PHINMA

Life Can Be Better

2014 Annual Report

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

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Financial Highlights

	2014	2013	2012
INCOME AND DIVIDENDS (In Thousand Pesos)			
Revenues	5,366,682	4,784,179	4,536,633
Net Income Attributable to PHN Equity Holders	246,548	224,040	(37,250)
Cash Dividend	103,872	103,562	103,095
FINANCIAL POSITION (In Thousand Pesos)			
Current Assets	3,626,590	3,259,628	3,299,026
Total Assets	10,309,345	9,930,280	9,642,802
Current Liabilities	1,679,569	1,281,235	1,809,956
Non-current Liabilities	1,441,062	1,617,064	941,680
Equity Attributable to PHN Equity Holders	6,572,561	6,437,423	6,305,135
PER SHARE (In Pesos)			
Earnings	0.95	0.86	-0.14
Cash Dividend Per Share	0.40	0.40	0.40
Book Value of Common Shares	25.24	24.79	24.35
FINANCIAL RATIOS			
Current Ratio	2.16	2.54	1.82
Debt to Equity Ratio	0.43	0.41	0.40

Message to Shareholders

In 2014, the Philippine economy settled down to a strong and sustainable 6.1% growth rate from the record 7.2% growth the previous year. The construction sector at 8.5% outpaced annual growth from all other sectors as the public and private sectors sped up implementation of projects. Government expenditure increased 9.8% in the fourth quarter on ramp-up and catch-up efforts in response to challenges faced by the Disbursement Acceleration Program. Exports expanded 12.1% in 2014 while imports declined due to port congestion issues which were addressed late in the year. Investor confidence for the year was maintained, the country continued its notch-above investment grade rating, and the local stock market closed the year strong with the main index up 22.7% over the start of the year.

Consolidated revenues of your Company amounted to ₱5.4 billion in 2014, an increase of 12% over the ₱4.8 billion posted the previous year on increased demand for our steel products and education services. Consolidated net income of your Company amounted to ₱302.0 million, an increase of 15% over the net income of ₱261.6 million posted in 2013. Increased income contribution from our steel roofing business and our schools offset a decrease in income contribution from our energy company. Net income attributable to shareholders of the parent amounted to ₱246.5 million for the year.

2014 Highlights

For the four schools under Phinma Education, income for 2014 amounted to a total of ₱192.0 million, an increase of 19% from ₱160.8 million in 2013. Total enrollment reached over 36,764 students as of June 2014, reflecting a 16% increase over enrollment in the previous year. In 2014, Phinma Education added 16 new subjects to its innovative Active Learning System, which combines online learning with guided instruction and drills, to increase the quality and efficiency of instruction. The system continues to show positive results as evidenced by improved passing rates and proficiency scores. In July 2014, your Company approved an investment in Career Academy Asia, a new school under the Phinma Education umbrella with specialized niche programs in Design, Arts, and Management which complement Phinma Education's affordable education offering.

The schools continued to perform well in terms of board examination passing rates. Cagayan de Oro College, Inc. (COC) remains one of the top Criminology schools in the country with an 87% board exam passing rate and a top ten placer in the April 2014 board exams. University of Iloilo (UI) and University of Pangasinan (Upang) also produced top ten board exam placers for the Basic Education and Nursing board exams, respectively.

Your Company's steel roofing subsidiary, Union Galvasteel Corporation (UGC), posted a 15% growth in 2014 sales revenues to ₱3.6 billion on the heels of continued strong growth in the construction sector, despite supply side challenges from port congestion during the year. UGC realized net income of ₱145.2 million in 2014, an increase of 40% from the ₱103.8 million net income posted in 2013. In 2014, UGC completed construction of and began operating its new color coating line in Calamba Laguna. The company, already the leader in the color coated market, leveraged its nationwide distribution network to take advantage of the increased capacity.

“We are optimistic that the plans we have laid out will set the stage for robust growth and more attractive returns in the future, as we continue in our mission to make life better in the country.”

Trans-Asia Oil and Energy Development Corporation (TA Oil), your Company's investee affiliate in the energy sector, was challenged in 2014 by lower margins arising from higher average prices for power purchases on the Wholesale Electricity Spot Market (WESM). Net income decreased from ₱572.8 million to ₱180 million in 2014, of which ₱47.9 million was equitized by the Company. During the year, TA Oil affiliate Maibarara Geothermal Inc. commenced commercial operation of its 20 MW Geothermal Power Plant in February. TA Oil subsidiary Trans Asia Power Generation Corporation also completed the acquisition in May of One Subic Power Corporation, the lessee and operator of the 116 MW Diesel Power Plant located in the Subic Bay Freeport. In July, TA Oil was awarded three hydropower service contracts by the Department of Energy totaling 320 MW, covering areas in Rizal, Isabela, and Benguet. Finally, in December 2014, TA Oil subsidiary Trans Asia Renewable Energy Corporation (TAREC) completed installation and began commercial operations of its 54 MW wind farm in San Lorenzo, Guimaras.

In 2014, the supply of residential condominium units in Metro Manila returned to rational levels. Phinma Property Holdings Corporation (Phinma Properties), your Company's affordable housing affiliate, posted a modest 7% increase in condominium units sold and delivered, and an increase in net income from ₱15.3 million to ₱36.3 million in 2014, ₱12.8 million of which was equitized by your Company. In September 2014, the company was also recognized at the United Nations Business Call to Action forum in New York for its innovative socialized housing joint venture which enabled Quezon City informal settler families to acquire and afford their own homes.

Revenues of Fuld + Company, your Company's investment in the area of strategic consulting, increased 3% to ₱535 million in 2014. While Fuld's core businesses in the US and UK generated positive results, the Fuld group posted a net loss of ₱13.8 million due to losses in the start-up Philippine research business. Nevertheless, Fuld looks forward to renewed growth as the global demand for consulting services shifts from cost-cutting opportunities to growth strategies which better align with the companies' areas of competency.

Phinma Corporation ended 2014 with a strong balance sheet, with total assets of ₱10.3 billion and a current ratio and debt-to-equity ratio of 2.16:1 and 0.43:1, respectively. Your Company also has funds of approximately ₱770 million 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 ₱0.40 per share payable on March 31, 2015.

2015 Outlook

For 2015, analysts expect the economy to continue its strong fourth quarter 2014 performance, leading to a full year Philippine economic growth rate ranging from 6.5% to 7.0%. Expenditure reforms are expected to result in accelerated government spending. Continued low oil prices will result in increased purchasing power for consumers as well as a healthier external accounts position. Interest rates will continue to be low, further encouraging investment and growth.

Phinma Education, for its part, looks forward to completing construction of the Phinma Upang College Urdaneta campus. The campus, which will offer courses in accountancy, tourism, civil engineering, and criminology, is scheduled to offer classes in June 2015. Preparations are underway for the introduction of Senior High School in the Phinma Education campuses in anticipation of the Department of Education's K to 12 initiative. Phinma Education is also scheduled to begin accepting senior high school students this June at Career Academy Asia where it hopes to establish a foothold in the higher-margin market for design, arts, and management education. Phinma Education continