, increasing employee base in Manila from 28 to 53 by year end and also conducting intensive training programs to improve skill levels. Fuld also restructured its management and practice teams in the US and the UK to create more globally integrated teams.

In 2013, the Fuld group posted revenues of P519.8 million, an increase of 10% from revenues of P471.3 million in the previous year. The Fuld group posted a net loss of P34.4 million for the year due to additional costs for the new Omniscope line of business, in preparation for the expected growth in related new business in the coming years.

Moving forward, Fuld's combination of consulting capabilities in the US and UK and research capabilities in Manila provide the ability for primary or secondary research and monitoring, stress testing of strategy via war games, and comprehensive views of competition and customers via Omniscope analytics. This year will see the launch of the new Fuld strategy which will access new clients and enhance services to existing clients via a richer and deeper set of consulting services.

The overall goal for Fuld & Company is to build a strong Philippine back office which is expected to employ many more Filipinos in the years ahead.

"In the Philippines, Microtel by Wyndham's approach is back-to-basics and focuses on providing consistently clean, comfortable and secure accommodations at value rates."

HOTELS

In view of increasing tourist arrivals and to address the need for tourism infrastructure, Phinma Corporation ventured into the hotel industry. Today, part of Phinma Corporation's mission is to provide affordable quality hotel services in the Philippines.

In 2009, Phinma Corporation invested P66.2 million in preferred shares of Coral Way City Hotel Corporation, a subsidiary of Microtel Development Corporation. These preferred shares were convertible to common shares and bore cumulative dividends at a rate of 10%. Subsequently in March 2014, Phinma Corporation exercised its option to convert the preferred shares and accumulated dividends to 8.9 million common shares in Coral Way, equivalent to 23.8% of the new outstanding number of common shares. Coral Way City Hotel Corp owns the 150-room Microtel by Wyndham Mall of Asia which commenced full commercial operations in September 2010. The hotel is managed by Microtel Development Corp.

13

Microtel by Wyndham hotels located in key regional hubs and resort locations

Microtel by Wyndham is an international chain of hotels under the Wyndham Hotel Group with more than 300 properties worldwide. Microtel by Wyndham pioneered the no-frills hotel concept in the Philippines that targets the mid-market. Its approach is back-to-basics and focuses on providing consistently clean, comfortable and secure accommodations at value rates.

In the Philippines, there are 13 Microtel by Wyndham hotels located in key regional hubs and resort locations such as Quezon City, Baguio, Batangas, Boracay, Cabanatuan, Cavite, Davao, General Santos, Mall of Asia, Puerto Princesa, and Tarlac and just recently Metro Sta. Rosa and UP Technohub, Quezon City.

Microtel by Wyndham Mall of Asia (MOA), strategically situated near SMX Convention Center and SM Mall of Asia, enjoys strong patronage from both business and leisure travelers. In 2013, the hotel had an occupancy rate of 85%, with 61% of the bookings coming from the leisure market and the rest from corporate accountants and attendees of conventions, meetings and events in the area.

In 2013, Microtel by Wyndham MOA achieved gross revenue of P178.4 million, gross operating profit of P69.7 million and net income of P2.3 million.

For 2014, Microtel by Wyndham MOA is optimistic that tourism and the hotel industry will continue to grow. The hotel will sustain its aggressive sales and marketing campaigns to promote to different market segments through traditional marketing and online channels. It will also continue to tap major markets such as corporate accounts, leisure travelers and the meetings, incentives, conventions and exhibitions market. In anticipation of increased demand in the area, Coral Way is scheduled to break ground this year on Microtel by Wyndham Esplanade, a new 195-room hotel in the Mall of Asia complex. The new hotel will increase total Microtel by Wyndham hotel rooms in the area to 345 rooms when it begins commercial operations estimated by the fourth quarter of 2015.

85%

occupancy rate in 2013

BOARD OF DIRECTORS

Oscar J. Hilado
Chairman

Ramon R. Del Rosario, Jr.
Vice Chairman

Roberto M. Laviña
Director

Magdaleno B. Albarracin, Jr.
Director

Victor J. del Rosario
Director

Jose L. Cuisia, Jr.
Director

Filomeno G. Francisco
Director

Francisco L. Viray
Director

Eric S. Lustre
Director

Guillermo D. Luchangco
Independent Director

Roberto F. de Ocampo
Independent Director

Oscar J. Hilado has been Chairman of the Board of the Company since 2003. He is also Chairman of the Board of Phinma, Inc., HolcimPhilippines, Inc., Trans Asia Oil and Energy Development Corporation, Phinma Property Holdings Corporation, and Union Galvasteel Corporation. Mr. Hilado is also a director of A. Soriano Corporation, First Philippine Holdings Corporation, Philex Mining Corporation, Manila Cordage Corporation, Smart Communications, Inc. Digital Telecommunications Philippines, Inc. (DIGITEL), Beacon Property Ventures, Inc., Pueblo de Oro Development Corporation, United Pulp and Paper Co., Inc. and Seven Seas Resorts and Leisure, Inc. He has been a Director of the Company since 1969 and is also the Chairman of the Executive Committee and Nomination Committee of the Company. Mr. Hilado is a Certified Public Accountant with a Bachelor of Science degree in Commerce from the De La Salle College in Bacolod and a Master's degree in Business Administration from Harvard Business School.

Ramon R. del Rosario, Jr. is President and Chief Executive Officer, and Vice Chairman of the Board of the Company. He is also the President and Chief Executive Officer of PHINMA, Inc., Chairman of Araullo University, Cagayan de Oro College, University of Iloilo, and University of Pangasinan, educational institutions under the Phinma Education Network. He is Chairman of Trans-Asia Power Generation Corporation, Trans-Asia Renewable Energy Corporation, Trans-Asia Petroleum Corporation, CIP II Power Corporation, Microtel Inns and Suites (Pilipinas), Inc., Microtel Development Corporation, United Pulp and Paper Inc., Fuld & Co., Inc. and Fuld & Co. (Philippines), Inc. and a member of the Board of Directors of other PHINMA managed companies. He is Vice Chairman of Trans-Asia Oil and Energy Development Corporation, PHINMA Property Holdings Corp. and PHINMA Foundation. He is also a member of the Board of Directors of Ayala Corp. and Holcim Philippines, Inc. Mr. del Rosario is Chairman of the Makati Business Club, The National Museum of the Philippines, Philippine Business for Education, the Philippines-US Business Council, and the Integrity Initiative. He is Vice Chairman of Caritas Manila and Trustee of De La Salle University. He served as Philippine Secretary of Finance in 1992-1993. He is the brother of Victor J. del Rosario. He has been a Director of the Company since 1979 and became President and Vice-Chairman of the Board on December 12, 2003. Mr. Del Rosario is a graduate of De La Salle University and Harvard Business School.

Magdaleno B. Albarracin, Jr. has been Senior Executive Vice President of the Company since 1988 and is Vice-Chairman of Phinma, Inc. He is also a director of Holcim Philippines, Inc. and holds directorates in various Phinma companies. Dr. Albarracin is a member of the Board of Regents of the University of the Philippines (UP) and the Board of Trustees of the University of San Carlos, Cebu City. He served as Dean of UP College of Business Administration and as President of the Asean Federation of Cement Manufacturers. Dr. Albarracin has a Bachelor of Science degree in Electrical Engineering from UP and a Master of Science degree in Electrical Engineering from the University of Michigan. He obtained his Master in Business Administration degree from UP and his Doctorate in Business Administration from Harvard University. He has been a Director of the Company since 1980.

Roberto M. Laviña was appointed Senior Executive Vice President and Chief Operating Officer on July 27, 2012. Mr. Laviña is also the Senior Executive Vice President and Chief Operating Officer/Phinma Group Chief Financial Officer of PHINMA, Inc. and Senior Executive Vice President/Treasurer of Trans-Asia Oil and Energy Development Corporation. He also occupies various executive posts in PHINMA-managed companies. He holds a Bachelor of Arts degree in Economics from Ateneo de Manila University and obtained his Masters degree in Business Management from the Asian Institute of Management. He became a Director of the Company on May 20, 2004.

Victor J. del Rosario has been the Executive Vice President / Chief Financial Officer of the company since 1995. He is also the Vice-Chairman and Chief Executive Officer of Union Galvasteel Corporation and the Chief Strategy Officer of PHINMA, Inc. He is also a member of the Board of Directors of PHINMA, Inc. and various PHINMA-managed companies. Mr. del Rosario is an Economics and Accounting graduate of the De La Salle University and holds a Master of Business Administration degree from Columbia University. He is the brother of Mr. Ramon R. del Rosario, Jr. He has been a Director of the Company since 1987.

Jose L. Cuisia, Jr. is the Ambassador Extraordinary and Plenipotentiary to the United States of America and is the Vice-Chairman of The Philippine American Life and General Insurance Company. He is also the Chairman of the Board for The Covenant Car Company, Inc. (TCI) and the Vice-Chairman of the Board of SM Prime Holdings (SMPHI). He holds directorates in PHINMA Corporation, Holcim Philippines, Inc., Manila Water Company, Inc., (all of which are publicly listed companies), Phinma, Inc., BPI-Philam Life Assurance Co. (BPLAC) and AIG Shared Services, Inc. Ambassador Cuisia previously served the Philippine Government as Governor of the Philippine Central Bank and Chairman of its Monetary Board from 1990-1993. He was also appointed Commissioner, representative of the Employer's Group, for the Social Security System (SSS) last September-December 2010. The Ambassador was also Governor for the Philippines to the International Monetary Fund (IMF) and Alternate Governor to the World Bank. Prior to service in the Central Bank, he was also Administrator and CEO of the Philippine Social Security System from 1986- 1990. He received his Bachelor Science degree in

Commerce from De La Salle University and holds a Master's degree in Business Administration from the Wharton School of Business. Ambassador Cuisia has been a Director of the Company since 1994.

Guillermo D. Luchangco is Chairman and Chief Executive Officer of various companies of The ICCP Group, including Investment & Capital Corporation of the Philippines, Science Park of the Philippines, Inc., Pueblo de Oro Development Corp., Cebu Light Industrial Park, Inc., Regatta Properties, Inc., RFM-Science Park of the Philippines, Inc., ICCP Venture Partners, Inc. and Manila Exposition Complex, Inc.; Chairman and President of Beacon Property Ventures, Inc. He is an independent director of Globe Telecom, Inc., Trans-Asia Oil & Energy Development Corp., and Roxas & Company, Inc., and a regular director of Ionics, Inc., Ionics EMS, Inc. and Fuld and Company. He was the Vice-Chairman and President of Republic Glass Corporation in 1987 and Managing Director of SGV & Co. from 1969 to 1980. Mr. Luchangco received his Bachelor of Science degree in Chemical Engineering (magna cum laude) from De La Salle University, and holds a Master's degree in Business Administration from the Harvard Business School. He became an Independent Director of the Company on April 11, 2005.

Roberto F. de Ocampo previously served as Secretary of Finance and was the former Chairman and Chief Executive Officer of the Development Bank of the Philippines. He is currently President of Philam Fund, Inc., Philam Bond Fund, Inc., Philam Strategic Growth Fund, Inc. and regular director of Alaska Milk Corporation and Rizal Commercial Banking Corporation, independent director of Robinson's Land Corporation and EEI Corporation. He has a Bachelor of Arts degree (major in Economics) from the Ateneo de Manila University, a Master's degree in Business Administration from the University of Michigan, and a post-graduate diploma from the London School of Economics. He has been conferred Doctorates (Honoris Causa) by San Beda College, De La Salle University, Philippine Women's University and University of Angeles City. He became an Independent Director of the Company on April 2, 2009.

Filomeno G. Francisco was formerly President and Chief Operating Officer of AB Capital and Investment Corporation (ABCIC). He is currently President of Brown Cross Investments Corporation and serves as Director in Ginory Holdings Corporation, Trans-Asia Petroleum Corporation and Phinma Property Holdings Corporation. Mr. Francisco served on the Boards of trade organizations, Investment House Association of the Philippines, Philippine Stock Exchange, PSE Foundation and Manila Stock Exchange. Mr. Francisco also held directorates in ABCIC, Cebu Holdings, Inc, Philippines Long-Term Equity Fund, Hi Cement Corporation, and United Pulp and Paper Co., Inc. He has a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University.

Francisco L. Viray is currently the President and Chief Executive officer of Trans-Asia Oil and Energy Development Corporation. He is concurrently the President and Chief Executive Officer of Trans-Asia Power Generation Corporation, Trans-Asia Renewal Energy Corporation and Chairman and Chief Executive Officer of CIP II Power Corporation. He is also at present a member of the Board of Directors of Trans-Asia Oil and Development Corporation, Araullo University, Cagayan de Oro College and University of Pangasinan of the Phinma Education Network (PEN), and Chairman, Pangasinan Medical Center, Inc. He obtained his Bachelor of Science and Masters in Electrical Engineering degrees from the University of the Philippines and his Doctorate in Engineering degree from West Virginia University. He joined the PHINMA Group in 1999, a year after he served as Secretary of the Department of Energy from 1994 to 1998. Earlier, he was President of the National Power Corporation beginning May 1993. Dr. Viray served on the Board of Directors of Meralco, Petron, Holcim Philippines, Inc. and United Pulp and Paper Company, Inc. He became a Director of the Company in April 2013.

Eric S. Lustre is the First Vice President and Head of Corporate Finance Department of the Investment Division of The Philippine American Life and General Insurance Company. He is also the Head of the Real Estate Investment of the Company as well as the Country Credit Officer. Mr. Lustre is a member of the Board of Directors of Philam-Equitable Life Assurance Company, ICCP Holdings, Inc., Science Park of the Philippines, Inc., Regatta Properties, Inc., Beacon Property Ventures, Inc. Pueblo de Oro Development Corporation, Cebu Light Industrial Park, Inc., RFM-Science Park of the Philippines, Inc. and Citibank Center Condominium Corporation. He has a Bachelor of Science in Business Management from Ateneo de Manila University and holds a Master's degree in Business Management major in Finance from Asian Institute of Management. Mr. Lustre was elected as director to serve the unexpired term of Mr. Omar T. Cruz whose resignation was approved by Phinma Corporation's Board of Directors on November 6, 2013.

EXECUTIVE OFFICERS

Ramon R. Del Rosario, Jr.
President and
Chief Executive Officer

Roberto M. Laviña
Senior Executive Vice President
and Chief Operating Officer

Magdaleno B. Albarracin, Jr.
Senior Executive Vice President

Victor J. del Rosario
Executive Vice President and
Chief Financial Officer

Juan J. Diaz
Corporate Secretary

Pythagoras L. Brion, Jr.
Senior Vice President and Treasurer

Regina B. Alvarez
Senior Vice President - Finance

Cecille B. Arenillo
Vice President - Treasury and Compliance Officer

Rizalina P. Andrada
Vice President - Finance

Rolando D. Soliven
Assistant Vice President - Internal Audit

Giles R. Katigbak
Investor Relations Officer

CORPORATE GOVERNANCE

The Board of Directors, officers and employees of Phinma Corporation (PHN) commit themselves to the principles of good governance, as contained in its Manual of Good Corporate Governance. PHN believes that good governance is an integral component of sound business management and exerts every effort necessary to ensure compliance within the organization.

COMPLIANCE OFFICER

The Chairman of the Board designates a Compliance Officer who reports to the Chairman of the Board. Because PHN is a publicly-listed company, the appointment of the Compliance Officer is properly disclosed to the Securities and Exchange Commission.

The Compliance Officer's duties include monitoring compliance with the provisions and requirements of the Manual of Good Corporate Governance, identifying compliance risks, determining violations and recommending appropriate penalties.

On May 30, 2013, the Compliance Officer submitted to the SEC and PSE the Annual Corporate Governance Report (ACGR) for the year 2012. As required, the Corporation will make appropriate changes to the ACGR as needed. As of December 31, 2013, the Corporation has substantially complied with the principles and best practices contained in the Manual on Corporate Governance. Since there were no major deviations from the Manual, the Corporation has not imposed any sanctions on any director, officer or employee.

BOARD OF DIRECTORS

Composition

As of December 31, 2013, the Board of directors consists of 10 members, nominated in accordance with the By-Laws of the Company. In compliance with the legal requirement of SEC for publicly listed corporations, PHN's Board of Directors includes 2 independent directors. The independent directors hold no interest or have no relationship with the corporation that may hinder their independence from the corporation or management or would interfere with the exercise of independent judgment in carrying out their responsibilities.

During the year, the Board of Directors held 1 special and 5 regular board meetings and one organizational meeting. The details of the matters taken up during the Board meetings are detailed in the Definitive Information Statement sent to shareholders.

The attendance of the directors in the Board meetings is as follows:

2013 BOARD MEETINGS							
DIRECTORS	Mar 6 Regular	Apr 17 Regular	Apr 17 Organizational	May 28 Regular	Jul 18 Regular	Oct 2 Special	Nov 6 Regular
Oscar J. Hilado	P	P	P	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	P	P	P	A	P
Ramon R. Del Rosario, Jr.	P	P	P	P	P	P	P
Jose L. Cuisia, Jr.	P	P	P	P	P	A	A
Victor J. Del Rosario	P	P	P	P	P	P	P
Roberto M. Laviña	P	P	P	P	P	P	P
Omar T. Cruz	P	P	P	P	A	-	-
Filomeno G. Francisco	P	P	P	P	P	P	P
Roberto F. De Ocampo	P	P	P	P	P	P	P
Felipe B. Alfonso+	P	-	-	-	-	-	-
Guillermo D. Luchangco	A	P	P	P	P	A	A
Francisco L. Viray	-	-	P	P	P	P	P

P: Present A: Absent R : Resigned July 2013 - : not a director as of date of meeting

Board Committees

To assist it in discharging its duties and responsibilities, the Board constitutes committees which directly report to the Board in accordance with duly approved procedures.

As of December 31, 2013, the board committees and its members were as follows:

	BOARD COMMITTEES				
DIRECTORS	AUDIT	EXCOM	NOMINATION	COMPENSATION	RETIREMENT
Oscar J. Hilado		Chairman	Chairman	Member	Chairman
Magdaleno B. Albarracin, Jr.	Member	Member			Member
Ramon R. Del Rosario, Jr.		Member	Member	Member	
Jose L. Cuisia, Jr.		Member		Chairman	
Victor J. Del Rosario	Member				Member
Roberto M. Laviña					Member
Filomeno G. Francisco	Vice-Chairman				
Roberto F. De Ocampo	Chairman			Member	
Guillermo D. Luchangco		Member	Member		

Nomination Committee

The Nomination Committee is composed of three (3) directors, one of whom is an independent director. The Nomination Committee pre-screens and shortlists all candidates nominated to become members of the board of directors, taking into account factors such as age, number of directorships/active memberships and officerships in other corporations, experience from other boards, knowledge of the industry of the Corporation, knowledge of finance and accounting, and contacts of value to the Corporation.

In March 2014, the Nomination Committee, after a review of the qualifications of the candidates, submitted to the Board of Directors the list of qualified nominees.

Compensation Committee

The Compensation Committee is composed of four (4) directors, one (1) of whom is an independent director. The duties and responsibilities of this committee include establishing policies on executive remuneration, ensuring that the compensation is consistent with the corporation's culture, strategy and control environment, and strengthening policies on conflict of interest, salaries and benefits and compliance with statutory requirements.

Audit Committee

The Audit Committee is composed of four (4) members of the Board, one (1) of whom is an independent director who is also the Chairman of the committee. The audit committee is responsible for checking all financial reports for compliance with both internal financial management systems and pertinent accounting standards and regulatory requirements. The Committee ensures that the company's controls are functioning effectively and efficiently.

In 2013, the Audit Committee held four meetings and overall attendance was 94%. The Committee reviewed the audited financial statements for 2013 and the interim statements for the quarters ending March 31, June 30, and September 30 for the year 2013. The Committee also endorsed to the Board of Directors the nomination of SGV and Co. as the company's external auditor for 2014. The Committee likewise reviewed the findings and status of Internal Audit's engagements, the status of Business Resiliency activities and the 2012 Audit Committee Report.

Attendance

AUDIT COMMITTEE	YEAR 2013			
	Mar 6	May 10	July 18	Nov 9
Roberto F. De Ocampo	P	P	P	P
Filomeno G. Francisco	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	A	P	P
Victor J. Del Rosario	P	P	P	P
Felipe B. Alfonso+	P	-	-	-

P: Present A: Absent - not a member as of date of meeting

EXTERNAL AUDITOR

The external auditor contributes to the enforcement of good governance through independent examination of the financial records and reports of PHN.

On April 27, 2013, the stockholders, upon recommendation of the Audit Committee and the endorsement by the Board of directors, approved the appointment of SGV & Co. as PHN's external auditor. Mr. Johnny F. Ang is the partner in charge for CY 2013. On March 4, 2014, SGV & Co. issued its report on the financial statements for the year ended December 31, 2013, stating that the financial statements present fairly, in all material respects, the financial position of the company and that the same are in accordance with Philippine Financial Reporting Standards.

There have been no disagreements with the independent accountants on any matter pertaining to accounting principles or practices, financial statement disclosures or auditing scope or procedure.

The Company is in compliance with SRC Rule 68, paragraph 3(b) (iv) requiring the rotation of external auditors or engagement partners who have been engaged by the company for a period of five consecutive years or more. Mr. Ang has been the audit partner of the Company for one year.

The Company accrued the following fees for professional services rendered by SGV and Co. for the past two years:

Year	Audit Fees	Tax Fees	Other Fees
2013	P3,700,000	-	-
2012	4,000,000	-	-

INTERNAL AUDIT

PHN has an independent Internal Audit organization that reports directly to the Board of Directors, through the Audit Committee, and administratively to Senior Management. The Group Internal Audit (GIA) team provides PHN with professional assurance and consulting services that are designed to add value and improve operations. Consistent with its thrust to become better business partners, Group Internal Audit helps PHINMA Corporation accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of PHINMA's risk management, control, and governance processes.

To ensure the independence of Group Internal Audit, the Audit Committee reviewed and approved the GIA Charter which outlines internal audit's purpose, reporting relationships, authorities and responsibilities. Through this Charter, the internal auditors are kept free from interference by any element in the organization in matters of audit selection, scope, procedures, frequency, timing, or report content. Likewise, members of Group Internal Audit do not have any direct operational responsibility or authority over any of the activities audited and, as such, are further prohibited from implementing internal controls or engaging in any other activity that may impair the auditor's judgment.

In September 2013, Group Internal Audit conducted the first Audit Committee Forum to promote the implementation of good corporate governance and to assist the Audit

Committee in fulfilling their Charter requirement for the continuing education of its members. Also, in November 2013, GIA assisted the Audit Committee in the preliminary assessment of the Audit Committee Performance based on the revised Audit Committee Charter.

Under the GIA Charter, GIA performed various internal control reviews of the Company and its subsidiaries and affiliates. Based on the results of these reviews, Group Internal Audit reported that overall controls are adequate and effective.

DISCLOSURE AND TRANSPARENCY

Phinma Corporation commits itself to high standards of disclosure and transparency. In addition to submitting annual and quarterly financial information and other statutory requirements, the corporation promptly discloses to the SEC and PSE material information such as declaration of dividends, investments and divestments and other matters. The disclosures are also uploaded to the company website for the benefit of the public.

CODE OF CONDUCT

The Code of Conduct of the company contains policies on professional decorum, conflict of interest and penalties for violations.

Employees are required to always act in the best interest of the company. As a matter of policy, every employee and officer of the company should avoid any situation that could interfere or appear to interfere with their independent judgment in performing their duties. The policy also prohibits using one's official position to secure a contract or employment for a related party, soliciting gifts or any property for personal gain from any individual or organization that deals with the company, and using company information for personal gain. No employee may engage in any business or undertaking that is indirectly or directly in competition with or prejudicial to the interests of the company.

"PHN believes that good governance is an integral component of sound business management and exerts every effort necessary to ensure compliance within the organization."

CORPORATE SOCIAL RESPONSIBILITY

"Phinma Corporation's corporate social responsibility initiatives focus on areas related to the Company's mission of providing quality education, affordable housing, and reliable and renewable power."

Phinma Corporation's corporate social responsibility initiatives focus on areas related to the Company's mission of providing quality education, affordable housing, and reliable and renewable power. In addition, the Company employees, in their personal capacity, volunteer and reach out to local communities through socially relevant programs.

Education

Phinma's commitment in Education is further demonstrated by its continued support of the Phinma National Scholarship (PNS) program under the Phinma Foundation. From its initial batch of 10 scholars in 2006, the PNS now has a total of 100 scholars enrolled in education, accounting and engineering. The program has produced 45 graduates, all of whom passed their respective board examinations with 2 ranking among the top 10 examinees.

The PNS is envisioned to produce not just graduates but leaders. To achieve this, year-round activities to hone the students' skills and potential, such as on-the-job training, leadership conferences, workshops, and exchange programs, are conducted In 2013, the annual leadership conference theme was DIY: Do-it-Yourself. How to practice PHINMA Core Values (Integrity, Patriotism, Professionalism and Service Excellence) as a College Student. The program also provided opportunities for the scholars to be exposed to history, arts and culture, through educational trips to the National Museum and Ballet Philippine performances Giselle and Rock Supremo.

In 2013, the PNS was supported by several individuals and institutions, with 10 scholars sponsored by Phinma directors, officers and employees; 12 by Australian Aid; 3 by Multinational Investment Bancorporation; 2 by the Doña Marta T. Hernandez Foundation; and one each by the Provincial Governor's Office of Sarangani, the Conrado & Ladislawa Alcantara Foundation, and an individual sponsor. PNS is targeting to support 100 scholars every school year.

Phinma Foundation also provided financial assistance to 81 students enrolled in Philippine Science high schools nationwide and 30 engineering students nationwide, through the generosity of one of the Company's directors, and also supported 8 seminarians for the school year 2013-2014.

Environment

Trans-Asia Oil and Energy Development Corporation's (TA Oil) flagship CSR program, Harnessing Energy Literacy for Planet Earth (HELP Earth), launched in 2009, aims to educate the youth in energy conservation and environment protection. To date, TA Oil has established HELP Earth interactive multimedia science exhibits and corners in 22 schools, helping over 268 Teachers and more than 7,000 students across 7 provinces.

HELP Earth's Green and Blue initiatives focus on restoration of the environment and ecosystems. Over 3,442 seedlings of narra, fire, and kupang trees have been planted to date through the Green Initiative. To further ensure sustainability, TA Oil's power plants are in the process of building their own nurseries to raise their own seedlings. Under the Blue Initiative, TA Oil continued Earth Day annual creek clean-up and International Coastal Day clean-up activities along Balayan Bay in Calaca, Batangas; the coast of Quirino, Bacnotan, La Union; and waterways in Sitio Sapang-Kawayan, Matictic, Norzagaray, Bulacan. HELP Earth will further launch this year coastal management projects in San Lorenzo, Guimaras and Bacnotan, La Union.

Union Galvasteel Corporation (UGC) also participated in river clean-up campaigns at Guindaruhan river, in Minglanilla, South Cebu, and also planted 1,000 seedlings at the Municipality of Victoria and in Calamba City as part of a greening project of the DENR.

Phinma Properties mobilized over 60 volunteers in 2013 for its own tree planting project at Barangay Macabud, Montalban, Rizal. In cooperation with Luntiang Pangarap (Green Dream), the company planted molave, narra and makaasim trees and provided fertilizer to ensure the sustainability of the project.

Microtel by Wyndham® Mall of Asia took part in ABS-CBN Foundation's Protect-A-Hectare Program, held at La Mesa Eco Park, where employees will adopt and protect a one-hectare forest area for a year, participating in environmental awareness lectures, vermicomposting, and tree planting.

Shelter

UGC partnered with the Canossian Sisters in 2010 to develop homes for displaced migrant workers on a 3-hectare rice field in Sitio Ronggot, Calamba City. In 2013, 10 more UGC-designed shelters were constructed, which completes the target 45 shelters at Canossa Galvaville. UGC is also constructing a multi-purpose hall also designed as an evacuation center, to be turned over in 2014.

UGC's North Davao group rehabilitates and builds new waiting sheds in partnership with local barangays. UGC also continued its support for Bahay ni Maria, a home for abandoned elderly women in Laguna. In 2013, UGC completed the re-roofing of the facility, and now looks forward to repairing the chapel in 2014.

In 2012, Phinma Properties together with ABS-CBN and PEN embarked on a project involving the provision of a home office and education to Kesz Valdez, the 13-year old Caviteño awarded the International Children's Peace Prize. Kesz has helped over 10,000 street children in the area of health and hygiene. In 2013, PHINMA Properties handed over to Kesz the key to his new two-storey house, a home and an office for him to host his values formation seminars. PEN on its part will provide for Kesz's education.

Livelihood

In 2013, TA Oil inaugurated its first livelihood program in Quirino, Bacnotan, La Union. A Food Processing initiative was identified in a joint participative planning activity as the preferred program, with housewives of Quirino as the chosen beneficiaries. This year, TA Oil will partner with the Province of Guimaras to draw up a sustainable livelihood and tourism plan as the company's subsidiary Trans-Asia Renewable Energy Development Corporation develops its first wind farm in San Lorenzo, Guimaras.

Disaster Response

In late 2013, UGC responded to the aftermath of Super Typhoon Yolanda, forming Task Force Yolanda, initially conducting relief operations in Bantayan, Northern Cebu, and providing carpentry tools for rebuilding at Barangay San Joaquin, in Palo, Leyte. The next month, UGC in coordination with the Phinma Foundation, visited Tacloban and identified Marasbaras Community School as a beneficiary, committing to rebuild 6 school buildings, regreen the school grounds, and replace some of the schools' computers.

UI, on the other hand, welcomed to its campus more than 800 individuals from nearby Ortiz and Maria Clara who sought refuge from the typhoon. UI subsequently adopted Barangay Batad, a coastal community in Northern Iloilo heavily damaged by the typhoon. With the support of local government, the PHINMA Foundation, and various parties, UI distributed relief packs to the 24 affected barangays and provided roofing to rebuild the 14 damaged schools. To help families recover from the ordeal, UI also contributed materials and skills training assistance for the building of 200 fishing boats. UI in partnership with the local government and private organizations will work with Barangay Batad throughout 2014.

Manila-based Phinma Group employees served as marshals and clothing distributors in Oplan Salubong, the reception operation at Villamor Airbase for typhoon Yolanda survivors, while employees based in Leyte and Iloilo distributed relief goods to surrounding communities.

In Palo, Leyte, the Palo Metropolitan Cathedral sustained massive destruction at the height of the typhoon. Phinma Foundation Inc,, in coordination with the Archdiocese of Palo, Leyte initiated the reconstruction and rebuilding of the roofing structure of the Cathedral with UGC as the lead coordinator for the Group. The project was chosen as an important

symbol of restoring the spirit and morale of the victims of the typhoon. The reconstruction is focused on the design and restoration of the Cathedral's dome structure and the retrofitting and reinforcement of the main roof and altar to maintain structural integrity. The project will also include repairs and re-roofing of the other facilities in the cathedral complex and is scheduled for completion in April 2014.

Individual Social Responsibility

PHINMA is committed to provide opportunities for its employees to join its effort in nation building. Among these avenues is the PHINMA HERO Network, the employee volunteer program of the PHINMA Group. The HERO Network seeks to inspire, equip, and mobilize PHINMA employees to make life better through volunteering and giving.

In the past year, over 400 volunteers in Manila contributed their time, talent, and resources in over 60 outreach programs, including activities for elementary and high school students, Brigada Eskwela classroom repair and cleanups, tree planting activities, and mentoring sessions with PHINMA scholars. In Boston, colleagues at Fuld continued their own annual outreach programs, donating to the Pine Street Inn program for the homeless as well as to the Cradles to Crayons charity, and hosting their annual pie decorating contest to raise funds for a special school in the Boston area.

In 2014 the HERO program strengthened its commitment to develop volunteer leaders. In partnership with the PHINMA Foundation, the program launched Spark Projects, a grant program that will enable employee volunteers to design and implement their own outreach projects in their personal advocacies.

The HERO program will continue to partner with schools, nonprofit institutions, and the PHINMA group's adopted beneficiaries to provide more meaningful avenues for employee volunteers. Through these efforts, HERO continues to work towards achieving 100% volunteer participation within the PHINMA group by 2016.

400+

volunteers contributed their time, talent and resources in over 60 outreach programs

FINANCIAL REPORT

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

The Audit Committee is composed of two (2) independent directors and two (2) executive directors. An independent director chairs the Audit Committee. The Committee has adequate understanding of the Company's business and industry in which it operates.

During the year, Mr. Roberto F. de Ocampo was appointed by the Board of Directors as Chairman of the Audit Committee, taking over the position vacated by Mr. Felipe B. Alfonso. Also, Mr. Filomeno G. Francisco was appointed as Vice Chairman of the Audit Committee.

We are pleased to report our activities for Calendar Year 2013.

The Audit Committee had four (4) meetings during the year. All meetings obtained complete attendance save one meeting where only three members attended. Overall, attendance is at ninety four percent (94%). The meetings were timed to review the quarterly and yearly financial reporting of the Company. Also, the Committee reviewed the results of the annual audit of the external auditor, the findings and status of Group Internal Audit's engagements, the status of Business Resiliency activities and the 2012 Audit Committee Report.

We received information and support from Management, the Compliance Officer and Group Internal Audit to enable us to effectively carry out our functions as defined in the Audit Committee Charter approved by the Board of Directors.

ACTIVITIES

Management's Financial Report
We reviewed and endorsed to the Board of Directors for approval the 2012 audited consolidated financial statements and the 2013 unaudited quarterly consolidated financial statements.

Informatively, in our first meeting for 2014, held on March 3, 2014, we, likewise, reviewed and endorsed to the Board of Directors for approval the 2013 audited consolidated financial statements presented in this 2013 annual report. These activities were performed in the following context:

- Management has the primary responsibility for the financial statements and the financial reporting process.
- SyCip, Gorres, Velayo & Co. (SGV & Co.) is responsible for expressing an opinion on the annual audited consolidated financial statements in accordance with Philippine Financial Reporting Standards.

External Audit
We endorsed to the Board of Directors the nomination of SyCip, Gorres, Velayo & Co. (SGV) as the Company's external auditor for 2013. We reviewed and approved the scope and deliverables of the SGV audit plan. The Committee ensured that SGV's scope included the review of Company's compliance to Philippine Financial Reporting Standards (PFRS).

We also proposed to the Board of Directors to retain SGV & Co. as the external auditor for 2014 as discussed in our Committee meeting held March 3, 2014.

Internal Audit
We reviewed and approved the Internal Audit plan for 2013. Based on this plan, the Committee received and reviewed the audit reports submitted by Group Internal Audit. Various audit and control issues including actions taken by management were discussed in the Committee meetings.

Audit Committee Performance
We performed a self-assessment of the Committee's performance against the approved Audit Committee Charter in line with the guidelines issued by the Securities and Exchange Commission for publicly listed companies.

Business Resiliency Program
We reviewed the status of ongoing activities related to the Business Resiliency program currently rolled out for the Group. This program encompasses a wide range of disciplines, including Business Continuity Management, Crisis Management and Communications and Risk Management.

Audit Committee Forum
We participated in the PHINMA Group Audit Committee Forum entitled "Audit Committee Roles, Best Practices and Regulatory Requirements" held in September 2013.

ROBERTO F. DE OCAMPO
Chairman, Independent Director

FILOMENO G. FRANCISCO
Vice Chairman, Independent Director

MAGDALENO B. ALBARRACIN, JR.
Executive Director

VICTOR J. DEL ROSARIO
Executive Director

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management of PHINMA CORPORATION AND SUBSIDIARIES is responsible for the preparation and fair presentation of the consolidated financial statements at December 31, 2013 and 2013 and for the three years in the period ended December 31, 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the 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 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.

Signed this 4th day of March 2014.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President and Chief Executive Officer

VICTOR J. DEL ROSARIO
Executive Vice President and Chief Financial Officer

SGV
Building a better working world

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

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ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PHINMA Corporation

We have audited the accompanying consolidated financial statements of PHINMA Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 PHINMA Corporation and Subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Johnny F. Ang
Partner
CPA Certificate No. 0108257
SEC Accreditation No. 1284-A (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 221-717-423
BIR Accreditation No. 08-001998-101-2013,
January 28, 2013, valid until January 27, 2016
PTR No. 4225148, January 2, 2014, Makati City

March 4, 2014

A member firm of Ernst & Young Global Limited

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012 (As restated - Note 3)	January 1, 2012 (As restated - Note 3)
		(Amounts in Thousands)	
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 8, 32 and 33)	**₱472,708**	₱465,179	₱916,157
Investments held for trading (Notes 9, 32 and 33)	**894,591**	800,415	771,517
Trade and other receivables (Notes 10, 29, 32 and 33)	**887,720**	871,881	857,649
Inventories (Note 11)	**803,568**	956,472	977,919
Input value-added taxes	**2,247**	5,425	40,697
Available-for-sale (AFS) investments (Notes 13, 32 and 33)	**103,656**	101,790	–
Derivative asset and other current assets (Notes 32 and 33)	**95,138**	97,864	85,371
Total Current Assets	**3,259,628**	3,299,026	3,649,310
Noncurrent Assets			
Investments in associates - at equity (Note 12)	**2,290,844**	2,341,550	1,832,611
AFS investments (Notes 13, 32 and 33)	**121,765**	130,616	140,990
Property, plant and equipment (Notes 14 and 20)	**2,517,626**	2,258,625	2,260,744
Investment properties (Notes 15 and 20)	**437,849**	421,707	410,890
Intangibles (Notes 6 and 16)	**1,091,033**	1,091,033	1,307,946
Deferred tax assets - net (Note 30)	**36,968**	85,231	49,245
Other noncurrent assets (Note 17)	**174,567**	15,014	26,640
Total Noncurrent Assets	**6,670,652**	6,343,776	6,029,066
	₱9,930,280	₱9,642,802	₱9,678,376
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable (Notes 18, 32 and 33)	**₱144,025**	₱373,676	₱455,193
Trade and other payables (Notes 19, 32 and 33)	**649,318**	536,682	402,495
Unearned revenues - inclusive of current portion of deferred rent revenue of ₱1.2 million in 2013 and 2012 (Note 29)	**234,413**	197,051	204,567
Trust receipts payable (Notes 11, 32 and 33)	**44,153**	554,797	103,735
Income and other taxes payable	**34,787**	41,796	44,889
Current portion of long-term debt (Notes 20, 29, 32 and 33)	**94,586**	64,654	141,063
Due to related parties (Notes 29, 32 and 33)	**54,381**	17,655	24,496
Current portion of long-term loan payable (Notes 6, 32 and 33)	**25,572**	23,645	22,095
Derivative liability (Notes 32 and 33)	**–**	–	2,281
Total Current Liabilities	**1,281,235**	1,809,956	1,400,814
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 20, 29, 32 and 33)	**1,056,839**	347,532	599,659
Long-term loan payable - net of current portion (Notes 6, 32 and 33)	**25,572**	47,290	78,912
Deferred tax liabilities - net (Note 30)	**281,433**	291,929	299,724
Pension and other post-employment benefits (Note 31)	**202,521**	202,140	133,871
Deferred rent revenue - net of current portion (Note 29)	**44,896**	46,062	47,228
Other noncurrent liabilities (Note 29)	**5,803**	6,727	7,477
Total Noncurrent Liabilities	**1,617,064**	941,680	1,166,871
Total Liabilities	**2,898,299**	2,751,636	2,567,685
Equity Attributable to Equity Holders of the Parent			
Capital stock (Note 21)	**2,596,654**	2,588,946	2,577,249
Additional paid-in capital	**258,958**	256,495	255,785
Share in unrealized gain on change in fair value of AFS investments of associates	**26,786**	23,764	19,051
Exchange differences on translation of foreign operations	**(5,850)**	(868)	4,935
Unrealized gain on change in fair value of AFS investments	**–**	350	985
Other reserves	**8,682**	12,786	8,943
Retained earnings (Note 21)	**3,552,193**	3,423,662	3,588,433
Equity attributable to equity holders of the parent	**6,437,423**	6,305,135	6,455,381
Non-controlling Interests (Note 6)	**594,558**	586,031	655,310
Total Equity	**7,031,981**	6,891,166	7,110,691
	₱9,930,280	₱9,642,802	₱9,678,376

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
	(Amounts in Thousands, Except Per Share Data)		
REVENUES			
Sale of goods	**₱3,252,946**	₱3,082,380	₱2,695,638
Tuition and school fees	**906,437**	726,872	823,964
Consultancy services	**519,849**	471,262	258,065
Rental income (Note 15)	**44,813**	42,655	46,872
Animation services	**32,857**	80,396	26,631
Investment income (Notes 8, 9 and 22)	**27,277**	133,068	102,335
	4,784,179	4,536,633	3,953,505
COSTS AND EXPENSES			
Cost of sales (Notes 23, 26 and 27)	**2,572,299**	2,407,269	2,117,021
Cost of educational, animation and consultancy services (Notes 23, 26 and 27)	**588,382**	666,918	694,966
General and administrative expenses (Notes 24, 26, 27 and 29)	**913,340**	913,144	640,872
Selling expenses (Notes 10, 25, 26 and 27)	**476,565**	442,086	329,018
	4,550,586	4,429,417	3,781,877
OTHER INCOME (CHARGES)			
Equity in net earnings of associates (Note 12)	**161,691**	118,944	137,656
Interest expense and other financing charges (Note 28)	**(84,417)**	(101,303)	(108,381)
Net gains (losses) on derivatives (Note 33)	**(8,458)**	12,270	7,121
Foreign exchange gains (losses) - net (Note 32)	**4,247**	(22,874)	(6,298)
Income from reversal of unrecoverable input value-added tax (Note 17)	**1,807**	1,542	–
Impairment loss on goodwill (Notes 4 and 16)	–	(212,300)	(166,369)
Gain on sale of investment properties (Note 15)	–	16,277	1,611
Others - net (Note 12)	**10,531**	30,399	63,424
	85,401	(157,045)	(71,236)
INCOME (LOSS) BEFORE INCOME TAX	**318,994**	(49,829)	100,392
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)			
Current	**71,646**	69,535	128,294
Deferred	**(14,341)**	(27,760)	(82,455)
	57,305	41,775	45,839
NET INCOME (LOSS)	**₱261,689**	(₱91,604)	₱54,553
Attributable to			
Equity holders of the Parent	**₱224,040**	(₱37,250)	₱79,287
Non-controlling interests	**37,649**	(54,354)	(24,734)
Net income (loss)	**₱261,689**	(₱91,604)	₱54,553
Basic/Diluted Earnings (Loss) Per Common Share - Attributable to Equity Holders of the Parent (Note 35)	**₱0.86**	(₱0.14)	₱0.31

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
	(Amounts in Thousands, Except Per Share Data)		
NET INCOME (LOSS)	**₱261,689**	(₱91,604)	₱54,553
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gain (loss) on defined benefit obligation (Note 31)	**11,449**	(35,625)	(33,880)
Re-measurement gain (loss) on defined benefit obligation of associates (Note 12)	**(1,196)**	20	(2,534)
Income tax effect	**(2,687)**	9,369	7,196
	7,566	(26,236)	(29,218)
Items to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	**(4,982)**	(5,803)	790
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	**3,022**	4,713	(175)
Unrealized loss on change in fair value of AFS investments (Note 13)	**(350)**	(635)	(367)
	(2,310)	(1,725)	248
Total other comprehensive income (loss)	**5,256**	(27,961)	(28,970)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱266,945**	(₱119,565)	₱25,583
Attributable to			
Equity holders of the Parent	**₱229,783**	(₱63,401)	₱51,646
Non-controlling interests	**37,162**	(56,164)	(26,063)
Total comprehensive income (loss)	**₱266,945**	(₱119,565)	₱25,583

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent										
	Capital Stock (Note 21)	Additional Paid-in Capital	Unrealized Gain (Loss) on Change in Fair Value of AFS Investments (Note 13)	Exchange Differences on Translation of Foreign Operations)	Other Reserves	Share in Unrealized Gain (Loss) on Change in Fair Value of AFS Investments of Associates (Note 12)	Retained Earnings (Note 21) Appropriated	Retained Earnings (Note 21) Un-appropriated	Subtotal	Non-controlling Interests	Total Equity
	(Amounts in Thousands)										
Balance, January 1, 2013	**₱2,588,946**	**₱256,495**	**₱350**	**(₱868)**	**₱12,786**	**₱23,764**	**₱1,000,000**	**₱2,423,662**	**₱6,305,135**	**₱586,031**	**₱6,891,166**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**224,040**	**224,040**	**37,649**	**261,689**
Other comprehensive income (loss)	**–**	**–**	**(350)**	**(4,982)**	**–**	**3,022**	**–**	**8,053**	**5,743**	**(487)**	**5,256**
Total comprehensive income (loss)	**–**	**–**	**(350)**	**(4,982)**	**–**	**3,022**	**–**	**232,093**	**229,783**	**37,162**	**266,945**
Cash dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(103,562)**	**(103,562)**	**(28,635)**	**(132,197)**
Issuances	**7,708**	**2,463**	**–**	**–**	**(10,171)**	**–**	**–**	**–**	**–**	**–**	**–**
Stock purchase plan	**–**	**–**	**–**	**–**	**6,067**	**–**	**–**	**–**	**6,067**	**–**	**6,067**
Balance, December 31, 2013	**₱2,596,654**	**₱258,958**	**₱–**	**(₱5,850)**	**₱8,682**	**₱26,786**	**₱1,000,000**	**₱2,552,193**	**₱6,437,423**	**₱594,558**	**₱7,031,981**
Balance, January 1, 2012 as previously presented	₱2,577,249	₱255,785	₱985	₱4,935	₱8,943	₱19,051	₱1,000,000	₱2,649,960	₱6,516,908	₱660,668	₱7,177,576
Effect of adoption of Revised PAS 19 (Note 3)	–	–	–	–	–	–	–	(61,527)	(61,527)	(5,358)	(66,885)
Balance, January 1, 2012 as restated	2,577,249	255,785	985	4,935	8,943	19,051	1,000,000	2,588,433	6,455,381	655,310	7,110,691
Net income	–	–	–	–	–	–	–	(37,250)	(37,250)	(54,354)	91,604
Other comprehensive income (loss)	–	–	(635)	(5,803)	–	4,713	–	(24,426)	(26,151	(1,810)	(27,961)
Total comprehensive income (loss)	–	–	(635)	(5,803)	–	4,713	–	(61,676)	(63,401)	(56,164)	(119,565)
Cash dividends	–	–	–	–	–	–	–	(103,095)	(103,095)	(21,585)	(124,680)
Issuances	11,697	710	–	–	(12,407)	–	–	–	–	–	–
Stock purchase plan	–	–	–	–	24,315	–	–	–	24,315	–	24,315
Effect of business combination (Note 6)	–	–	–	–	–	–	–	–	–	9,971	9,971
Acquisition of non-controlling interests (Note 6)	–	–	–	–	(8,065)	–	–	–	(8,065)	(1,501)	(9,566)
Balance, December 31, 2012	₱2,588,946	₱256,495	₱350	(₱868)	₱12,786	₱23,764	₱1,000,000	₱2,423,662	₱6,305,135	₱586,031	₱6,891,166
Balance, January 1, 2011 as previously presented	₱2,577,249	₱255,785	₱1,352	₱4,145	₱8,943	₱19,226	₱1,000,000	₱2,672,037	₱6,538,737	₱761,953	₱7,300,690
Effect of adoption of Revised PAS 19 (Note 3)	–	–	–	–	–	–	–	(31,907)	(31,907)	(2,804)	(34,711)
Balance, January 1, 2011 as restated	2,577,249	255,785	1,352	4,145	8,943	19,226	1,000,000	2,640,130	6,506,830	759,149	7,265,979
Net income	–	–	–	–	–	–	–	79,287	79,287	(24,734)	54,553
Other comprehensive income (loss)	–	–	(367)	790	–	(175)	–	(27,889)	(27,641)	(1,329)	(28,970)
Total comprehensive income	–	–	(367)	790	–	(175)	–	51,398	51,646	(26,063)	25,583
Cash dividends	–	–	–	–	–	–	–	(103,095)	(103,095)	(98,914)	(202,009)
Effect of business combination (Note 6)	–	–	–	–	–	–	–	–	–	11,902	11,902
Disposal to non-controlling interests	–	–	–	–	–	–	–	–	–	9,236	9,236
Balance, December 31, 2011	₱2,577,249	₱255,785	₱985	₱4,935	₱8,943	₱19,051	₱1,000,000	₱2,588,433	₱6,455,381	₱655,310	₱7,110,691

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
		(Amounts in Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱318,994**	(₱49,829)	₱100,392
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Note 27)	**184,726**	233,048	218,079
Equity in net earnings of associates (Note 12)	**(161,691)**	(118,944)	(137,656)
Interest expense and other financing charges (Note 28)	**84,417**	101,303	108,381
Pension and other employee benefits expense (Note 31)	**38,630**	61,320	32,106
Interest income (Note 22)	**(22,962)**	(58,303)	(61,287)
Net loss (gains) on derivatives (Note 33)	**8,458**	(12,270)	(7,121)
Stock purchase plan expense (Note 21)	**6,067**	19,821	–
Unrealized foreign exchange loss - net	**4,394**	3,107	4,672
Dividend income (Note 22)	**(2,034)**	(23,896)	(2,454)
Gain on sale of AFS investments	**(350)**	–	(4)
Loss (gain) on sale of property and equipment	**25**	(1,992)	(56)
Provisions for (reversal of) impairment loss on:			
Goodwill (Note 16)	**–**	212,300	166,369
Unrecoverable input value-added tax (Notes 17 and 24)	**(1,807)**	43,929	7,372
Gain on sale of investment property	**–**	(16,276)	(1,611)
Operating income before working capital changes	**456,867**	393,318	427,182
Decrease (increase) in:			
Short-term investments	**–**	–	47,316
Investments held for trading	**(96,587)**	(27,206)	67,707
Trade and other receivables	**(28,007)**	(16,665)	309,983
Inventories	**152,904**	21,447	(147,009)
Other current assets	**5,376**	55,379	(6,586)
Increase (decrease) in:			
Trade and other payables	**101,349**	10,612	(74,179)
Trust receipts payable	**(511,385)**	451,061	(18,589)
Other taxes payable	**(923)**	(6,424)	(63,614)
Unearned revenues	**36,196**	(7,515)	9,683
Cash from operations	**115,790**	874,007	551,894
Interest paid	**(82,123)**	(103,835)	(109,266)
Income tax paid	**(78,655)**	(63,734)	(102,452)
Net cash from (used in) operating activities	**(44,988)**	706,438	340,176
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment and investment properties (Notes 14, 15 and 38)	**(462,012)**	(250,638)	(315,790)
Investments in associates (Note 12)	**(6,197)**	(533,153)	(350,364)
AFS investments	**(3,116)**	–	–
Proceeds from sale/settlement of:			
Property, plant and equipment	**4,408**	26,196	766
AFS investments	**10,101**	9,502	257,940
Forward currency contracts	**(7,930)**	9,460	13,844
Investment properties	**–**	24,538	9,986
Purchase price adjustment (Note 6)	**–**	7,063	–
Deposits received	**–**	96,120	–
Dividends received	**76,514**	54,201	17,986
Interest received	**29,628**	59,424	58,381
Decrease (increase) in other noncurrent assets	**34,166**	(83,329)	19,640
Payments of long-term loans payable related to acquisition of a subsidiary (Note 6)	**(15,938)**	(34,894)	–
Acquisition of subsidiaries - net of cash acquired (Note 6)	**–**	(10,081)	(235,141)
Net cash used in investing activities	**(340,376)**	(625,591)	(522,752)

(Forward)

		Years Ended December 31	
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
		(Amounts in Thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Notes payable	**₱193,478**	₱380,792	₱447,133
Long-term debt	**745,927**	–	37,841
Payments of:			
Notes payable	**(426,837)**	(462,309)	(241,737)
Long-term debt	**(6,688)**	(330,359)	(142,474)
Cash dividends	**(127,060)**	(103,547)	(200,787)
Long-term loan payable	**–**	–	(4,160)
Increase (decrease) in:			
Due to related parties	**13,664**	(6,841)	(8,433)
Disposal (acquisition) of non-controlling interests (Note 6)	**–**	(9,566)	9,236
Net cash from (used in) financing activities	**392,484**	(531,830)	(103,381)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**409**	5	(56)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**7,529**	(450,978)	(286,013)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**465,179**	916,157	1,202,170
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱472,708**	₱465,179	₱916,157

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

PHINMA Corporation (PHN or the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on March 12, 1957. On August 2, 2006, the Philippine SEC approved the extension of the Parent Company's corporate life for another 50 years. On May 27, 2010, the Philippine SEC approved the change in the Parent Company's corporate name from Bacnotan Consolidated Industries, Inc. to PHINMA Corporation. Its principal activity is investment holdings of shares in various subsidiaries, associates and affiliates and other financial instruments.

Following are the subsidiaries of the Parent Company and the nature of their principal business activities:

Name of Subsidiaries	Nature of Business	Calendar/Fiscal Yearend	Percentage of Ownership 2013	2012
Union Galvasteel Corporation (UGC)	Manufacturing and distribution of steel products	December 31	**98.08**	98.08
One Animate Limited (OAL) and Subsidiary [(a)]	Business Process Outsourcing - Animation services	December 31	**80.00**	80.00
Pamantasan ng Araullo (Araullo University), Inc. (AU) [(b)]	Educational institution	March 31	**78.64**	78.64
Cagayan de Oro College, Inc. (COC) [(b)]	Educational institution	March 31	**74.21**	74.21
University of Iloilo (UI) [(b)]	Educational institution	March 31	**69.79**	69.79
University of Pangasinan (UPANG) and Subsidiary[(b)]	Educational institution	March 31	**69.75**	69.75
P & S Holdings Corporation (PSHC)	Investment and real estate holdings	December 31	**60.00**	60.00
Asian Plaza, Inc. (API)	Lease of real property	December 31	**57.62**	57.62
Fuld & Company, Inc. (Fuld U.S.) and Subsidiary	Business research	December 31	**85.00**	85.00
Fuld & Company (Philippines), Inc. (Fuld Philippines)	Business research	December 31	**85.00**	85.00

[(a)] *OAL owns 100% interest in Toon City Animation, Inc. (Toon City). OAL and Toon City ceased operations in April 2013.*
[(b)] *Balances as at and for the year ended December 31 of these subsidiaries were used for consolidation purposes.*

The Parent Company and its subsidiaries (collectively referred to as "the Company") are all incorporated in the Philippines, except for OAL and Fuld U.S. OAL is incorporated in Hong Kong while Fuld U.S. is incorporated in the United States of America (USA). The Company's ultimate parent company is Philippine Investment-Management (PHINMA), Inc., which is also incorporated in the Philippines.

The information on the segments of the Company is presented in Note 36.

The registered office address of the Parent Company is 12th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The consolidated financial statements as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were reviewed and recommended for approval by the Audit Committee on March 3, 2014. The same consolidated financial statements were also approved and authorized for issuance by the Board of Directors (BOD) on March 4, 2014.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation and Compliance
The accompanying consolidated financial statements of the Company have been prepared on a historical cost basis, except for investments held for trading, available-for-sale (AFS) investments and derivative financial instruments that are measured at fair values. The consolidated financial statements are presented in Philippine peso which is the Parent Company's functional and presentation currency. All values are rounded to the nearest thousand peso, except when otherwise indicated.

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting and Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional consolidated statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies (see Note 3).

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and all the subsidiaries mentioned in Note 1. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- power over the investee (i.e. existing rights that give the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Company has less than majority of the voting rights or similar rights to an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date control is transferred to the Company and cease to be consolidated from the date control is transferred out of the Company. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction and is shown as "Other reserves" under "Other Components of Equity" in the consolidated statement of changes in equity. If the Company loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation 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 OCI to profit or loss or retained earnings, as appropriate.

3. **Changes in Accounting Policies and Disclosures**

Current Changes in Accounting Policies
The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements and additional disclosures in the Company's financial statements. These include PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PAS 19, *Employee Benefits* (Revised 2011), PFRS 13, *Fair Value Measurement*, PFRS 12, *Disclosures of Interests in Other Entities* and amendments to PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 12, *Disclosure of Interests in Other Entities*, resulted in additional disclosures in the Group's financial statements.

Several other amendments apply for the first time in 2013. However, these did not have impact to the annual consolidated financial statements of the Company.

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

- PFRS 7*, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *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 have no impact on the Company's financial position, performance or disclosures.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. A reassessment of control was performed by the Company on all its subsidiaries in accordance with the provisions of PFRS 10. Based on the reassessment made, the Company determined that there has been no change in the control of any of its subsidiaries.

- 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 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard has no impact on the Company's consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Company has subsidiaries with material noncontrolling interests, there are no unconsolidated structured entities.

  PFRS 12 disclosures are provided in Notes 7 and 12.

- 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. PFRS 13 define fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values. The Company has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures are provided in Note 15. Fair value hierarchy is provided in Note 33.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will 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 Company's financial position or performance.

- PAS 19, *Employee Benefits* (Revised)
  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.

Upon adoption of the Revised PAS 19, the Company changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

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

	As at December 31, 2012	As at January 1, 2012
	(Amounts in Thousands)	
Consolidated statements of financial position		
Increase (decrease) in:		
Investment in associates	(₱2,515)	(₱2,534)
Pension liability	113,961	75,622
Deferred tax liability	(21,807)	(11,271)
Retained earnings	(87,194)	(61,527)
Non-controlling interests	(7,474)	(5,358)

	For the Years Ended	
	2012	2011
	(Amounts in Thousands)	
Consolidated statements of income		
Increase (decrease) in:		
Net benefit cost		
Cost of sales	(₱3,750)	₱946
Cost of educational services	(428)	(4,656)
General and administrative expenses	1,463	572
Income tax expense	1,168	182
Profit for the year	(1,547)	(2,956)
Attributable to Parent	(1,241)	(1,731)
Attributable to non-controlling interests	(306)	(1,245)
Consolidated statements of comprehensive income		
Remeasurement loss on defined benefit obligation	(29,236)	(29,218)
Attributable to Parent	(24,427)	(27,889)
Attributable to non-controlling interests	(1,809)	(1,329)

The adoption did not have significant impact on the consolidated statements of cash flows and on the earnings (loss) per share computation.

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

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11 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. The application of the new standard has no impact on the Company's financial position or performance.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). This new interpretation is not relevant to the Company’s operations.

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

<u>Annual Improvements to PFRSs (2009–2011 cycle)</u>
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.

- 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 Company 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. As a result, the Company has not included comparative information in respect of the opening consolidated statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Company’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 has no impact on the Company’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. The amendment has no impact on the Company’s financial position or performance.

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

<u>Standards and Interpretations Issued but not yet Effective</u>
Standards and interpretations issued effective subsequent to December 31, 2013 are listed below. The Company intends to adopt these standards and interpretations when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these revised standards and amendments to PFRS to have a significant impact on the Company’s consolidated financial statements.

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

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

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

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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

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

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

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

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

  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
    The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and

are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

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

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

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

  The accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

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

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

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

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

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

▪ <u>Annual Improvements to PFRSs (2011–2013 cycle)</u>
  The Annual Improvements to PFRSs (2011–2013 cycle) contain non-urgent but necessary amendments to the following standards:

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

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

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

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

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

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

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

▪ 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 SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

4. Summary of Significant Accounting and Financial Reporting Policies

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 the date of acquisition and are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. The Company recognizes a financial instrument in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Company commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial instruments, except for financial instruments measured at fair value through profit or loss (FVPL).

The Company classifies its financial instruments into the following categories: financial assets and liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS investments, derivatives designated as hedging instruments in an effective hedge and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every financial reporting date.

Financial instruments are classified as liabilities 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.

Day 1 Difference. Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a ‘Day 1’ difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, 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 Company determines the appropriate method of recognizing the ‘Day 1’ difference amount.

Financial Assets and Liabilities at FVPL. This category includes financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Instruments under this category are classified as current assets/liabilities if these are held primarily for the purpose of trading or expected to be realized/settled within 12 months from reporting date. Otherwise, these are classified as noncurrent assets/liabilities.

Financial assets or financial liabilities may be designated by management on initial recognition as at FVPL when the following criteria are met:

- 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
- the assets and 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
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities designated at FVPL are recorded in the consolidated statement of financial position at fair value. Subsequent changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statement of income as “Net gains from fair value change of investments held for trading” under “Investment income” account. Interest earned or incurred is recorded in “Investment income” account or “Interest expense and other financial charges” account, respectively. Dividend income is recorded according to the terms of the contract, when the right to receive payment has been established.

The Company’s investments held for trading and derivative asset are classified under this category (see Note 33).

Derivative Financial Instruments
The Company enters into short-term forward currency contracts to hedge its currency exposure (see Note 33). Such derivative financial instruments are initially recorded at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and liabilities when the

fair value is negative. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income. The Company has opted not to designate its derivative transactions under hedge accounting. The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Embedded Derivative. An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. 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 as at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Embedded derivatives are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The Company has no embedded derivatives in 2013 and 2012.

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 investments or financial assets at FVPL. Loans and receivables are included in current assets if maturity is within 12 months from the end of the financial reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest method. 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 Company's cash and cash equivalents and trade and other receivables are classified under this category (see Note 33).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, such assets are carried at amortized cost using the effective interest method less any impairment in value. 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. HTM Investments are classified as current if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Company has no financial assets classified as HTM investments as of December 31, 2013 and 2012.

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS investments are carried at fair value in the consolidated statement of financial position. Changes in the fair value of such assets are reported as unrealized gain or loss on change in fair value of AFS investments recognized as OCI in the consolidated statement of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. AFS investments are classified as current if they are expected to be realized within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Company's investments in quoted and unquoted equity securities and other investments are classified under this category (see Note 33).

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. This includes liabilities arising from operations or loans and borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent liabilities.

The Company's notes payable, trade and other payables, trust receipts payable, due to related parties, long-term loan payable and long-term debt are classified under this category (see Note 33).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost 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 recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 of impairment. For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessment of collectability of financial assets considering the debtor's capacity to pay, history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, if necessary, financial assets are grouped on the basis of such credit risk characteristics such as debtor type, payment history, past-due status and terms.

Assets Carried at Cost. If there is objective evidence (such as continuing losses or significant financial difficulties of the investee company) 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, 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 discounted at the current market rate of return for a similar financial asset.

AFS Investments. In the case of equity instruments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss is 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 the consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in the fair value after impairment are recognized directly in consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of the interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in the consolidated statement of income. If, in the subsequent year, the fair value of a debt instrument can be objectively related to an asset occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company 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 Company has transferred its rights 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company 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 Company’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 Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, 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.

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 legal right to offset the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated statement of financial position.

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market. Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available an supportable market data as possible).

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy.

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

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs incurred in bringing each inventory to its present location and conditions are accounted for as follows:

Finished goods	–	determined using the moving average method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excludes borrowing costs;
Raw materials, spare parts and others	–	determined using the moving average method.

The net realizable value of inventories, except spare parts, is the selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The net realizable value of spare parts is the current replacement cost.

Investments in Associates

Investments in associates are accounted for under the equity method. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The consideration made in determining significant influence is similar to those necessary to determine control over subsidiaries. The investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share in net assets of the associates, less any impairment in value. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflect the Company's share in the results of operations of the associates. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains arising from transactions with its associates are eliminated to the extent of the Company's interest in the associates against the related investments. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

The aggregate of the Company's share in the results of operations of an associate is shown on the face of the consolidated statement of income outside operating profit represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statement of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance to PAS 39 from that date, provided that the associate does not become a subsidiary or joint venture. On the loss of significant influence, the Company shall measure at fair value any investment the Company retains in the former associate. The Company shall recognize in profit or loss the difference between:

a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and
b. the carrying amount of the investment at the date when significant influence is lost.

When the Company's accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances for future conversion to equity, the Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and any impairment loss. Land is carried at cost less any impairment loss. The cost of property, plant and equipment comprises its purchase price, including any applicable import duties and capitalized borrowing costs (for property, plant and equipment other than land) and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to current operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property plant and equipment.

Land, plant site improvements, buildings and installations, machinery and equipment of UGC are stated at revalued amount before the Company adopted PFRS 1 in 2005. Upon adoption of PFRS, UGC elected to change its basis for measuring land, plant site improvements, buildings and installations, machinery and equipment from revalued amounts to the cost basis. Consequently, such assets are stated at "deemed cost" as allowed by the transitional provisions of the standard. There are no further increases in the asset revaluation reserve and the account is reduced by the amount of depreciation on appraisal increase charged to operations, net of tax effect, until the item of land, plant site improvements, buildings and installations, machinery and equipment is fully depreciated or upon its disposal. Such asset revaluation reserve has been closed to retained earnings.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Plant site improvements	10–20 years
Buildings and improvements	10–20 years
Machinery and equipment	5–20 years
Transportation and other equipment	2–10 years

The useful lives and depreciation method are reviewed at each financial year-end to ensure that the periods and depreciation method are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are met.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is credited or charged to consolidated statement of income.

Construction in-progress represents properties and structures under construction/development and is stated at cost. This includes cost of construction, plant and equipment, any borrowing costs directly attributable to such asset during the construction period and other direct costs. Construction in-progress is not depreciated until such time when the relevant assets are completed and ready for operational use.

Investment Properties

Investment properties are measured initially at cost, including direct transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties (except land) are stated at cost less accumulated depreciation and any impairment loss. Land is carried at cost less any impairment in value.

Depreciation of buildings for lease is calculated on a straight-line basis over the estimated useful lives of 15 to 20 years.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. 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 sell.

Business Combinations, Goodwill and Goodwill Impairment
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 interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company 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 re-measured to fair value at the acquisition date through profit or loss. It is then considered in the determination of goodwill.

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 OCI. If the contingent consideration is classified as equity, it is not re-measured until it is finally settled, and re-measurement is recognized 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 interests 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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 this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Intangible Assets
The cost of intangible assets acquired separately is measured on initial recognition at cost. The cost of intangible assets (student lists and customer contracts) acquired in a business combination is measured at the fair value as of date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Student lists are amortized over three years and assessed for impairment whenever there is an indication that the student lists acquired may be impaired. Customer contracts are amortized over the estimated economic life of one year.

The useful lives of intangible assets are assessed to be either finite or indefinite. The amortization periods and method are reviewed at each financial year-end. 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 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 asset. Intangible assets with indefinite lives (trademarks) are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Impairment of Nonfinancial Assets (Investments in associates, Property, plant and equipment, Investment properties, Intangible assets and Input value-added tax)

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired when events or changes in circumstances indicate that the carrying value of a nonfinancial asset may not be recoverable. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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 costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's cash generating unit to which the individual assets are allocated. These budgets and forecast generally cover a period of five years. For longer period, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For nonfinancial 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. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statement of income. After such a reversal, the depreciation 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.

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's investments in associates. The Company determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

The following assets have specific characteristics for impairment testing:

Goodwill. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (or group of cash generating units) to which the goodwill relates. When the recoverable amount of the cash generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets. Intangible assets with indefinite useful lives are tested for impairment annually as either individually or at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account in the consolidated statement of financial position. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to the "Additional paid-in capital" account in the consolidated statement of financial position.

Other Reserves
Other reserves are made up of equity transactions other than capital contributions such as equity transactions and share-based payment transactions.

Retained Earnings
Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments. Retained earnings also included effect of changes in accounting policy as may be required by the standard's transitional provision.

Revenue Recognition
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes or duty. The Company has concluded that it is principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue from sale of roofing and other steel products, books and incidentals is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Tuition and School Fees. Revenue is recognized as income over the corresponding school term to which they pertain. Tuition and school fees received pertaining to the summer semester and the next school year are recorded as part of "Unearned revenues" account in the consolidated statement of financial position.

Consultancy Services. Revenue is recognized when services are rendered.

Investment Income. Investment income includes net gains and losses on investments held for trading (see accounting policy on Financial Assets) and interest income. Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Animation Services. Income from animation services is recognized by reference to the stage of completion. Stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Rental Income. Revenue is recognized on a straight-line basis over the lease term.

Cost of Sales, Educational, Animation and Consultancy Services
Cost of sales includes direct materials used, personnel costs, as well as repair and power and fuel used to run production of steel products. Cost of educational services constitutes costs incurred to administer academic instruction. Costs of animation services include all direct materials, labor costs and indirect costs related to contract performance. Cost of consultancy services includes labor cost and other direct costs related to the performance of consultancy services. These expenses are expensed as incurred.

General and Administrative Expenses
General and administrative expenses constitute costs of administering the businesses and are expensed as incurred.

Selling Expenses
Selling expenses include costs of distribution of steel products, books, incidentals, personnel costs, freight expenses, commission and advertising. Selling expenses are expensed as incurred.

Pension Costs
PHN, UGC, Toon City, UPANG and AU have distinct funded, noncontributory defined benefit retirement plans while UI and COC have a defined, unfunded, noncontributory retirement plans covering all permanent employees, each administered by their respective Retirement Committees.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Net pension cost comprises the following:

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Employee Leave Entitlement. Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Stock Purchase Plan</u>
The Company has a stock purchase plan offered to senior officers which gives them the right to purchase shares of the Company set aside by the plan.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. The amount is fixed at grant date.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Company's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for the period represents the movement in cumulative expense recognized at 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 awards 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. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which is otherwise beneficial to the employee 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. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

<u>Leases</u>
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 that 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 above, and at the date of renewal or extension period for scenario b.

Company as Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Company as Lessor. Leases where the Company 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 an income in the consolidated statement of income on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Company 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 obligation and a reliable estimate can be made of the amount of the obligation. 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 assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase due to the passage of time is recognized as interest expense in the consolidated statement of income.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production 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. All other borrowing costs are expensed in the period they occur. Borrowing cost consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-denominated Transactions and Translation

The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency. The subsidiaries determine their own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are recorded using their functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange at the end of the reporting period. Exchange gains or losses arising from foreign currency translations are credited or charged to current operations. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Other than OAL and Fuld U.S., the functional and presentation currency of the subsidiaries within the Company is Philippine peso. The functional currency of OAL and Fuld U.S. is U.S. dollar. The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the consolidated statement of income.

Taxes

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 tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Deferred Tax. Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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, except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused excess MCIT and NOLCO can be utilized except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates. Deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 profit will be available to allow all or 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 profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Value-Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT, except:

- Where the VAT incurred on a purchase of assets or services are not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of “Input value-added taxes” or “Income and other taxes payable” accounts in the consolidated statement of financial position.

<u>Earnings Per Common Share (EPS) Attributable to the Equity Holders of the Parent</u>
Basic EPS is computed by dividing net income attributable to equity holders of the parent by the weighted average number of issued and outstanding common shares during the year after giving retroactive effect to any stock dividend declared during the year.

<u>Diluted Earnings Per Share</u>
Diluted earnings per share amounts are calculated by dividing the net income attributable to equity holders of the Parent (including effect of associates’ potential dilutive shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary.

<u>Segment Reporting</u>
The Company is organized into five major business segments namely, investment holdings, property development, steel, educational services and BPO. Financial information about the Company’s business segments are presented in Note 36 to the consolidated financial statements.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

<u>Events After Financial Reporting Period</u>
Post year-end events that provide additional information about the Company’s financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. **Significant Accounting Judgments, Estimates and Assumptions**

The accompanying consolidated financial statements prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. In preparing the Company's consolidated financial statements, management has made its best judgments, estimates and assumptions of certain amounts, giving due consideration to materiality. The judgments, 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.

The Company believes the following represents a summary of these significant judgments, estimates and assumptions and related impact and associated risks in its consolidated financial statements.

<u>Judgments</u>
In the process of applying the Company'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 Company's consolidated financial statements:

Operating Lease - Company as Lessor. The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Rental income amounted to ₱44.8 million, ₱42.7 million and ₱46.9 million in 2013, 2012 and 2011, respectively (see Note 15).

Functional Currency. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. The subsidiaries determine their own functional currencies depending on the primary economic environment in which they operate.

Loss of Significant Influence Over AB Capital. Pursuant to an agreement between PHN and Vicsal Investment Inc. (Vicsal), PHN agreed to sell its shares in AB Capital subject to certain conditions, including the following:

(a) Approval of the Bangko Sentral ng Pilipinas (BSP)
(b) Removal of assets other than those identified and agreed to be retained by Vicsal in AB Capital, by transfer to a New Company in exchange for shares in New Company and/or by sale or assignment of assets to the New Company
(c) Return of capital to PHN pertaining to shares in New Company
(d) Selling Shareholders shall secure all Government Authorizations, including approvals and clearances, required for the return of capital of AB Capital to PHN and other sellers
(e) On Closing Date, PHN shall transmit to the Buyer the Deed of Absolute Sale

Management assessed that the transaction is not yet completed since certain conditions are not yet complied with (see Note 12).

As at December 31, 2013, the remaining closing conditions remain outstanding.

Material Partly-owned Subsidiaries. The consolidated financial statements include additional information about subsidiaries that have non-controlling interests that are material to the Company (see Note 7). Management determined material partly-owned subsidiaries as those with balance of non-controlling interest greater than 5% of non-controlling interests as at end of the year.

Material Associates. The consolidated financial statements include additional information about associates that are material to the Company (see Note 12). Management determined material associates as those associates where the Company's carrying amount of investment is greater than 5% of the total investments in associates as at end of the year.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period 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.

Impairment of Goodwill and Trademarks. The Company performs impairment testing of goodwill and trademarks on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value-in-use of the cash-generating unit to which the goodwill is allocated. Value-in-use is determined by making an estimate of the expected future cash flows from the cash-generating unit and applies a discount rate to calculate the present value of these cash flows. Goodwill acquired through business combination has been allocated to one cash-generating unit which is also the operating entity acquired through business combination and to which the goodwill relates. The recoverable amount of the goodwill and trademarks has been determined based on value-in-use calculation using cash flow projections covering a five-year period. The calculation of value-in- use for the Company's goodwill and trademark is sensitive to revenue growth rates and discount rates. Revenue growth rates estimates are based on values achieved in previous years and also takes into account anticipated increase from various market initiatives. Discount rate reflects the current market assessment of the risk specific to each cash-generating unit. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted.

The carrying amount of goodwill and trademark, pre-tax discount rates and growth rates applied to cash flow projections are as follows:

			Pre-tax Discount		Growth Rates	
	2013	2012	**2013**	2012	**2013**	2012
	(Amounts in Thousands)					
UPANG	**₱459,575**	₱459,575	**4%**	4%	**5%**	5%
Fuld U.S. and Fuld Phils.	**351,582**	304,426	**7%**	7%	**3%**	3%
UI	**213,995**	213,995	**4%**	4%	**5%**	5%
AU	**45,437**	45,473	**5%**	4%	**5%**	5%
COC	**20,445**	20,445	**5%**	4%	**5%**	5%

Management believes that no reasonably possible change in these key assumptions would cause the carrying values to materially exceed its recoverable amount. The Company performs its annual testing of goodwill and trademarks every December 31.

No impairment loss on goodwill was recognized in 2013. Impairment loss of ₱212.3 million and ₱166.4 million was provided in 2012 and 2011, respectively. No impairment loss on trademarks was recognized in 2013, 2012 and 2011. The carrying amount of goodwill and trademarks amounted to ₱1,091.0 million as at December 31, 2013 and 2012, and is presented as part of the "Intangibles" account in the consolidated statements of financial position (see Note 16).

Impairment of Nonfinancial Assets, other than Goodwill. The Company assesses whether there are any indicators of impairment for all nonfinancial assets, other than goodwill, at each reporting date. These nonfinancial assets (investment in associates, property, plant and equipment, investment properties, intangibles) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In cases where the value in use cannot be reliably estimated, the recoverable amount is based on the fair value less costs to sell. The recoverable amount of investments in associates is based on fair value less cost to sell. Fair value less costs to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associates.

There are no impairment of nonfinancial assets in 2013, 2012 and 2011. The carrying amounts of investment in associates, property, plant and equipment and investment properties as at December 31 are as follows:

	2013	2012
	(Amounts in Thousands)	
Investment in associate (see Note 12)	**₱2,290,844**	₱2,341,550
Property, plant and equipment (see Note 14)	**2,517,626**	2,258,625
Investment properties (see Note 15)	**437,849**	421,707

The Company's intangibles, other than goodwill and trademarks are fully amortized as of December 31, 2013 and 2012 (see Note 16).

Impairment of AFS Investments. The Company 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 Company treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as period longer than six months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The Company's AFS investments are have no impairment in 2013, 2012 and 2011. The carrying values of AFS investments amounted to ₱225.4 million and ₱232.4 million as at December 31, 2013 and 2012, respectively (see Note 13).

Impairment of Trade Receivables. The Company maintains allowance for doubtful accounts based on the result of the individual and collective assessments under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the debtor, the Company 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 receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (debtor type, past-due status and terms) of the debtors. 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 year would differ depending on the judgments and estimates made for the year.

The carrying amounts of trade and other receivables amounted to ₱887.7 million and ₱871.9 million as at December 31, 2013 and 2012, respectively (see Note 10). The allowance for impairment of receivables amounted to ₱200.0 million and ₱197.8 million as at December 31, 2013 and 2012, respectively (see Note 10).

Realizability of Deferred Tax Assets. 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 profit will be available to allow all or part of the deferred tax assets to be utilized. This is based on the Company's projection of the future results of operations.

Deferred tax assets amounted to ₱127.2 million and ₱124.9 million as of December 31, 2013 and 2012, respectively. Unrecognized deferred tax assets amounted to ₱214.9 million and ₱144.9 million as at December 31, 2013 and 2012, respectively (see Note 30).

Recoverability of Input VAT. The carrying amounts of input taxes were reduced to the extent that it is no longer probable that sufficient revenue subject to VAT will be available to allow all or part of the input VAT to be utilized.

In 2013 and 2012, the Company reversed allowance for impairment of unrecoverable input VAT amounting to ₱1.8 million and ₱1.5 million, respectively. This is recorded under "Income from reversal of unrecoverable input VAT" account in the consolidated statement of income. In 2012 and 2011, the Company recognized provision for impairment of unrecoverable input VAT amounting to ₱45.4 million and ₱7.4 million, respectively. This is recorded under "General and administrative expenses" account in the consolidated statement of income. The carrying amount of input VAT classified as current assets amounted to ₱2.2 million and ₱5.4 million as of December 31, 2013 and 2012, respectively. Input VAT classified as other noncurrent assets amounted to ₱0.7 million and ₱0.6 million as at December 31, 2013 and 2012, respectively (see Note 17).

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangibles. The Company estimates the useful lives of depreciable property, plant and equipment, depreciable investment properties and intangibles with finite useful lives based on the period over which the property, plant and equipment, investment properties and intangibles with finite useful lives are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets and in the case of intangibles, useful lives are also based on the contracts covering such intangibles. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment and investment properties. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

The carrying amounts of depreciable property, plant and equipment and investment properties are as follows:

	2013	2012
	(Amounts in Thousands)	
Property, plant and equipment (see Note 14)	**₱1,128,806**	₱1,066,583
Investment properties (see Note 15)	**69,108**	74,428

The intangibles with finite useful lives are fully amortized as at December 31, 2013 and 2012 (see Note 16).

Estimating Net Realizable Value of Inventories. The Company carries inventories at net realizable value when this becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The carrying amounts of inventories amounted to ₱803.6 million and ₱956.5 million as at December 31, 2013 and 2012, respectively (see Note 11).

Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities. Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections.

The fair values of the identifiable net assets acquired (liabilities assumed) from Fuld U.S. and Fuld Philippines amounted to ₱83.8 million and (₱4.5) million, respectively, in 2011 (see Note 6).

Pension Benefits. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions made by management and used by actuaries in calculating such amounts. The assumptions presented in Note 31 include among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

Net pension liability, included under "Pension and other post-employment benefits" account in the consolidated statements of financial position, amounted to ₱169.9 million and ₱165.7 million as at December 31, 2013 and 2012, respectively. Net pension expense amounted to ₱34.8 million, ₱51.4 million and ₱25.4 million in 2013, 2012 and 2011, respectively (see Note 31).

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value in the consolidated statements of financial position. Determining the fair value of financial assets and liabilities requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates).

However, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would affect profit and loss and OCI.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 33.

6. Business Combinations and Acquisition of Non-controlling Interests

Acquisition of Fuld U.S. On June 10, 2011, PHN purchased 85% voting shares of stock of Fuld U.S. Fuld U.S. is a business research and consulting firm focusing on business and competitive intelligence. Fuld U.S. is incorporated in the USA with offices in the USA, United Kingdom and China. Founded in 1979, Fuld U.S. delivers customized proprietary research analysis and consulting designed to help clients understand the competition and anticipate competitive challenges. The Company acquired Fuld U.S. to increase its BPO portfolio which will provide opportunities in the high value-added services sector.

The fair values of the identifiable assets acquired and liabilities acquired as at the date of acquisition are as follows:

	Fair Value Recognized on Acquisition
	(Amounts in Thousands)
Cash on hand and in banks	₱8,969
Receivables	69,340
Prepaid expenses and other assets	20,453
Property and equipment	8,491
Intangibles	47,156
	154,409
Accounts payable and accrued liabilities	(56,429)
Deferred tax liabilities	(14,147)
	(70,576)
Total identifiable net assets	83,833
Non-controlling interests	(12,575)
Goodwill arising from acquisition	284,252
Total consideration transferred	₱355,510

The Company measured the non-controlling interests in the acquiree by its proportionate share of the acquiree's net identifiable assets.

The cost of acquiring Fuld U.S. amounted to US$8.2 million (₱355.5 million) consisting of cash payment of US$5.8 million and the remaining balance of US$2.4 million payable in four years at four equal installments with an interest rate of 4.5% per annum. As at December 31, 2013, current and noncurrent portions of long-term loan payable related to the acquisition of Fuld U.S. amounted to ₱25.6 million (US$0.6 million) and ₱25.6 million (US$0.6 million), respectively.

As of December 31, 2012, current and noncurrent portions of long-term loan payable related to the acquisition of Fuld U.S. amounted to ₱23.6 million (US$0.6 million) and ₱26.2 million (US$1.1 million), respectively.

The cash outflow related to the acquisition is as follows (amounts in thousands):

Cash paid on acquisition date, net of cash acquired (included in cash flows from investing activities)	(₱233,246)
Transaction cost (included as part of general and administrative expenses and cash flows from operating activities)	(10,610)
Net cash outflow	(₱243,856)

The nominal and fair value of the receivables amounted to ₱69.3 million.

Goodwill represents the value of expected synergies arising between Fuld U.S. and the Company's knowledge process outsourcing portfolio.

From the date of acquisition, Fuld U.S. contributed ₱248.3 million of revenue and ₱12.5 million loss to the consolidated income before income tax of the Company in 2011. If the combination had taken place at the beginning of 2011, consolidated revenue from continuing operation would have been ₱4,174.4 million and consolidated net income would have been ₱72.4 million in 2011.

Acquisition of Fuld Philippines (formerly Business Back Office, Inc.)
On July 25, 2011, PHN purchased 85% voting shares of stock of Fuld Philippines. Fuld Philippines is a knowledge process outsourcing provider based in Manila. It is a multi-industry, multi-market, and multi-company research capability with over 350 projects conducted since 2002. The Company acquired Fuld Philippines to increase its BPO portfolio which will provide opportunities in the high value-added services sector.

The fair values of the identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	Fair Value Recognized on Acquisition
	(Amounts in Thousands)
Cash on hand and in banks	₱1,012
Receivables	1,756
Advances to employees	163
Property and equipment	636
	3,567
Accrued payable and accrued expenses	(5,157)
Loans payable	(961)
Retirement payable	(78)
Taxes payable	(1,857)
	(8,053)
Total identifiable net liabilities	(4,486)
Non-controlling interests	673
Goodwill arising from acquisition	14,120
Total consideration transferred	₱10,307

The Company measured the non-controlling interests in the acquiree by its proportionate share of the acquiree's net liabilities.

The cost of acquiring Fuld Philippines amounted to ₱10.3 million, of which ₱4.0 million (non-cash investing transaction) was retained by the Company. As at December 31, 2012, retained portion amounted to ₱3.0 million, included as part of "Trade and other payables" account in the consolidated statement of financial position. The retention payable was fully settled in 2013.

The cash outflow related to the acquisition is as follows (amounts in thousands):

Cash paid on acquisition date, net of cash acquired (included in cash flows from investing activities)	(₱1,895)
Transaction costs (included as part of general and administrative expenses and cash flows from operating activities)	(6)
Net cash outflow	(₱1,901)

The nominal and fair value of the receivables amounted to ₱1.8 million.

Goodwill represents the value of expected synergies arising between Fuld Philippines and the Company's knowledge process outsourcing portfolio.

From the date of acquisition, Fuld Philippines contributed ₱9.7 million of revenue and ₱0.2 million loss to the consolidated income before income tax of the Company in 2011. If the combination had taken place at the beginning of the year, consolidated revenue from continuing operations would have been ₱4,174.4 million and consolidated net income would have been ₱72.4 million.

Acquisition of non-controlling interests in Toon City
On February 29, 2012, OAL acquired the remaining 5% non-controlling interests in Toon City for ₱10.1 million. The difference between the acquisition cost and the book value of the interest acquired amounting to ₱8.1 million was recognized as "Other reserves" in the equity section of the consolidated statement of financial position.

Acquisition in Fuld U.S.
In August 2012, Fuld U.S. acquired Outward Insights, LLC by issuing Fuld U.S. common stock. Goodwill arising from acquisition amounted to ₱6.1 million. The acquisition of Outward Insights, LLC did not include any tangible assets or liabilities. The acquisition was primarily an acquisition of the owner's expertise, services and customer list.

Acquisition of UPANG
In 2012, the Company received ₱7.1 million from its escrow fund which pertains to excess payment from the acquisition of UPANG on February 2, 2009. The excess consideration was adjusted to the cost of the business combination in 2012.

7. **Material Partly-owned Subsidiaries**

Financial information of subsidiaries that have material non-controlling interests are provided below:

Proportion of equity interest held by non-controlling interests follows:

	Country of	Percentage of Ownership	
Name	Incorporation	**2013**	2012
API	Philippines	**42.38**	42.38
UPANG and subsidiary	Philippines	**30.25**	30.25
UI	Philippines	**30.21**	30.21
COC	Philippines	**25.79**	25.79
OAL and subsidiary	Hong Kong	**20.00**	20.00
AU	Philippines	**21.36**	21.36
PSHC	Philippines	**40.00**	40.00

Accumulated balances of material non-controlling interests as at December 31 follow:

Name	**2013**	2012
API	**₱183,661**	₱197,487
UPANG and subsidiary	**151,719**	134,659
UI	**115,838**	111,972
COC	**75,127**	78,012
OAL and subsidiary	**(57,446)**	(57,861)
AU	**53,303**	51,665
PSHC	**48,558**	47,244

Profit (loss) allocated to material non-controlling interests for the years ended December 31 follows:

Name	**2013**	2012	2011
API	**(₱3,628)**	(₱6,082)	₱710
UPANG and subsidiary	**19,470**	13,548	18,263
UI	**9,213**	698	12,284
COC	**7,927**	5,634	1,865
OAL and subsidiary	**415**	(71,345)	(52,693)
AU	**6,097**	5,084	5,431
PSHC	**1,315**	1,113	1,341

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

Summarized statements of financial position as at December 31, 2013 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
Current assets	**₱355,402**	**₱182,656**	**₱133,318**	**₱147,450**	**₱14,094**	**₱135,592**	**₱106,852**
Non-current assets	**8,667**	**807,587**	**365,087**	**333,016**	**5,268**	**524,495**	**220,000**
Current liabilities	**675**	**161,411**	**133,069**	**120,541**	**313,934**	**89,764**	**6,857**
Non-current liabilities	**184**	**267,131**	**27,344**	**136,103**	**694**	**171,549**	**198,599**
Total equity	**₱363,210**	**₱561,701**	**₱337,992**	**₱223,822**	**(₱295,266)**	**₱398,774**	**₱121,396**
Attributable to:							
Equity holders of parent	**₱209,282**	**₱382,483**	**₱235,885**	**₱166,098**	**(₱236,214)**	**₱313,596**	**₱72,838**
Non-controlling interests	**₱153,928**	**₱179,218**	**₱102,107**	**₱57,724**	**(₱59,053)**	**₱85,178**	**₱48,558**

Summarized statements of financial position as at December 31, 2012 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
Current assets	₱393,755	₱143,844	₱133,577	₱104,231	₱20,305	₱92,847	₱99,924
Non-current assets	9,333	791,539	331,598	298,224	5,855	444,721	220,000
Current liabilities	381	169,627	116,789	130,696	320,556	145,992	2,285
Non-current liabilities	7,385	255,814	28,474	37,326	–	50,219	199,529
Total equity	₱395,322	₱509,942	₱319,912	₱234,433	(₱294,396)	₱341,357	₱118,110
Attributable to:							
Equity holders of parent	₱227,785	₱346,952	₱223,266	₱173,973	(₱235,516)	₱268,444	₱70,866
Non-controlling interests	₱167,537	₱162,990	₱96,645	₱60,460	(₱58,879)	₱72,914	₱47,244

Summarized statements of income for 2013 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
Revenue	**₱7,631**	**₱371,198**	**₱215,053**	**₱263,299**	**₱32,857**	**₱197,260**	**₱21,883**
Cost of sales	**–**	**191,961**	**111,708**	**144,994**	**19,336**	**92,662**	**–**
Administrative expenses	**5,909**	**98,750**	**64,262**	**73,918**	**13,696**	**67,125**	**3,778**
Finance costs	**–**	**15,014**	**1,115**	**3,425**	**3**	**5,798**	**14,250**
Other income (expense) - net	**–**	**619**	**1,674**	**16**	**238**	**581**	**5**
Income (loss) before income tax	**(1,722)**	**66,092**	**39,642**	**40,978**	**60**	**32,256**	**3,860**
Income tax	**237**	**4,482**	**5,030**	**5,534**	**–**	**3,092**	**574**
Net income (loss)	**₱1,485**	**₱61,610**	**₱34,612**	**₱35,444**	**₱60**	**₱29,164**	**₱3,286**

Summarized statements of income for 2012 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
Revenue	₱15,738	₱369,690	₱178,822	₱180,121	₱80,413	₱178,741	₱24,050
Cost of sales	–	214,216	111,483	93,408	106,944	91,285	–
Administrative expenses	100,842	85,906	54,406	61,197	117,680	53,533	3,865
Finance costs	–	19,546	1,187	–	8,574	4,400	15,901
Other income (expense) - net	63	2,459	(2,515)	1,446	(220,957)	112	(4)
Income (loss) before income tax	(85,041)	52,481	9,231	26,962	(373,742)	29,635	4,280
Income tax	–	8,691	1,870	1,185	12	2,996	1,496
Net income (loss)	(₱85,041)	₱43,790	₱7,361	₱25,777	(₱373,754)	₱26,639	₱2,784

Summarized statements of income for 2011 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
Revenue	₱22,915	₱356,049	₱127,350	₱133,778	₱26,631	₱157,629	₱24,392
Cost of sales	–	216,779	84,746	89,441	87,775	99,864	–
Administrative expenses	18,546	72,504	33,247	49,123	33,586	34,292	3,586
Finance costs	–	24,295	198	322	9,832	4,731	–
Other income (expense) - net	(2,381)	40,794	10,749	12,067	4,973	5,089	(15,770)
Profit before tax	1,988	83,265	19,908	6,959	(99,589)	23,831	5,036
Income tax	2,722	5,072	1,326	425	–	–	1,648
Profit for the year	(₱734)	₱78,193	₱18,582	₱6,534	(₱99,589)	₱23,831	₱3,388

Summarized statements of cash flows for 2013 follow:

	API	**UPANG and Subsidiary**	**UI**	**COC**	**OAL and Subsidiary**	**AU**	**PSHC**
Operating	**(₱73,285)**	**₱14,057**	**₱69,563**	**₱34,435**	**(₱4,673)**	**₱40,896**	**(₱467)**
Investing	**–**	**(43,403)**	**(51,102)**	**(55,390)**	**(2,694)**	**(52,046)**	**–**
Financing	**(24,062)**	**21,110**	**(12,850)**	**36,707**	**2,505**	**26,084**	**–**
Net increase (decrease) in cash and cash equivalents	**(₱97,347)**	**(₱8,236)**	**₱5,611**	**₱15,752**	**(₱4,862)**	**₱14,934**	**(₱467)**
Dividends paid to non-controlling interests	**₱–**	**₱559**	**₱5,287**	**₱4,455**	**₱–**	**₱2,657**	**₱–**

Summarized statements of cash flows for 2012 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
Operating	(₱156,438)	₱72,701	(₱24,301)	₱35,035	(₱43,648)	₱26,250	₱4,055
Investing	135,300	(22,176)	31,281	(41,912)	(25,843)	(47,971)	–
Financing	60,755	(45,157)	2,875	13,696	82,117	19,186	–
Net increase (decrease) in cash and cash equivalents	₱39,617	₱5,368	₱9,855	₱6,819	₱12,626	(₱2,535)	₱4,055
Dividends paid to non-controlling interests	₱10,198	₱–	₱2,900	₱3,742	₱–	₱3,550	₱–

Summarized statements of cash flows for 2011 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
Operating	₱27,970	₱135,609	(₱29,971)	₱26,524	(₱119,415)	(₱13,948)	(₱10,179)
Investing	(5,362)	(105,813)	(4,784)	(37,067)	(9,226)	(7,487)	–
Financing	(10,365)	(29,818)	–	5,441	125,292	15,232	1,756
Net increase (decrease) in cash and cash equivalents	₱12,243	(₱22)	(₱34,755)	(₱5,102)	(₱3,349)	(₱6,203)	(₱8,423)
Dividends paid to non-controlling interests	₱67,272	₱–	₱15,860	₱7,436	₱–	₱3,552	₱–

8. Cash and Cash Equivalents

This account consists of:

	2013	2012
	(Amounts in Thousands)	
Cash on hand and in banks	**₱178,643**	₱150,264
Short-term deposits	**294,065**	314,915
	₱472,708	₱465,179

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income from cash and cash equivalents amounted to ₱4.9 million, ₱22.1 million and ₱32.3 million in 2013, 2012 and 2011, respectively (see Note 22).

9. Investments Held for Trading

This account consists of investments in:

	2013	2012
	(Amounts in Thousands)	
Unit Investment Trust Funds (UITFs)	**₱887,755**	₱302,687
Marketable equity securities	**6,836**	6,601
Bonds	**–**	491,127
	₱894,591	₱800,415

Net gains from investments held for trading amounted to ₱2.3 million, ₱50.9 million and ₱38.6 million in 2013, 2012 and 2011, respectively (see Note 22).

Investments held for trading have yields ranging from 5.87% to 11.75% in 2013, 5.8% to 13.0% in 2012 and 3.66% to 7.98% in 2011. Interest income from investments held for trading amounted to ₱12.9 million, ₱23.7 million and ₱15.0 million in 2013, 2012 and 2011, respectively (see Note 22).

10. Trade and Other Receivables

This account consists of:

	2013	2012
	(Amounts in Thousands)	
Trade	**₱948,893**	₱889,284
Due from related parties (see Note 29)	**52,298**	2,913
Dividends receivable (see Notes 12 and 29)	**16,559**	–
Advances to suppliers and contractors	**15,157**	56,002
Receivable from PHN Retirement/Gratuity Plan (PHN Retirement) (see Note 29)	**8,939**	8,939
Advances to officers and employees	**7,553**	8,875
Installment contract receivables	**3,359**	68,884
Accrued interest	**634**	10,696
Others	**34,358**	24,062
	1,087,750	1,069,655
Less allowance for doubtful accounts	**200,030**	197,774
	₱887,720	₱871,881

Trade receivables include receivables from sale of roofing and other steel products to customers like developers and contractors, which are normally on a 30-60 day terms. Trade receivables also include tuition and other school fees receivables which are normally collected within the current school semester. Other trade receivables are noninterest-bearing and normally collected throughout the financial year.

Installment contract receivables as at December 31, 2012 mainly represent the balance of receivable from a third party for the sale of API's investment property in 2010. The receivable was fully collected in 2013.

The terms and conditions of the amounts due from related parties are discussed in Note 29.

Other receivables are noninterest-bearing and normally collected throughout the financial year.

Movements in the allowance for doubtful accounts are as follows:

		2013	
	Trade	**Others**	**Total**
		(Amounts in Thousands)	
Balance at January 1, 2013	**₱192,205**	**₱5,569**	**₱197,774**
Provisions (see Notes 24 and 25)	**38,448**	**–**	**38,448**
Reversals/write-offs	**(36,192)**	**–**	**(36,192)**
Balance at December 31, 2013	**₱194,461**	**₱5,569**	**₱200,030**
Individual impairment	**₱30,826**	**₱2,969**	**₱33,795**
Collective impairment	**163,635**	**2,600**	**166,235**
	₱194,461	**₱5,569**	**₱200,030**

		2012	
	Trade	Others	Total
		(Amounts in Thousands)	
Balance at January 1, 2012	₱156,561	₱8,245	₱164,806
Provisions (see Notes 24 and 25)	36,374	–	36,374
Reversals/write-offs	(730)	(2,676)	(3,406)
Balance at December 31, 2012	₱192,205	₱5,569	₱197,774
Individual impairment	₱33,910	₱1,364	₱35,274
Collective impairment	158,295	4,205	162,500
	₱192,205	₱5,569	₱197,774

11. Inventories

This account consists of:

	2013	2012
	(Amounts in Thousands)	
At cost:		
Finished goods	**₱729,309**	₱875,576
Raw materials	**13,769**	19,796
Other inventories	**27,267**	27,350
At net realizable value -		
Spare parts and others	**33,223**	33,750
	₱803,568	₱956,472

Under the terms of the agreements covering liabilities under trust receipts, certain inventories amounting to ₱44.2 million and ₱ 554.8 million as at December 31, 2013 and 2012, respectively, have been released to UGC in trust for the banks. UGC is accountable to the banks for the inventories under trust or its sales proceeds.

Finished goods mainly represent roofing and other steel products of UGC.

The cost of spare parts and other inventories carried at net realizable value amounted to ₱34.6 million and ₱35.1 million as of December 31, 2013 and 2012, respectively.

Cost of inventories sold, presented as “Inventories used” under “Cost of Sales”, amounted to ₱2,291.0 million, ₱2,083.9 million and ₱1,844.9 million in 2013, 2012 and 2011, respectively (see Note 23).

12. Investments in Associates

This account consists of investments in the following entities:

	Percentage of Ownership	
	2013	2012
PHINMA Property Holdings Corporation (PPHC)	**35.34**	35.35
Trans-Asia Oil and Energy Development Corporation (TA Oil)	**26.22**	26.21
ABCIC Property Holdings, Inc. (APHI) [a]	**26.51**	26.51
Academy of Competitive Intelligence	**47.50**	47.50
Asia Coal Corporation (Asia Coal) [b]	**12.08**	12.08

[a] *This represents the right to receive the shares in APHI from AB Capital.*
[b] *Ceased commercial operations and in the process of dissolution.*

The movements and details of the investments in associates account are as follows:

	2013	2012
	(Amounts in Thousands)	
Acquisition costs:		
Balance at beginning of year	**₱2,305,178**	₱1,888,248
Additions	**6,197**	533,153
Reclassified to AFS investments	**–**	(116,222)
Balance at end of year	**2,311,375**	2,305,179
Accumulated equity in net income (losses):		
Balance at beginning of year	**15,122**	(72,154)
Equity in net earnings	**161,691**	118,944
Dividends	**(220,419)**	(54,201)
Reclassified to AFS investments	**–**	22,533
Balance at end of year	**(43,606)**	15,122
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	**23,764**	19,051
Change in fair value	**3,022**	4,713
Balance at end of year	**26,786**	23,764
Share in re-measurement gain (loss) on defined benefit obligation of associates:		
Balance at beginning of year	**(2,515)**	(2,535)
Remeasurement gain (loss)	**(1,196)**	20
Balance at end of year	**(3,711)**	(2,515)
	₱2,290,844	₱2,341,550

The carrying values of the investments in associates which are accounted for under the equity method are as follows:

	2013	2012
	(Amounts in Thousands)	
TA Oil*	**₱1,768,080**	₱1,827,210
PPHC	**417,520**	409,853
APHI	**99,906**	98,552
Academy of Competitive Intelligence**	**5,070**	5,667
Asia Coal	**268**	268
	₱2,290,844	₱2,341,550

* *The fair value based on quoted share price amounted to ₱1,785.7 million and ₱1,476.9 million as at December 31, 2013 and 2012, respectively.*
** *Associate of Fuld U.S.*

The summarized financial information of the material associates are provided below.

Summarized statements of financial position as at December 31 follow:

	2013		2012	
	TA Oil	**PPHC**	TA Oil	PPHC
	(Amounts in Thousands)			
Current assets*	**₱4,870,801**	**₱2,841,772**	₱4,223,097	₱2,317,553
Noncurrent assets	**6,115,466**	**504,998**	3,341,392	555,806
Current liabilities*	**(3,657,968)**	**(972,595)**	(589,173)	(621,977)
Noncurrent liabilities	**(200,941)**	**(1,195,867)**	(46,484)	(1,084,819)
Equity attributable to Equity Holders of the Parent	**7,127,358**	**1,178,308**	6,928,832	1,166,563
Proportion of the Company's ownership	**26.22%**	**35.34%**	26.21%	35.35%
	1,868,793	**416,414**	1,816,047	412,380
Valuation differences	**(100,713)**	**1,106**	11,163	(2,527)
Carrying amount of the investments	**₱1,768,080**	**₱417,520**	₱1,827,210	₱409,853

* *Includes cash and cash equivalents of TA Oil amounting to ₱688.0 million and ₱907.6 million in 2013 and 2012, respectively and cash and cash equivalents of PPHC amounting to ₱48.6 million and ₱86.6 million in 2013 and 2012, respectively.*

** *Includes other current liabilities of TA Oil amounting to ₱1,149.0 million and ₱34.4 million in 2013 and 2012, respectively and other current liabilities of PPHC amounting to ₱316.5 million and ₱71.8 million in 2013 and 2012, respectively.*

Summarized statements of comprehensive income follow:

	2013		2012		2011	
	TA Oil	**PPHC**	TA Oil	PPHC	TA Oil	PPHC
	(Amounts in Thousands)					
Revenues	**₱1,990,797**	**₱1,042,175**	₱1,031,831	₱880,650	₱827,037	₱762,262
Cost of sales	**(1,083,239)**	**(703,894)**	(111,017)	(623,516)	(108,136)	(528,160)
Depreciation and amortization	**(99,136)**	**(21,111)**	(44,426)	(16,024)	(55,546)	(16,024)
Interest income	**40,600**	**22,034**	35,626	31,887	48,308	37,876
Interest expense	**(13,936)**	**(18,145)**	(1,343)	(28,819)	(1,663)	(23,637)
Other income (expenses) – net	**(102,629)**	**(298,064)**	(257,107)	(237,801)	(188,399)	(166,538)
Net income before tax	**732,457**	**22,995**	653,564	6,377	521,601	65,779
Income tax	**(159,662)**	**(7,582)**	(182,132)	(1,685)	(113,383)	5,123
Net income	**572,795**	**15,413**	471,432	4,692	408,218	70,902
Other comprehensive income	**(2,366)**	**6,371**	6,841	–	2,790	–
Total comprehensive income	**₱570,429**	**₱21,784**	₱478,273	₱4,692	₱411,008	₱70,902
Company's share of total comprehensive income (loss)	**₱150,461**	**₱7,669**	₱122,294	(₱2,325)	₱111,838	₱25,071
Dividends received	**₱213,449**	**₱–**	₱31,729	₱22,469	₱17,986	₱–

The Company's share in the total comprehensive income of the individually immaterial associates are provided below:

	2013	2012	2011
	(Amounts in Thousands)		
Net income (loss)	**₱6,376**	₱6,693	(₱3,712)
Other comprehensive income	–	8,452	–
Total comprehensive income	**₱6,376**	₱15,145	(₱3,712)

The aggregate carrying amount of the investments in the individually immaterial associates amounted to ₱105.2 million and ₱104.5 million as at December 31, 2013 and 2012, respectively.

Following are the status of operations and significant transactions of certain associates:

a. TA Oil

TA Oil was incorporated in the Philippines and is involved in power generation and oil and mineral exploration activities. The registered office address of TA Oil is 11th floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

On July 22, 2013, the BOD of TA Oil declared special cash dividend amounting to ₱64.1 million equivalent to ₱0.013 per share to all common stockholders of record as of August 5, 2013 subject to the approval by the Philippine SEC and other regulatory agencies. Also, on the same day, the BOD also approved a dividend declaration which resulted in the distribution to TA Oil shareholders of 2.55 shares in Trans-Asia Petroleum Corporation for every 100 shares in TA Oil provided that no fractional shares shall result and any resulting dividend with fractional shares shall be rounded down to the nearest whole number. The shares subject of the Registration Statement are covered by the application for the approval of the Property Dividend, which was filed by TA Oil on September 17, 2013 and approved by the SEC on October 7, 2013.

As at March 4, 2014, the property dividends have not been distributed. By virtue of an exemptive relief granted by the SEC, the payment date of the property dividend shall be 10 trading days from the date all of the following are secured: a) SEC approval of property dividend; b) SEC approval of registration of TA Petroleum shares; and c) issuance of the Certificate Authorizing Registration (CAR) authorizing transfer of TA Petroleum shares to the shareholder. As at March 4, 2014, only the SEC approval of the property dividend has been secured.

Dividends recognized by the Parent Company from TA Oil amounted to ₱213.4 million, ₱31.7 million and ₱18.0 million in 2013, 2012 and 2011, respectively. Dividends receivable amounted to ₱162.5 million as at December 31, 2013 (see Note 10).

The Parent Company acquired additional shares in TA Oil amounting to ₱6.2 million and ₱469.0 million in 2013 and 2012, respectively.

b. PPHC

PPHC was incorporated in the Philippines and is engaged in real estate development, particularly in the development of affordable medium and high-rise condominium units. The registered office address of the PPHC is PHINMA Properties Center, No. 29 EDSA, Mandaluyong City.

Dividends recognized by the Parent Company from PPHC amounted to nil, ₱22.5 million and ₱21.1 million in 2013, 2012 and 2011, respectively.

The Parent Company acquired additional shares in PPHC amounting to ₱64.2 million in 2012.

c. AB Capital

AB Capital is an investment house that engages in corporate finance, fixed-income securities dealership, stock brokerage and fund management.

Pursuant to an agreement between PHN and Vicsal Investment Inc. (Vicsal), PHN agreed to sell its shares in AB Capital subject to certain conditions, including the following:

(a) Approval of BSP
(b) Removal of assets other than those identified and agreed to be retained by Vicsal in AB Capital, by transfer to a New Company (APHI) in exchange for shares in APHI and/or by sale or assignment of assets to the APHI;
(c) Return of capital to PHN pertaining to shares in APHI;
(d) Selling Shareholders shall secure all Government Authorizations, including approvals and clearances, required for the return of capital of AB Capital to PHN and other sellers; and
(e) On Closing Date, PHN shall transmit to the Buyer the Deed of Absolute Sale.

On June 29, 2012, in accordance with PAS 28, PHN discontinued the use of the equity method on the AB Capital shares to be sold to Vicsal due to the change in relationship of PHN with AB Capital. The investment in AB Capital to be sold to Vicsal is accounted for in accordance with PAS 39 from that date.

The AB Capital shares to be sold to Vicsal are presented at its fair value as an available-for sale financial asset in accordance with PAS 39 amounted to ₱101.8 million. The difference between the fair value and carrying amount of the AB Capital shares to be sold to Vicsal amounting to ₱6.7 million is recorded as "Unrealized fair value adjustment on AFS investment previously held as associate" and included under "Others-net" in the consolidated statements of comprehensive income.

Investment in AB Capital presented as part of "Investments in Associates" account in the consolidated statements of financial position represents the New Company shares to be received by PHN from AB Capital upon return of capital.

On December 9, 2013, the SEC approved the return of capital of APHI to PHN and other selling shareholders (see Note 37).

d. Luzon Bag Corporation

On February 1, 2012, the Parent Company received a parcel of land with fair value of ₱25.2 million from Luzon Bag Corporation as payment for ₱3.6 million advances and ₱21.6 million as liquidating dividend. The liquidating dividend was recorded as part of dividend income (see Note 22).

13. AFS Investments

This account consists of investments in quoted and unquoted equity securities:

	2013	2012
	(Amounts in Thousands)	
Quoted	**₱–**	₱10,101
Unquoted (see Note 12)	**270,938**	267,822
	270,938	277,923
Less accumulated impairment losses	**45,517**	45,517
	225,421	232,406
Less current portion	**103,656**	101,790
	₱121,765	₱130,616

AFS investments consist of investment in ordinary shares.

The accumulated impairment loss pertains to investments in unquoted shares of Unicon Phinma Concrete Corporation and United Industrial Bag Corporation which have ceased operations in 2010.

Set out below are the movements in the accumulated unrealized fair value gain on all investments in equity securities recognized as part of equity as at December 31, 2013 and 2012.

	2013	2012
	(Amounts in Thousands)	
Balance at beginning of year	**₱350**	₱985
Realized gain on redemption of AFS investments recycled to profit or loss	**(350)**	–
Unrealized fair value loss recognized in other comprehensive income	**–**	(635)
Balance at end of year	**₱–**	350

14. Property, Plant and Equipment

This account consists of:

	January 1, 2013	Additions	Disposals	Reclassifications	December 31, 2013
			(Amounts in Thousands)		
Cost					
Land	₱1,098,305	₱55,982	₱–	₱–	₱1,154,287
Plant site improvements	28,656	1,439	(481)	21,590	51,204
Buildings and improvements	1,302,539	60,636	(2,367)	38,906	1,399,714
Machinery and equipment	730,327	67,671	(19,728)	2,053	780,323
Transportation and other equipment	473,915	52,342	(48,982)	(133)	477,142
	3,633,742	238,070	(71,558)	62,416	3,862,670
Less Accumulated Depreciation					
Plant site improvements	23,784	3,740	(481)	–	27,043
Buildings and improvements	534,588	62,012	(2,367)	–	594,233
Machinery and equipment	567,105	78,323	(19,728)	(350)	625,350
Transportation and other equipment	343,377	34,503	(44,549)	(380)	332,951
	1,468,854	178,578	(67,125)	(730)	1,579,577
	2,164,888	59,492	(4,433)	63,146	2,283,093
Construction in progress	93,737	203,942	–	(63,146)	234,533
Net Book Value	₱2,258,625	₱263,434	(₱4,433)	₱–	₱2,517,626

	January 1, 2012	Additions	Disposals	Reclassifications	December 31, 2012
			(Amounts in Thousands)		
Cost					
Land	₱1,085,875	₱36,190	(₱23,760)	₱–	₱1,098,305
Plant site improvements	22,834	528	(119)	5,413	28,656
Buildings and improvements	1,252,026	52,233	(4,522)	2,802	1,302,539
Machinery and equipment	723,353	50,514	(115,222)	71,682	730,327
Transportation and other equipment	469,532	65,519	(20,682)	(40,454)	473,915
	3,553,620	204,984	(164,305)	39,443	3,633,742
Less Accumulated Depreciation					
Plant site improvements	17,809	2,555	(119)	3,539	23,784
Buildings and improvements	482,495	55,268	(2,328)	(847)	534,588
Machinery and equipment	568,813	100,794	(114,754)	12,252	567,105
Transportation and other equipment	339,065	64,679	(17,643)	(42,724)	343,377
	1,408,182	223,296	(134,844)	(27,780)	1,468,854
	2,145,438	(18,312)	(29,461)	67,223	2,164,888
Construction in progress	115,306	45,654	–	(67,223)	93,737
Net Book Value	₱2,260,744	₱27,342	(₱29,461)	₱–	₱2,258,625

Undepreciated capitalized borrowing costs amounted to ₱4.2 million and ₱1.4 million as at December 31, 2013 and 2012, respectively. Capitalized borrowing costs in 2013 amounted to ₱3.2 million based on a 7.97% capitalization rate.

Certain property, plant and equipment of UGC, AU, COC and UPANG with aggregate amount of ₱92.0 million and ₱1,100.0 million as at December 31, 2013 and 2012, respectively, are used as security for their respective long-term debts (see Note 20).

The Company has fully depreciated property and equipment still used in operations with cost of ₱750.2 million and ₱634.2 million as at December 31, 2013 and 2012, respectively.

15. Investment Properties

This account consists of:

	January 1, 2013	**Additions**	**Disposals**	**Reclassification** (see Note 14)	**December 31, 2013**
			(Amounts in Thousands)		
Cost:					
Land	**₱347,279**	**₱20,000**	**₱–**	**₱1,462**	**₱368,741**
Buildings for lease	**93,316**	**–**	**–**	**1,263**	**94,579**
	440,595	**20,000**	**–**	**2,725**	**463,320**
Less accumulated depreciation -					
Buildings for lease	**18,888**	**6,148**	**–**	**435**	**25,471**
	₱421,707	**₱13,852**	**₱–**	**₱2,290**	**₱437,849**

	January 1, 2012	Additions	Disposals	Reclassification	December 31, 2012
			(Amounts in Thousands)		
Cost:					
Land	₱330,314	₱25,226	(₱8,261)	₱–	₱347,279
Buildings for lease	93,316	–	–	–	93,316
	423,630	25,226	(8,261)	–	440,595
Less accumulated depreciation -					
Buildings for lease	12,740	6,148	–	–	18,888
	₱410,890	₱19,078	(₱8,261)	₱–	₱421,707

The profits from the investment properties for the years ended December 31 are as follows:

	2013	2012	2011
		(Amounts in Thousands)	
Rental income	**₱44,813**	₱42,655	₱46,872
Direct costs and expenses (included under "General and administrative expenses" account)	**6,147**	6,147	6,253
	₱38,666	₱36,508	₱40,619

As at December 31, 2013 and 2012, the fair values of the investment properties amounted to ₱1,308.3 million and ₱894.7 million, respectively, based on valuations performed by accredited independent appraisers. The description of the valuation techniques used and key inputs to fair valuation are as follows:

	Valuation Technique	Significant Unobservable Inputs	Range
Land	Market comparable assets	Price per square metre	₱350–₱5,300
Buildings for lease	Market comparable assets	Price per square metre	₱107,000–₱120,000

The fair value disclosure is categorized under Level 3.

PSHC's land amounting to ₱220.0 million is used as a security for its long-term debt (see Note 20). Other than this, the Company has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties of for repairs, maintenance and enhancements.

16. Intangibles

Following are the details and movements in this account:

	Student List	**Customer Contracts**	**Trademarks with Indefinite Useful Life**	**Goodwill**	**Total**
			(Amounts in Thousands)		
Cost					
At January 1, 2012	₱131,120	₱22,080	₱47,156	₱1,423,555	₱1,623,911
Additions	–	–	–	6,054	6,054
Adjustment	–	–	–	(7,063)	(7,063)
At December 31, 2012	**131,120**	**22,080**	**47,156**	**1,422,546**	**1,622,902**
Additions	–	–	–	–	–
Adjustment	–	–	–	–	–
At December 31, 2013	**₱131,120**	**₱22,080**	**₱47,156**	**₱1,422,546**	**₱1,622,902**
Amortization and Impairment					
At January 1, 2012	₱127,516	₱22,080	₱–	₱166,369	₱315,965
Amortization	3,604	–	–	–	3,604
Impairment	–	–	–	212,300	212,300
At December 31, 2012	**131,120**	**22,080**	–	**378,669**	**531,869**
Amortization	–	–	–	–	–
Impairment	–	–	–	–	–
At December 31, 2013	**₱131,120**	**₱22,080**	**₱–**	**₱378,669**	**₱531,869**
Net Book Value					
At December 31, 2013	**₱–**	**₱–**	**₱47,156**	**₱1,043,877**	**₱1,091,033**
At December 31, 2012	–	–	47,156	1,043,877	1,091,033

The Company recognized impairment loss on goodwill amounting to ₱212.3 million and ₱166.4 million in 2012 and 2011, respectively.

17. Other Noncurrent Assets

This account consists of:

	2013	2012
	(Amounts in Thousands)	
Dividends receivable (see Notes 12 and 29)	**₱145,939**	₱–
Refundable deposits	**13,383**	8,349
Installment contract receivable	**2,400**	–
Input VAT - net of allowance for impairment of unrecoverable amount of ₱116.8 million and ₱118.6 million in 2013 and 2012, respectively (see Note 24)	**731**	605
Others - net of allowance for doubtful advances of ₱51.5 million in 2013 and 2012	**12,114**	6,060
	₱174,567	₱15,014

18. Notes Payable

This account consists of notes payable of the following subsidiaries:

	2013	2012
	(Amounts in Thousands)	
UGC	**₱126,875**	₱274,821
UI	**17,150**	12,500
AU	**–**	50,751
COC	**–**	35,604
	₱144,025	₱373,676

The notes payable are short-term peso-denominated loans obtained from financial institutions with an annual interest rate of 4% in 2013 and interest rates ranging from 4.50% to 5.75% in 2012.

19. Trade and Other Payables

This account consists of:

	2013	2012
	(Amounts in Thousands)	
Trade	**₱163,571**	₱127,079
Payable to third parties	**134,662**	130,631
Accruals for:		
Professional fees and others (see Note 29)	**100,669**	38,194
Personnel costs (see Notes 26 and 29)	**51,948**	65,400
Interest (see Note 28)	**10,434**	8,291
Freight, hauling and handling	**8,226**	6,549
Customers' deposits	**104,711**	91,977
Dividends	**35,412**	30,274
Others	**39,685**	38,287
	₱649,318	₱536,682

Trade payables are noninterest-bearing and normally settled on 30 to 90-day terms.

Accrued expenses, customers' deposits, dividends, payable to third parties and others are normally settled throughout the financial year.

Other liabilities pertain to other accrued and unpaid general and administrative expenses which are normally settled throughout the financial year.

20. **Long-term Debt**

This account consists of long-term liabilities of the following subsidiaries:

	2013	2012
	(Amounts in Thousands)	
UGC	**₱563,815**	₱–
UPANG	**223,214**	228,500
AU	**125,000**	30,000
COC	**94,442**	–
	1,006,471	258,500
Less debt issuance cost	**9,607**	2,267
	996,864	256,233
PSHC	**153,037**	152,873
Fuld Philippines	**793**	–
Fuld U.S.	**731**	3,080
	1,151,425	412,186
Less current portion - net of debt issuance cost	**94,586**	64,654
	₱1,056,839	₱347,532

The balance of unamortized debt issuance cost follows:

	2013	2012
	(Amounts in Thousands)	
Beginning of year	**₱2,267**	₱827
Additions	**10,829**	3,629
Disposals	**(2,185)**	(827)
Amortization	**(1,304)**	(1,362)
End of year	**₱9,607**	₱2,267

UGC
On March 31, 2013, UGC obtained a five-year term loan from Security Bank Corporation (SBC) and Banco de Oro Unibank, Inc. (BDO) in the amount of ₱300 million each. The said loan is secured by a real estate mortgage on UGC's land, plant site improvements, buildings and installation, and machinery and equipment in Calamba City and Davao City.

Below is a summary of the terms of the said loans:

Bank	BDO
Amount drawn	₱300.0 million
Tenure	Five (5) - year term loan
Repayment	Principal shall be payable in 19 equal quarterly repayment of ₱6.25 million and final quarter payment of ₱181.3 million
Prepayment	Allowed after third year without penalty
Drawdown date	March 31, 2013
Start of amortization payment	June 21, 2013
End of term loan	March 21, 2018
Interest rate	Interest shall be fixed at 4.5% for the first 5 years. Repricing on year 4 at lender's option at 2 year PDST-F +1.375% or 4.5% whichever is higher or repriced on year 5 at lender's option to 1 year PDST-F + 1.375% or 4.5% whichever is higher
Collateral	50% real estate mortgage on land, building and machinery in Calamba and Davao plants
Use of proceeds	Working capital requirements

Bank	SBC
Amount drawn	₱300.0 million
Tenure	Five (5) - year term loan
Repayment	Principal shall be payable in 19 equal quarterly repayment of ₱6.25 million and final quarter payment of ₱181.3 million
Drawdown date	March 25, 2013
Start of amortization payment	June 21, 2013
End of term loan	March 25, 2018
Interest rate	Interest shall be fixed at 5.0%
Collateral	50% real estate mortgage on land, building and machinery in Calamba and Davao plants
Use of proceeds	Working capital requirements

UPANG

On December 21, 2012, a 7-year Term Loan Agreement was signed by the UPANG and China Banking Corporation (CBC) for a maximum principal amount of ₱275.0 million. The proceeds were used to refinance existing obligations and to fund the capital expenditures for the school year 2012-2013. The loan proceeds were drawn on February 1, 2013 and February 15, 2013 for ₱156.0 million and ₱94.0 million, respectively. The terms of the loan are as follows:

Amount drawn	₱156.0 million
Tenure	Seven (7) - year term loan
Repayment	Principal shall be payable in 28 equal quarterly repayment of ₱5.6 million
Funding/Interest rate	Interest shall be payable quarterly in arrears. Interest from (2/01/13-05/01/13) 89 days shall be at 5.7766% p.a. computed as 7-year PDSTF of 3.9688 plus spread of 175bps plus GRT of 1%. Starting May 2015, rate shall be at 6.0198%.
Security	The facility is secured by Real Estate Mortgage amounting to ₱300.0 million on the school assets covering land and land improvements.

Amount drawn	₱94.0 million
Tenure	Seven (7) - year term loan
Repayment	Principal shall be payable in 28 equal quarterly repayment of ₱3.4 million
Funding/Interest rate	Interest shall be payable quarterly in arrears. Interest from (2/15/13-05/15/13) 89 days shall be at 5.5787% p.a. computed as 7-year PDSTF of 3.7729 plus spread of 175bps plus GRT of 1%. Starting May 2015, rate shall be at 5.8136%.
Security	The facility is secured by Real Estate Mortgage amounting to ₱300.0 million on the school assets covering land and land improvements.

The foregoing loan agreements include, among others, certain restrictions and requirements with respect to the following:

- No payment of dividends will be allowed in the first three (3) years of the loan. Dividends may be paid starting in the 4th year, provided the Current Ratio (defined as current assets over current liabilities) shall not be less than 1.25:1.00 and Debt-Service Coverage ratio (defined as EBITDA over principal and interest payment) shall be at least 1.50:1.00.

- Make or permit material change in the character of business; permit any material change in ownership of control of its stocks; participate in or enter into merger or consolidation which would result in a material change in control; voluntarily suspend its business operations or dissolve its affairs; amend its Articles of Incorporation and By-laws that would cause a material adverse change in financial ability and capacity of UPANG and; re-organize, undertake a quasi-reorganization, reduce its capital, change in its fiscal year, which would cause a material adverse change in the financial ability or capacity of the University.

As at December 31, 2013 and 2012, the UPANG is in compliance with the terms of the loan agreement.

In February 2013, UPANG pre-terminated its old Term Loan agreement. The pre-termination of the loan qualified as an extinguishment of debt. The old loan (drawn on July 31, 2009 and December 14, 2009) amounted to ₱180.0 million and ₱120.0 million, respectively.

COC
COC entered into a Ten (10)-year Term Loan Agreement with a local financial institution for ₱100.0 million of which ₱50.0 million had been drawn on March 27, 2013 and the other ₱50.0 million had been drawn on July 18, 2013. The loan is payable quarterly at ₱2.5 million with fixed interest rates for the first 7 years and subject to quarterly repricing afterwards.

The maturities of the long-term debt follows:

Year	10-Year Loan
	(Amounts in Thousands)
2014	₱8,846
2015	10,128
2016	10,128
2017	10,128
2018–2023	60,770
	₱100,000

COC's land and building improvements in the main campus are mortgaged as collateral for its long-term debt.

AU
AU's long-term debt consists of:

	2013	2012
	(Amounts in Thousands)	
Loan payable	**₱124,380**	₱30,000
Less current portion	**–**	12,251
	₱124,380	₱17,749

On December 11, 2013, a 10-year Term Loan Agreement was signed by the AU and Rizal Commercial Banking Corporation for a principal amount of ₱125.0 million. The proceeds will be used to refinance the short-term loans which was availed to finance the construction of the new campus and to refinance the existing term loan. The loan is payable quarterly at ₱3.1 million.

Interest is fixed rate for the first 7 years of the term based on 7-year PDSTF + 1.75% or a floor rate of 5.75%, whichever is higher, subject to repricing at the end of the 7th year.

PSHC
This represents interest-bearing loan obtained from United Pulp and Paper Co., Inc. (UPPC) amounting to ₱154.0 million arising from the acquisition of land from UPPC. UPPC was a former associate of the Company.

This loan is presented at amortized cost as of the end of the reporting period. The present value of the loan at initial recognition in 2006 was calculated using an effective interest rate of 11.0%. The effective interest rate used in computing for the present value of the loan payable was derived based on the rate inherent to the loan after considering the carrying value and the future value of the loan payable at the coupon rate of 9.1%.

Initially, the said loan is payable in two installments amounting to ₱44.0 million on July 15, 2008 and ₱110.0 million on July 15, 2013. On July 8, 2008, a Memorandum of Agreement was executed by UPPC and PSHC amending the maturity date of ₱44.0 million from July 15, 2008 to July 15, 2013. A recomputation of the effective interest rate of 10.52% was made in 2008 to reflect the change in the payment terms of the liability in 2013. On December 20, 2012, another Memorandum of Agreement was executed by UPPC and PSHC amending the payment term of the ₱154.0 million from July 15, 2013 to July 15, 2018. A recomputation of the effective interest rate of 9.28% was made to reflect the change in the payment terms in the liability. Additional interest expense resulting from the accretion of loan payable amounted to ₱1.82 million, ₱1.70 million and ₱1.5 million in 2013, 2012 and 2011, respectively (see Note 28). The details of the loan are as follows:

	2013	2012
	(Amounts in Thousands)	
Loan payable to UPPC	**₱154,000**	₱154,000
Less unamortized discount	**963**	1,127
	₱153,037	₱152,873

To secure the payment of the loan, PSHC constituted a mortgage over its land amounting to ₱220.0 million in favor of certain creditors of UPPC (see Note 15).

The payable of PSHC to UPPC incurs an annual interest at a rate subject to mutual agreement by UPPC and PSHC on each anniversary date. Interest expense on the amount payable to UPPC amounted to ₱14.0 million in 2013, 2012 and 2011 (see Note 28).

21. Equity

a. Capital Stock

The composition of the Parent Company's capital stock as of December 31, 2013 and 2012 is as follows:

	Number of Shares	
	2013	2012
Preferred - cumulative, nonparticipating, ₱10 par value		
Class AA		
Authorized	50,000,000	50,000,000
Class BB		
Authorized	50,000,000	50,000,000
Common - ₱10 par value		
Authorized	420,000,000	420,000,000
Common shares:		
Issued	259,637,751	258,867,064
Subscribed	39,994	39,994
Issued and subscribed	259,677,745	258,907,058

The issued and outstanding shares as at December 31, 2013 and 2012 are held by 1,264 and 1,278 equity holders, respectively.

Capital stock presented in the consolidated statements of financial position is net of subscription receivables amounting to ₱124 thousand as at December 31, 2013, 2012 and 2011.

The following summarizes the information on the Parent Company's track record of registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 12, 1957	1,200,000	172,298	₱10
June 30, 1959	–	47,868	10

b. Retained Earnings

Appropriated
On October 5, 2005, the BOD of PHN appropriated ₱1.0 billion of retained earnings for future investments. As approved by the BOD of PHN last March 6, 2013, the said appropriation shall remain in effect and shall be used for the following, subject to specific terms and conditions as the Board shall fix:

i. Investments in PPHC of up to ₱300 million by year 2014;
ii. Investments in Microtel Development Corporation of up to ₱200 million by year 2015; and
iii. Investments in Trans-Asia Oil and Energy Development Corporation of up to ₱500 million by year 2016.

Unappropriated
On March 6, 2013, the BOD of PHN declared a cash dividend of ₱0.40 a share, or an equivalent of ₱103.2 million, to all common shareholders of record as at March 22, 2013. The cash dividend were paid on April 17, 2013

On March 22, 2012, the BOD of PHN declared a cash dividend of ₱0.40 a share, or an equivalent of ₱103.1 million, to all common shareholders of record as at April 11, 2012. The cash dividends were paid on April 26, 2012.

On March 3, 2011, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as at March 29, 2011. The cash dividends were paid on April 26, 2011.

The retained earnings is restricted for the payment of dividends to the extent of ₱702.2 million and ₱767.3 million as at December 31, 2013 and 2012, respectively, representing the accumulated equity in net earnings of the subsidiaries and associates and unrealized asset revaluation reserve. The asset revaluation reserve amounted to ₱160.1 million and ₱168.2 as at December 31, 2013 and 2012, respectively. The accumulated equity in net earnings of the subsidiaries and associates is not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries and associates. The unrealized asset revaluation reserve will become available for dividend distribution upon sale or through depreciation of the related assets.

c. Stock Purchase Plan

Following are the salient features of the Parent Company's Stock Purchase Plan:

Purpose	To motivate the Senior Officers to achieve the Parent Company's goals, to help make the personal goals and corporate goals congruent and to reward the senior officers for the resulting increase in the value of PHN shares.
Prices of share	The officers shall purchase shares of stock of PHN from those set aside under the Stock Purchase Plan at the average closing price of PHN shares in the stock market for 20 trading days, in no case shall the price be lower than par value.
Tranches	1/3 of the maximum shares can be purchased upon date of first notice and 1/3 each every year thereafter provided that work performance is deemed acceptable.
Holding period	One-third of the shares shall not be sold or transferred to a 3rd party for at least one year from the date of each purchase or until retirement whichever comes first. Another one-third of the shares shall not be sold or transferred to a 3rd party for at least two years from the date of each purchase or until retirement whichever comes first. The last one-third of the shares shall not be sold or transferred to a 3rd party for at least three years from the date of each purchase or until retirement whichever comes first. Any such sale or transfer shall be considered null and void.

On April 2, 2009 and April 20, 2010, the BOD and shareholders of PHN respectively approved the setting aside of 8.4 million shares from the unsubscribed portion of the Corporation's 420 million authorized common shares for stock purchase by the Senior Officers of this Corporation. On January 26, 2012, the Philippine SEC approved the Company's Stock Purchase Plan while the PSE approved for listing the 8.4 million shares last May 23, 2012.

Under its Stock Purchase Plan, officers of the Parent Company can purchase ₱30.5 million worth of shares over three years, subject to certain conditions. The shares can be purchased at the average closing price of PHN shares in the market 20 days prior to each notice, but in no case shall the price be less than par value.

As at December 31, 2013 and 2012, total shares issued under the stock purchase plan were 1,940,438 and 1,169,751, respectively.

Total cumulative expense recognized in relation to the stock purchase plan amounted to ₱30.4 million and ₱24.3 million as at December 31, 2013 and 2012, respectively. There were no unexercised vested shares as at December 31, 2013.

22. Investment Income

This account consists of:

	2013	2012	2011
		(Amounts in Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 8)	**₱4,886**	₱22,131	₱32,265
Investments held for trading(see Note 9)	**12,938**	23,704	14,998
Due from related parties (see Note 29)	**3,918**	12,468	14,024
Others	**1,220**	–	–
	22,962	58,303	61,287
Net gains from investments held for trading (see Note 9)	**2,281**	50,869	38,594
Dividend income (see Notes 12 and 13)	**2,034**	23,896	2,454
	₱27,277	₱133,068	₱102,335

23. Cost of Sales, Educational, Animation and Consultancy Services

This account consists of:

	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
		(Amounts in Thousands)	
Cost of sales	**₱2,572,299**	₱2,407,269	₱2,117,021
Cost of educational services	**494,379**	510,820	522,905
Cost of animation services	**19,336**	106,944	87,176
Cost of consultancy services	**74,667**	49,154	84,885
	₱3,160,681	₱3,074,187	₱2,811,987

The details of cost of sales, educational, animation and consultancy services are as follows:

	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
		(Amounts in Thousands)	
Inventories used (see Note 11)	**₱2,290,953**	₱2,083,862	₱1,844,916
Personnel costs (see Note 26)	**402,763**	443,194	534,982
Depreciation (see Note 27)	**110,102**	158,371	133,475
Laboratory and school supplies	**102,137**	100,062	60,176
Repairs and maintenance	**40,367**	34,081	39,249
School affiliations and other expenses	**35,985**	15,827	12,750
Educational tour expenses	**29,898**	20,217	23,449
Equipment running	**19,042**	56,836	55,253
Sports development and school activities	**2,731**	9,268	9,508
Accreditation expenses	**523**	4,606	75
Others	**126,180**	147,863	98,154
	₱3,160,681	₱3,074,187	₱2,811,987

24. General and Administrative Expenses

This account consists of:

	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
		(Amounts in Thousands)	
Personnel costs (see Notes 26, 29 and 31)	**₱487,698**	₱463,803	₱257,206
Professional fees and outside services (see Note 29)	**143,044**	130,048	120,294
Depreciation and amortization (see Note 27)	**67,793**	66,714	73,067
Rent, light and water	**55,805**	43,534	18,706
Advertising and promotions	**23,548**	18,588	22,921
Transportation and travel	**19,843**	24,109	10,395
Provision for doubtful accounts (see Note 10)	**19,243**	24,072	23,505
Taxes and licenses	**18,961**	29,821	20,929
Communications	**10,925**	7,663	2,643
Office supplies	**10,381**	4,820	5,097
Donation	**9,863**	3,735	19,393
Insurance	**7,366**	6,189	4,821
Provision for impairment of unrecoverable input value-added tax (see Note 17)	**–**	45,471	7,372
Others	**38,870**	44,577	54,523
	₱913,340	₱913,144	₱640,872

25. Selling Expenses

This account consists of:

	2013	2012	2011
	(Amounts in Thousands)		
Personnel costs (see Note 26)	**₱232,475**	₱227,003	₱135,984
Freight, handling and hauling	**74,734**	71,186	53,147
Transportation and travel	**33,545**	35,666	30,832
Commission	**32,816**	23,578	23,541
Provision for doubtful accounts (see Note 10)	**19,205**	12,302	12,687
Supplies	**12,906**	9,151	8,822
Taxes and licenses	**11,989**	10,464	9,378
Advertising	**9,841**	12,154	14,858
Repairs and maintenance	**9,659**	8,272	8,215
Postage, telephone and telegraph	**7,905**	7,339	8,436
Depreciation (see Note 27)	**6,831**	7,963	11,537
Entertainment, amusement and recreation	**2,871**	2,830	3,167
Insurance	**2,700**	2,386	2,596
Outside services	**1,294**	1,919	1,272
Rental and utilities	**2,215**	1,325	1,120
Others	**15,579**	8,548	3,426
	₱476,565	₱442,086	₱329,018

26. Personnel Costs

This account consists of:

	2013	2012	2011
	(Amounts in Thousands)		
Salaries, employee benefits and bonuses (see Note 29)	**₱1,012,382**	₱1,017,737	₱875,775
Pension and other post-employment benefits (see Note 31)	**38,630**	61,320	32,106
Training	**13,508**	10,098	8,381
Others	**58,416**	44,845	11,910
	₱1,122,936	₱1,134,000	₱928,172

27. Depreciation and Amortization

Depreciation and amortization relate to the following assets:

	2013	2012	2011
	(Amounts in Thousands)		
Property, plant and equipment and investment properties:			
Cost of sales, educational and animation services (see Note 23)	**₱110,102**	₱158,371	₱133,475
General and administrative expenses (see Notes 14, 15 and 24)	**67,793**	63,110	37,819
Selling expenses (see Note 25)	**6,831**	7,963	11,537
Intangibles -			
General and administrative expenses (see Note 24)	**–**	3,604	35,248
	₱184,726	₱233,048	₱218,079

28. Interest Expense and Other Financing Charges

This account consists of:

	2013	2012	2011
	(Amounts in Thousands)		
Interest expense on notes payable (see Note 18)	**₱47,184**	₱59,307	₱61,306
Interest expense on long-term debt (see Note 20)	**35,776**	40,434	45,556
Other financial charges	**1,457**	1,562	1,519
	₱84,417	₱101,303	₱108,381

29. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions and the parties are subject to common control. Related parties may be individual or corporate entities.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2013, 2012 and 2011, the Company has not recorded any impairment of receivables from related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The significant related party transactions entered into by the Company with its associates and entities under common control and the amounts included in the consolidated financial statements with respect to such transactions follow:

			2013			
Company	**Nature**	**Amount/ Volume**	**Amount Due to Related Parties**	**Amount Due from Related Parties (see Note 10)**	**Terms**	**Conditions**
			(Amounts in Thousands)			
Ultimate Parent	Share in expenses, management fees and bonus	**₱77,274**	**₱49,687**	**₱592**	Noninterest-bearing	Unsecured, no impairment
Associates	Grant of interest bearing advances	**400,312**	**–**	**58**	3.00%–5.56% 90 days	Unsecured, no impairment
	Share in expenses	**7,469**	**–**	**4,567**	Noninterest-bearing	Unsecured, no impairment
	Dividend income	**213,449**	**–**	**162,498**	Noninterest-bearing	Unsecured, no impairment
Other related parties	Grant of non-interest bearing advances	**45,000**	**–**	**45,000**	Noninterest-bearing	Unsecured, no impairment
	Share in expenses	**7,039**	**4,694**	**2,081**	Noninterest-bearing	Unsecured, no impairment
			₱54,381	**₱214,796**		

			2012			
Company	Nature	Amount/ Volume	Amount Due to Related Parties	Amount Due from Related Parties (see Note 10)	Terms	Conditions
			(Amounts in Thousands)			
Ultimate Parent	Share in expenses, management fees	₱28,231	₱12,608	₱299	Noninterest-bearing	Unsecured, no impairment
Associates	Grant of interest bearing advances	1,500	–	1,500	4.87%–5.07% 30–60 days	Unsecured, no impairment
	Share in expenses	1,563	–	821	Noninterest-bearing	Unsecured, no impairment
Other related parties	Share in expenses	5,687	5,047	293	Noninterest-bearing	Unsecured, no impairment
			₱17,655	₱2,913		

2011						
Company	Nature	Amount/ Volume	Amount Due to Related Parties	Amount Due from Related Parties	Terms	Conditions
		(Amounts in Thousands)				
Ultimate Parent	Share in expenses, management fees	₱85,310	₱20,200	₱58,258	Noninterest-bearing	Unsecured, no impairment
Associates	Grant of interest bearing advances	131,307	–	643	4.87%–5.07% 30–60 days	Unsecured, no impairment
	Share in expenses	1,589	–	3,010	Noninterest-bearing	Unsecured, no impairment
Other related parties	Share in expenses	22,542	4,296	13,742	Noninterest-bearing	Unsecured, no impairment
			₱24,496	₱75,653		

PHINMA, Inc. The Parent Company had a management contract with PHINMA, Inc. up to June 30, 2013, renewable thereafter mutual agreement. On March 6, 2013, the management contract was renewed for a period of one year effective July 1, 2013 to June 30, 2014. Under this contract, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance and other business activities of the Company. Under the existing management agreement, the Parent Company pays PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of the Parent Company's net income.

TA Oil and TA Power. TA Oil and TA Power are likewise controlled by PHINMA, Inc. through a management agreement. PHN bills TA Oil and TA Power for their share in expenses.

PPHC. The Parent Company grants interest-bearing advances to PPHC for a period of 30-60 days. The Parent Company also bills PPHC for their share in expenses.

PSHC. PSHC has outstanding long-term debt to UPPC arising from the acquisition of land from UPPC, then an associate of the Company (see Note 20). PSHC leases the land to UPPC for a period of 50 years, renewable for another 25 years upon the approval of the Philippine Department of Trade and Industry. Annual lease income during the entire lease term is initially fixed at ₱14.6 million. In connection with the lease, UPPC was required to make a lease deposit with PSHC of ₱55.5 million in July 2003 and an additional ₱2.9 million in April 2005, aggregated and reflected as part of "Other noncurrent liabilities" at amortized cost at the end of the reporting period, and refundable to UPPC upon the expiration of the lease. The lease deposit's present value was calculated using an effective interest rate of 12.0% per annum. On August 2, 2006, PSHC and UPPC amended the lease agreement increasing the annual rent revenue from ₱14.6 million to ₱19.2 million effective January 1, 2006.

The difference between the face value of the lease deposit and its corresponding present value at inception was aggregated and reflected as unearned revenue that is being amortized as rent income simultaneous with the accretion of the lease deposit.

Retirement Fund. The Parent Company has established a retirement fund that is managed by a trustee. The Parent Company has a receivable from PHN Retirement amounting to ₱8.9 million as at December 31, 2013 and 2012.

Management and Directors' Compensation

PHN, UGC, COC, AU, UPANG and UI are under common management by PHINMA, Inc. and pay PHINMA, Inc. a fixed annual management fee plus an annual bonus based on a certain percentage of the respective companies' adjusted net income, as defined in the management contract between PHINMA, Inc. and the respective companies, pursuant to the provisions of the same contract.

Management fees and bonuses, presented as "Professional fees and outside services" under "General and administrative expenses" account, amounted to ₱73.4 million, ₱35.5 million and ₱42.0 million in 2013, 2012 and 2011, respectively (see Note 24). The related unpaid amount, presented as "Accruals for professional fees and others" under "Trade and other payables" account in the consolidated statements of financial position, amounted to ₱43.4 million and ₱13.7 million as of December 31, 2013 and 2012, respectively (see Note 19).

PHN, UGC, AHC, UI and AU recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus, presented in "Personnel costs" under "General and administrative expenses" account, amounted to ₱29.5 million, ₱20.9 million and ₱43.2 million in 2013, 2012 and 2011, respectively (see Note 24). The related unpaid amount, presented in "Accruals for personnel costs" under "Trade and other payables" account in the consolidated statements of financial position, amounted to ₱22.9 million and ₱6.7 million as of December 31, 2013 and 2012, respectively (see Note 24).

Compensation of key management personnel of the Company are as follows:

	2013	2012	2011
		(Amounts in Thousands)	
Short-term employee benefits	**₱75,882**	₱73,340	₱69,168
Post-employment benefits (Note 31):			
Retirement benefits	**3,684**	6,686	5,107
Vacation and sick leave	**2,265**	1,989	1,213
	₱81,831	₱82,015	₱75,488

30. Income Taxes

The components of the Company's deferred tax assets and liabilities are as follows:

	2013	2012
	(Amounts in Thousands)	
Deferred tax assets:		
NOLCO	**₱40,836**	₱28,769
Allowance for doubtful accounts	**30,628**	25,676
Pension liability	**22,034**	39,141
Accrued expenses	**25,070**	9,177
Unrealized foreign exchange losses	**2,598**	2,750
Unamortized past service costs	**712**	1,137
Allowance for inventory writedown	**409**	409
Unrealized loss on change in fair value	**314**	314
Accrued interest expense	**156**	156
Stock purchase plan	**91**	4,482
Unearned tuition fee revenue	**–**	12,881
	122,848	124,892
Deferred tax liabilities:		
Fair value adjustments on property and equipment of subsidiaries	**(310,148)**	(244,892)
Accelerated depreciation	**(42,028)**	(40,800)
Unrealized gain on change in fair value	**(6,359)**	(10,149)
Unamortized debt issuance costs	**(1,911)**	–
Unamortized capitalized borrowing cost	**(1,266)**	(420)
Unrealized foreign exchange gains	**(697)**	–
Excess of operating lease for financial reporting over lease income for income tax reporting	**(100)**	–
Accrued revenue	**–**	(25,878)
Deferred installment sales	**–**	(7,282)
Derivative assets	**–**	(158)
Others	**(4,804)**	(2,011)
	(367,313)	(331,590)
	(₱244,465)	(₱206,698)

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2013	2012
	(Amounts in Thousands)	
Deferred tax assets - net	**₱36,968**	₱85,231
Deferred tax liabilities - net	**(281,433)**	(291,929)
	(₱244,465)	(₱206,698)

The Company's deductible temporary differences, unused NOLCO and MCIT for which no deferred tax assets are recognized in the consolidated statements of financial position, are as follows:

	2013	2012
	(Amounts in Thousands)	
NOLCO	**₱468,473**	₱279,203
Allowance for unrecoverable input VAT	**85,836**	118,573
Accrued personnel costs and employee benefits	**87,340**	22,596
Unrealized foreign exchange losses	**30,549**	21,633
Allowance for impairment	**16,632**	–
Unamortized past service costs	**13,643**	14,970
MCIT	**3,837**	7,758
	₱706,310	₱464,733

Deferred tax assets amounting to ₱214.9 million and ₱144.9 million as at December 31, 2013 and 2012, respectively, were not recognized since management believes that it is not probable that sufficient future taxable profit will be available to allow said deferred tax assets to be utilized.

AU, UPANG, UI and COC, as private educational institutions, are taxed based on the provisions of Republic Act (R.A.) No. 8424, which was passed into law effective January 1, 1998. Section 27(B) of R.A. No. 8424 defines and provides that: "A Proprietary Educational Institution is any private school maintained and administered by private individuals or groups with an issued permit to operate from the Department of Education, Culture and Sports, or Commission on Higher Education, or Technical Education and Skills Development Authority, as the case may be, in accordance with the existing laws and regulations - shall pay a tax of ten percent (10%) on their taxable income."

MCIT totaling ₱3.8 million can be deducted against RCIT due while NOLCO totaling ₱579.3 million can be claimed as deduction against taxable income, as follows:

		Amount	
Date Paid/Incurred	Expiry Date	MCIT	NOLCO
		(Amounts in Thousands)	
December 31, 2009	December 31, 2029*	₱–	₱13,056
December 31, 2010	December 31, 2013/December 31, 2030*	–	6,507
December 31, 2011	December 31, 2014/December 31, 2031*	1,189	254,883
December 31, 2012	December 31, 2015/December 31, 2032*	1,865	155,873
December 31, 2013	December 31, 2016/December 31, 2033*	783	148,999
		₱3,837	₱579,318

**Pertains to NOLCO of Fuld U.S. which has 20 carry forward period under U.S. Federal tax law.*

MCIT amounting to ₱4.8 million and ₱2.5 million expired in 2013 and 2012, respectively. No MCIT and NOLCO were claimed as deduction against regular taxable income in 2013 and 2012.

A reconciliation between the statutory tax rates and the Company's effective tax rates on income before income tax and non-controlling interests is as follows:

	2013	2012	2011
Applicable statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Tax rate covered of schools	**(11.3%)**	52.1%	(27.4%)
Interest income subjected to lower final tax rate	**(0.4%)**	19.9%	(17.8%)
Dividend income exempt from tax	**(0.1%)**	1.2%	(0.7%)
Change in unrecognized deferred tax assets and others	**(0.2%)**	(208.4%)	60.4%
Effective tax rates	**18.0%**	(105.2%)	44.5%

31. **Pension and Other Post-employment Benefits**

Pension and other post-employment benefits as at December 31 consist of:

	2013	2012 (As restated - see Note 3)
	(Amounts in Thousands)	
Net pension liability	**₱169,935**	₱165,749
Vacation and sick leave	**32,586**	36,391
	₱202,521	₱202,140

Pension and other employee benefits expenses under "Cost of sales", "General and administrative expenses" and "Selling expenses", consist of:

	2013	2012 (As restated - see Note 3)	2011 (As restated - see Note 3)
		(Amounts in Thousands)	
Net pension expense	**₱34,825**	₱51,355	₱25,375
Vacation and sick leave	**3,805**	9,965	6,731
	₱38,630	₱61,320	₱32,106

The following tables summarize the components of net pension expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the respective plans.

Net pension expense consists of:

	2013	2012 (As restated - see Note 3)	2011 (As restated - see Note 3)
		(Amounts in Thousands)	
Current service cost	**₱27,969**	₱17,516	₱15,158
Net interest cost	**6,035**	5,552	4,695
Past service cost	**821**	28,287	5,522
Net pension expense	**₱34,825**	₱51,355	₱25,375

Details of net pension liability as at December 31 are as follows:

	2013	2012 (As restated - see Note 3)
	(Amounts in Thousands)	
Present value of defined benefit obligation	**₱334,705**	₱306,972
Fair value of plan assets	**(164,770)**	(141,223)
Pension liability	**₱169,935**	₱165,749

Changes in the present value of the defined benefit obligation are as follows:

	2013	2012 (As restated - see Note 3)
	(Amounts in Thousands)	
Balance at beginning of year	**₱306,972**	₱225,634
Current service cost	**27,969**	17,516
Interest cost on defined benefit obligation	**14,941**	13,638
Benefits paid	**(4,455)**	(7,310)
Actuarial (gains)/losses:		
Experience adjustments	**(9,933)**	11,457
Changes in demographic assumptions	**(5,470)**	19,687
Changes in financial assumptions	**3,860**	3,191
Past service cost	**821**	28,287
Effect of curtailment	**–**	(5,128)
Balance at end of year	**₱334,705**	₱306,972

Change in the fair value of plan assets are as follows:

	2013	2012 (As restated - see Note 3)
	(Amounts in Thousands)	
Balance at beginning of year	**₱141,223**	₱118,235
Interest income included in net interest cost	**8,906**	8,086
Actual return excluding amount included in net interest cost	**(94)**	(1,290)
Actual contributions	**18,808**	21,088
Benefits paid	**(4,073)**	(4,896)
Balance at end of year	**₱164,770**	₱141,223
Actual return on plan assets	**₱8,812**	₱6,796

Change in net pension liability are as follows:

	2013	2012 (As restated - see Note 3)
	(Amounts in Thousands)	
Balance at beginning of year	**₱165,749**	₱107,398
Pension expense	**34,825**	51,356
Contributions	**(18,808)**	(21,088)
Remeasurements in OCI	**(11,449)**	35,625
Benefits paid	**(382)**	(2,414)
Effect of curtailment	**–**	(5,128)
Pension liability	**₱169,935**	₱165,749

Annual contribution to the retirement plans consists of a payment to cover the current service costs for the year plus a payment toward funding the actuarial accrued liability.

The Company expects to contribute ₱36.8 million to its defined benefit pension plans in 2014.

The ranges of principal assumptions used in determining pension benefits are as follows:

	2013	2012
Discount rates	**4–5%**	5–6%
Rates of salary increase	**5–6%**	5–8%
Turnover rate	**0–2%**	0–2%

The Company has established a retirement fund that is managed by a trustee. The carrying value and fair value of the retirement fund of the Company amounts to ₱164.8 million and ₱141.2 million as at December 31, 2013 and 2012, respectively. The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2013	2012
Cash and short-term investments	**87%**	83%
Property	**9%**	12%
Marketable equity securities	**4%**	5%
	100%	100%

Cash and short-term investments include liquid investments in Special Deposit Accounts (SDAs), government securities and mutual funds and UITFs. Marketable equity securities can be sold through the Philippine Stock Exchange. The plan assets include shares of stock of the Parent Company with a fair value of ₱2.7 million and ₱2.2 million as at December 31, 2013 and 2012, respectively. Cumulative unrealized fair value gains on the shares amount to ₱0.5 million. The plan assets also include an investment in a unit in Island Palm Garden Condominium located in Quezon City.

The voting rights over the shares are exercised through the trustee by the retirement committee, the members of which are directors or officers of the Parent Company.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	2013
	Increase (Decrease)
	(Amounts in Thousands)
Discount rate:	
Increase by 1%	(₱28,509)
Decrease by 1%	33,890
Salary increase rate:	
Increase by 1%	₱31,846
Decrease by 1%	(27,729)
Turnover rate:	
Increase by 2%	(13,735)
Decrease by 2%	15,902

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2013:

Year	Amount
	(Amounts in Thousands)
Within the next 12 months	₱62,771
Between 2 and 5 years	129,256
Between 5 and 10 years	156,966
Beyond 10 years	1,710,585

The average duration of the defined benefit obligation at the end of the year is between 14 to 22 years.

32. **Financial Risk Management Objectives and Policies**

The Company's principal financial instruments comprise of cash and cash equivalents, short-term investments, corporate promissory notes and bonds, government bonds, quoted and unquoted shares of stocks, currency forwards, investments in UITFs and loans and borrowings in Philippine Peso and U.S. dollar currencies. The main purpose of these financial instruments is to finance the Company's investments. The Company also has financial assets and liabilities, such as trade and other receivables and trade and other payables that arise directly from operations.

The main risks arising from the Company's treasury transactions are credit risk, liquidity risk, market risk, foreign currency risk, interest rate risk and equity price risk. Careful study, skill, prudence and due diligence are exercised at all times in the handling of the funds of the Company. An Investment Committee reviews and approves policies and directions for investments and risks management.

The basic parameters approved by the Investment Committee are:

Investment Objective	**Safety of Principal**
Tenor	Three year maximum for any security, with average duration between one and two years
Exposure Limits	a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund b. For peso investments: minimal corporate exposure except for registered bonds c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee d. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review e. For derivative transactions - limits are set up to 100% of asset subject to derivative transaction with the objective of neutrality of gain/loss

<u>Credit Risk</u>
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Due to the Company's investing and operating activities, the Company is exposed to the potential credit-related

losses that may occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations.

In managing credit risk on these financial instruments, the Company transacts only with the Company's duly accredited domestic and foreign banks. Investments per financial institution are subject to a maximum of 20% of the Company's investible funds. It is the Company's policy that investments cannot exceed 10% of the trust or mutual fund's total assets.

A comprehensive credit and business review in coordination with dealers or underwriters is performed whenever the Company invests in non-rated securities. Furthermore, the Company monitors the credit quality of corporate and sovereign bonds with reference to credit rating studies and updates from the major rating agencies. The Company's exposure to credit risk on its cash and cash equivalents and trade and other receivables arises from default of the counterparties with maximum exposures equal to the carrying amounts of the instruments.

	2013	2012
	(Amounts in Thousands)	
Loans and receivables:		
Cash and cash equivalents	**₱472,708**	₱465,179
Trade and other receivables	**887,720**	871,881
	₱1,360,428	₱1,337,060

There are no significant concentrations of credit risk within the Company.

Credit Quality of Financial Assets, Other than Trade and Other Receivables

The Company uses the following criteria to rate credit quality of its financial assets, other than trade and other receivables:

Class	Description
High Grade	Investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Investments in instruments of companies that have the apparent ability to satisfy its obligations in full.
Substandard Grade	Investments in instruments of companies that have an imminent possibility of foreclosure; those whose securities have declined materially in value, or those whose audited financial statements show impaired/negative net worth.

Cash and cash equivalents are classified as high grade since these are deposited in/or transacted with reputable financial institutions which have low probability of insolvency.

Credit Quality of Trade and Other Receivables

Trade and other receivables are classified as (a) high grade when the receivables are secured or covered with collaterals; (b) standard grade when the receivables are unsecured but debtors have good paying habits; or (c) substandard grade when the receivables are unsecured and debtors have poor paying habits.

The credit quality of trade and other receivables (including installment contract receivables) as of December 31 are as follows:

	2013			
	Neither Past Due nor Impaired		**Past Due**	
	High Grade	**Standard Grade**	**or Impaired**	**Total**
	(Amounts in Thousands)			
Trade	**₱–**	**₱315,478**	**₱633,415**	**₱948,893**
Due from related parties	**–**	**52,298**	**–**	**52,298**
Dividends receivable	**–**	**16,559**	**–**	**16,559**
Installment contract receivables	**–**	**3,359**	**–**	**3,359**
Advances to suppliers and contractors	**–**	**6,664**	**8,493**	**15,157**
Accrued interest	**634**	**–**	**–**	**634**
Receivable from PHN Retirement	**–**	**8,939**	**–**	**8,939**
Advances to officers and employees	**–**	**4,157**	**3,396**	**7,553**
Others	**–**	**28,247**	**6,111**	**34,358**
	₱634	**₱435,701**	**₱651,415**	**₱1,087,750**

	2012			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	Total
	(Amounts in Thousands)			
Trade	₱–	₱429,005	₱460,279	₱889,284
Due from related parties	–	2,913	–	2,913
Installment contract receivables	–	68,884	–	68,884
Advances to suppliers and contractors	–	37,077	18,925	56,002
Accrued interest	10,696	–	–	10,696
Receivable from PHN Retirement	–	8,939	–	8,939
Advances to officers and employees	–	4,189	4,686	8,875
Others	–	17,936	6,126	24,062
	₱10,696	₱568,943	₱490,016	₱1,069,655

As of December 31, 2013 and 2012, the aging analysis of trade and other receivables (including installment contract receivables) are as follows:

	2013							
		Neither Past Due nor	**Past Due but Not Impaired**					**Past Due and**
	Total	**Impaired**	**<30 Days**	**30<60 Days**	**60<90 Days**	**90<120 Days**	**>120 Days**	**Impaired**
								(Amounts in Thousands)
Trade	**₱948,893**	**₱315,478**	**₱184,014**	**₱114,245**	**₱34,789**	**₱19,534**	**₱86,372**	**₱194,461**
Due from related parties	**52,298**	**52,298**	–	–	–	–	–	–
Dividends receivable	**16,559**	**16,559**	–	–	–	–	–	–
Installment contract receivables	**3,359**	**3,359**	–	–	–	–	–	–
Advances to suppliers and contractors	**15,157**	**6,664**	**1,102**	**633**	**701**	**134**	**5,923**	–
Accrued interest	**634**	**634**	–	–	–	–	–	–
Receivable from PHN Retirement	**8,939**	**8,939**	–	–	–	–	–	–
Advances to officers and employees	**7,553**	**4,157**	**135**	**166**	**235**	**618**	**710**	**1,532**
Others	**34,358**	**28,247**	**146**	**241**	**224**	**265**	**1,198**	**4,037**
	₱1,087,750	**₱436,335**	**₱185,397**	**₱115,285**	**₱35,949**	**₱20,551**	**₱94,203**	**₱200,030**

	2012							
		Neither Past Due nor	Past Due but Not Impaired					Past Due and
	Total	Impaired	<30 Days	30<60 Days	60<90 Days	90<120 Days	>120 Days	Impaired
								(Amounts in Thousands)
Trade	₱889,284	₱429,005	₱105,587	₱35,363	₱35,023	₱26,405	₱65,696	₱192,205
Due from related parties	2,913	2,913	–	–	–	–	–	–
Installment contract receivables	68,884	68,884	–	–	–	–	–	–
Advances to suppliers and contractors	56,002	37,077	2,580	2,152	1,782	2,504	9,907	–
Accrued interest	10,696	10,696	–	–	–	–	–	–
Receivable from PHN Retirement	8,939	8,939	–	–	–	–	–	–
Advances to officers and employees	8,875	4,189	486	548	314	77	1,729	1,532
Others	24,062	17,936	103	10	51	21	1,904	4,037
	₱1,069,655	₱579,639	₱108,756	₱38,073	₱37,170	₱29,007	₱79,236	₱197,774

Impaired financial instruments comprise of trade receivables from customers, related parties and other receivables. The past due but not impaired trade and receivables are expected to be collected the following year.

Liquidity Risk
Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages liquidity risks by restricting investments and continuously monitoring weekly and monthly cash flows as well as updates of annual plans.

The maturities of the financial liabilities are determined based on the Company's projected payments and contractual maturities. The average duration adheres to guidelines provided by the Investment Committee. It is the Company's policy to restrict investment principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

The tables below show the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cash flows as of December 31:

	2013					
	Within 1 Year	**1 to < 2 Years**	**2 to < 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total**
			(Amounts in Thousands)			
Financial Assets						
Loans and receivables -						
Cash and cash equivalents	**₱472,708**	**₱–**	**₱–**	**₱–**	**₱–**	**₱472,708**
Financial assets at FVPL -						
Investments in marketable equity securities	**6,836**	–	–	–	–	**6,836**
	₱479,544	**₱–**	**₱–**	**₱–**	**₱–**	**₱479,544**

	2012					
	Within 1 Year	1 to < 2 Years	2 to < 3 Years	3 to 5 Years	More than 5 Years	Total
			(Amounts in Thousands)			
Financial Assets						
Loans and receivables -						
Cash and cash equivalents	₱465,179	₱–	₱–	₱–	₱–	₱465,179
Financial assets at FVPL:						
Investments in bonds	7,581	27,632	–	21,893	434,021	491,127
Investments in marketable equity securities	6,601	–	–	–	–	6,601
Derivative assets	528	–	–	–	–	528
AFS investments -						
Quoted	10,101	–	–	–	–	10,101
	₱489,990	₱27,632	₱–	₱21,893	₱434,021	₱973,536

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31:

	2013					
	Within 1 Year	**1 to < 2 Years**	**2 to < 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total**
			(Amounts in Thousands)			
Financial Liabilities						
Other financial liabilities:						
Notes payable	**₱144,025**	**₱–**	**₱–**	**₱–**	**₱–**	**₱144,025**
Trade and other payables	**649,318**	**–**	**–**	**–**	**–**	**649,318**
Trust receipts payable	**44,153**	**–**	**–**	**–**	**–**	**44,153**
Due to related parties	**54,381**	**–**	**–**	**–**	**–**	**54,381**
Long-term loan payable*	**27,872**	**26,722**	**–**	**–**	**–**	**54,594**
Long-term debt*	**174,510**	**168,246**	**162,535**	**607,097**	**329,009**	**1,441,397**
	₱1,094,259	**₱194,968**	**₱162,535**	**₱607,097**	**₱329,009**	**₱2,387,868**

** Including current and noncurrent portions.*

	2012					
	Within 1 Year	1 to < 2 Years	2 to < 3 Years	3 to 5 Years	More than 5 Years	Total
	(Amounts in Thousands)					
Financial Liabilities						
Other financial liabilities:						
Notes payable	₱373,676	₱–	₱–	₱–	₱–	₱373,676
Trade and other payables	536,682	–	–	–	–	536,682
Trust receipts payable	560,649	–	–	–	–	560,649
Due to related parties	17,655	–	–	–	–	17,655
Long-term loan payable*	26,852	25,773	24,709	–	–	77,334
Long-term debt*	98,705	92,192	79,374	113,154	161,591	545,016
	₱1,614,219	₱117,965	₱104,083	₱113,154	₱161,591	₱2,111,012

** Including current and noncurrent portions.*

Market Risk

Market risks are managed by constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers to get multiple perspectives on interest rate trends/forecasts. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks are also made.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's financial assets that are exposed to foreign currency risk are foreign currency denominated cash and cash equivalents, investment in bonds and investments in UITFs.

Foreign exchange risks on the U.S. dollar and other foreign currencies are managed through constant monitoring of the political and economic environment. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies. The Company also enters into currency forward contracts to manage its foreign currency risk.

The following table shows the U.S. foreign currency-denominated financial assets and financial liabilities and their peso equivalents as of December 31:

	2013		2012	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
	(Amounts in Thousands)			
Financial assets:				
Cash and cash equivalents	**US$572**	**₱25,398**	US$514	₱21,100
Receivables	**160**	**7,115**	339	13,916
Investments in bonds	–	–	1,664	68,307
	US$732	**₱32,513**	US$2,517	₱103,323
Financial liabilities:				
Trust receipts payable	**US$551**	**₱24,453**	US$935	₱38,382
Long-term loan payable	**1,152**	**51,143**	1,728	70,934
	US$1,703	**₱75,596**	US$2,663	₱109,316

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were ₱44.39 and ₱41.05 to US$1.00 as at December 31, 2013 and 2012, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets) as at December 31, 2013 and 2012. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives outstanding as at December 31, 2013 and 2012.

	2013	
	Increase (Decrease) in Peso-Dollar Exchange Rate	**Effect on Profit Before Tax**
		(Amounts in Millions)
PHN	₱1.00	(₱0.63)
	(1.00)	0.63
UGC	1.00	(0.54)
	(1.00)	0.54
Fuld Philippines	1.00	8.69
	(1.00)	(8.69)

	2012	
	Increase (Decrease) in Peso-Dollar Exchange Rate	Effect on Profit Before Tax
		(Amounts in Millions)
PHN	₱1.00	₱0.02
	(1.00)	(0.02)
UGC	1.00	0.93
	(1.00)	(0.93)
Fuld Philippines	1.00	0.40
	(1.00)	(0.40)

Interest Rate Risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company accounts for its debt investments at fair value. Thus, changes in benchmark interest rate will cause changes in the fair value of quoted debt instruments.

The following tables set out the carrying amounts, by maturity, of the Company's debt instruments that are exposed to interest rate risk as of December 31:

	2013						
	Interest Rates	**Within 1 Year**	**1 to < 2 Years**	**2 to < 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total**
			(Amounts in Thousands)				
Fixed Rate							
Placements (PHP)	**0.2%-3.2%**	**₱271,283**	**₱–**	**₱–**	**₱–**	**₱–**	**₱271,283**
Placements (USD)	**0.46%-1.27%**	**59,733**	–	–	–	–	**59,733**

	2012						
	Interest Rates	Within 1 Year	1 to < 2 Years	2 to < 3 Years	3 to 5 Years	More than 5 Years	Total
			(Amounts in Thousands)				
Fixed Rate							
Placements (PHP)	1.75%–4.69%	₱272,546	₱–	₱–	₱–	₱–	₱272,546
Placements (AUD)	2.22%	30,141	–	–	–	–	30,141
Investments in bonds (PHP)	5.875%–11.75%	7,582	–	–	–	415,258	422,840
Investments in bonds (US$)	5.0%–10.375%	–	27,632	–	21,893	18,762	68,287

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Other financial assets at FVPL are noninterest-bearing investments and are therefore not subject to interest rate volatility.

The table below set forth the estimated change in the Company's income before tax due to a reasonably possible change in the market prices of quoted bonds and interest rates for peso placements classified under financial assets at FVPL, brought about by movement in the interest rate as at December 31, 2013 and 2012. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2013	
	Increase/(Decrease) in Basis Points	**Effect on Profit Before Tax**
		(Amounts in Thousands)
PHN – peso placement	25	**₱149**
	(25)	**(149)**
– dollar placement	–	–
	(–)	(–)
API, PSHC, PEN – peso placement	50	**₱529**
	(50)	**(529)**

	2012	
	Increase/(Decrease) in Basis Points	Effect on Profit Before Tax
		(Amounts in Thousands)
PHN – peso placement	50	₱219
	(50)	(219)
– dollar placement	25	35
	(25)	(35)
– peso bonds	50	(8,192)
	(50)	8,192
– dollar bonds	20	114
	(20)	(114)
API, PSHC, PEN – peso placement	50	₱1,285
	(50)	(1,285)

Peso placements are subject to cash flow interest rate risk while peso and dollar bonds are subject to fair value interest rate risk.

Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The Company's exposure to equity price risk relates primarily to its equity investments listed in the PSE classified under investments held for trading.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the Company's financial position.

The following tables demonstrate the effect on the Company's profit before income tax (as a result of a change in the fair value of equity instruments held as investment held for trading) due to a reasonably possible change in equity indices, based on the Company's expectation, with all other variables held constant as at December 31, 2013 and 2012. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2013	
	Increase/Decrease in Stock Exchange Index	**Effect on Profit Before Tax**
		(Amounts in Thousands)
PHN	**+10%**	**₱301**
	-10%	**(301)**
API	**+10%**	**₱412**
	-10%	**(412)**

	2012	
	Increase/Decrease in Stock Exchange Index	Effect on Profit Before Tax
		(Amounts in Thousands)
PHN	+15%	₱422
	-15%	(422)
UGC	+15%	₱167
	-15%	(167)
API	+15%	293
	-15%	(293)

Capital Management
The primary objective of the Company's capital management is to ensure that the Company maintains a healthy capital structure to maintain strong credit rating and maximize shareholder value.

The Company closely monitors and manages its debt-to-equity ratio, which it defines as total liabilities divided by total equity. Capital includes all the accounts appearing in the "Equity attributable to equity holders of the parent" and "Equity attributable to non-controlling interests" in the consolidated statements of financial position.

To ensure that there are sufficient funds to settle its liabilities, the Company's policy is to keep debt-to-equity ratio below 1:1. The Company's consolidated debt-to-equity ratio as at December 31, 2013 and 2012 are as follows:

	2013	2012
	(Amounts in Thousands)	
Total liabilities	**₱2,898,299**	₱2,751,636
Total equity	**7,031,981**	6,891,166
Debt-to-equity ratio	**0.41:1**	0.40:1

33. Financial Instruments

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Financial instruments measured at fair value are as follows:

	2013	**Level 1**	**Level 2**	**Level 3**
		(Amounts in Thousands)		
Assets				
Investments held for trading:				
Investments in UITFs	**₱887,755**	**₱887,755**	**₱–**	**₱–**
Investments in marketable equity securities	**6,836**	**6,836**	**–**	**–**
	₱894,591	**₱894,591**	**₱–**	**₱–**
Liabilities				
Long-term debt	**₱51,869**	**₱–**	**₱–**	**₱51,869**
Long-term loan payable	**1,193,043**	**–**	**–**	**1,193,043**
	₱1,244,912	**₱–**	**₱–**	**₱1,244,912**

	2012	Level 1	Level 2	Level 3
		(Amounts in Thousands)		
Assets				
Investments held for trading:				
Investments in bonds	₱491,127	₱491,127	₱–	₱–
Investments in UITFs	302,687	302,687	–	–
Investments in marketable equity securities	6,601	6,601	–	–
Derivative assets	528	528	–	–
AFS investments -				
Quoted	10,101	10,101	–	–
	₱811,044	₱811,044	₱–	₱–
Liabilities				
Long-term debt	₱78,330	₱–	₱–	₱78,330
Long-term loan payable	364,005	–	–	364,005
	₱442,335	₱–	₱–	₱442,335

During the years ended December 31, 2013 and 2012, 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.

The following methods and assumptions are used to estimate the fair value of the following financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair value of financial assets at FVPL and listed AFS investments. Unquoted AFS investments are measured at cost less accumulated impairment loss since the fair value is not readily determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. The Company does not intend to dispose the unquoted AFS in the near future.

The carrying amounts of cash and cash equivalents, short-term investments, trade and other receivables, notes payable, trade and other payables, trust receipts payable and due to related parties approximate their fair values due to the relatively short-term maturities of these financial instruments.

Derivative Instruments. The fair value of freestanding currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Long-term Loan Payable and Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable rates for similar types of loans. Discount rates used ranged from 2% to 10% in 2013 and 3% to 5% in 2012.

Derivative Instruments

Freestanding Derivatives. The Company's derivative financial instruments are accounted for as financial instruments at FVPL.

The Company enters into sell US$-buy PHP non-deliverable foreign currency forward contracts to manage the foreign currency risk arising from its US$ denominated assets. These derivatives are transactions not accounted for as accounting hedges.

The Company has outstanding currency forward contracts with an aggregate notional amount of US$4.3 million as at December 31, 2012. The weighted average contracted forward rate is ₱41.12 to US$1.00 as at December 31, 2012. The currency forward contracts outstanding as at December 31, 2012 will mature up to April 2013. The net changes in fair values of these outstanding currency forward contracts amounted to ₱0.5 million as at December 31, 2012.

The net changes in fair value of these derivative assets (liabilities) are as follows:

	2013	2012
	(Amounts in Thousands)	
Balance at beginning of year	**₱528**	(₱2,282)
Net change in fair value during the year	**(8,458)**	12,270
Fair value of settled contracts	**7,930**	(9,460)
Balance at end of year	**₱–**	₱528

34. **Commitments and Contingencies**

a. Unused Credit Lines

PHN has an unused credit line amounting to ₱1,500 million as at December 31, 2013.

UGC has the following unused approved credit lines with local banks and financial institutions as at December 31, 2013:

Nature	Amount
	(Amounts in Thousands)
Letters of credit/trust receipts	₱1,141,446
Bills purchase line	183,273
Invoice financing	100,000
Settlement risk	350,000
Forward contract	65,000

b. Commitments Under Operating Lease Agreements

Lessee
UGC entered into lease agreements covering its warehouse premises which have terms ranging from one to two years, renewable at the option of UGC under certain terms and conditions.

Future minimum rental payable as at December 31, 2013 are as follows:

	Amount
	(Amounts in Thousands)
2014	₱16,392
2015	15,136

c. Others

There are contingent liabilities arising from lawsuits primarily involving collection cases filed by third parties and for tax assessments occurring in the ordinary course of business. On the basis of information furnished by the Company's legal counsel, management believes that none of these contingencies will materially affect the Company's financial position and results of operations.

35. **EPS Computation**

Basic EPS is computed as follows:

	2013	2012	2011
		(Amounts in Thousands)	
(a) Net income (loss) attributable to equity holders of the parent	**₱224,040**	(₱37,250)	₱79,287
(b) Weighted average number of common shares outstanding	**259,292**	258,322	257,737
Basic EPS attributable to equity holders of the parent (a/b)	**₱0.86**	(₱0.14)	₱0.31

Diluted EPS is computed as follows:

	2013	2012	2011
		(Amounts in Thousands)	
(a) Net income (loss) attributable to equity holders of the parent	**₱224,040**	(₱37,250)	₱79,287
(b) Adjusted weighted average number of common shares outstanding	**259,622**	259,095	257,737
Diluted EPS attributable to equity holders of the parent (a/b)	**₱0.86**	(₱0.14)	₱0.31

	2013	2012	2011
		(Amounts in Thousands)	
Weighted average number of common shares for basic earnings per share	**259,292**	258,322	257,737
Effect of dilution resulting from Stock Purchase Plan	**330**	773	–
Adjusted weighted average number of common shares outstanding	**259,622**	259,095	257,737

On July 22, 2013, TA Oil granted 42 million share options to its directors, officers and employees which vest for a period of 3 years. The stock options have no dilutive effect on the Company's EPS in 2013.

36. Segment Information

For management purposes, the Company's operating businesses are organized and managed separately according to business activities and have five reportable operating segments as follows:

- Investment holdings – The Parent Company and PSHC are engaged in investment holding activities of shares of stocks and other financial instruments.
- Property development – API leases its real and personal properties.
- Steel – UGC manufactures and trades iron and steel products.
- Educational services – AU, COC, UPANG and UI offer graduate, tertiary, secondary and elementary education services.
- BPO – OAL and Toon City are engaged in film, video, television and animation services. Fuld U.S. and Fuld Philippines are engaged in intelligence research.

The Company has no geographical segment for segment reporting format as the Company's risks and rates of return are substantially in the same economic and political environment, with the companies incorporated and operated in the Philippines.

The BOD (Chief Operating Decision Maker) 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. However, Company financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transaction with third parties.

Segment Information

Financial information on the operating segments are summarized as follows:

	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(Amounts in Thousands)			
Year Ended December 31, 2013							
Results							
Segment results	**₱14,644**	**(₱5,059)**	**₱184,105**	**₱202,861**	**(₱40,373)**	**₱–**	**₱356,178**
Investment income	**272,685**	**6,781**	**1,838**	**2,755**	**20**	**(398,537)**	**(114,458)**
Equity in net earnings of an associate	**149,897**	**5,418**	**–**	**–**	**6,376**	**–**	**161,691**
Interest expense and financing charges	**(17,471)**	**–**	**(38,384)**	**(25,434)**	**(3,128)**	**–**	**(84,417)**
Benefit from (provision for) income tax	**(1,358)**	**(237)**	**(43,730)**	**(18,137)**	**2,774**	**3,383**	**(57,305)**
Share of non-controlling interests	**–**	**–**	**–**	**(1,215)**	**–**	**(36,434)**	**(37,649)**
Net income attributable to equity holders of parent	**₱418,397**	**₱6,903**	**₱103,829**	**₱160,830**	**(₱34,331)**	**(₱431,588)**	**₱224,040**
Year Ended December 31, 2012							
Results							
Segment results	(₱319,057)	(₱100,129)	₱141,765	₱142,404	(₱393,452)	₱327,931	(₱200,538)
Investment income	311,242	15,088	1,437	735	18	(195,452)	133,068
Equity in net earnings (losses) of associates	117,761	(2,325)	–	–	3,508	–	118,944
Interest expense and financing charges	(19,824)	–	(47,332)	(23,758)	(10,389)	–	(101,303)
Benefit from (provision for) income tax	(9,170)	–	(28,195)	(14,700)	5,826	4,464	(41,775)
Share of non-controlling interests	–	–	–	(1,114)	–	55,468	54,354
Net income attributable to equity holders of parent	(₱80,952)	(₱87,366)	₱67,675	₱103,567	(₱394,489)	₱192,411	(₱37,250)

	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(Amounts in Thousands)			
Year Ended December 31, 2011							
Results							
Segment results	(₱346,415)	(₱35,539)	₱199,750	₱163,991	(₱103,272)	₱90,267	(₱31,218)
Investment income	508,173	14,867	2,571	2,435	39	(425,750)	102,335
Equity in net earnings of associates	111,029	25,071	–	––	1,556	–	137,656
Interest expense and financing charges	(19,620)	–	(49,636)	(29,052)	(10,073)	–	(108,381)
Benefit from (provision for) income tax	(2,821)	(2,722)	(44,078)	(9,518)	(2,371)	15,671	(45,839)
Share of non-controlling interests	–	–	–	(716)	1,947	23,503	24,734
Net income attributable to equity holders of parent	₱139,317	₱1,677	₱108,607	₱127,140	(₱112,174)	(₱296,309)	₱79,287

37. Events after the Reporting Period

On January 16, 2014, after having secured approval of the SEC and having complied with the other conditions under the Share Purchase Agreement, PHN sold 406,361 shares in AB Capital to Vicsal for ₱97.5 million and on the same date signed the Deed of Absolute Sale (see Note 12).

On March 4, 2014, the Parent Company's BOD declared a cash dividend amounting to ₱103.8 million, or equivalent to ₱0.40 a share, to all common shareholders of record as of March 20, 2014, which is payable on April 15, 2014.

38. Notes to Consolidated Statements of Cash Flows

The non-cash investing and financing activities pertain to the following:

a. Sale of property and equipment amounting to ₱3.0 million on a five-year installment in 2013.
b. Property dividends amounting to ₱145.9 million from an associate (see Notes 12 and 17).
c. Receipt of liquidating dividends in the form of investment property amounting to ₱25.2 million in 2012 (see Note 12).

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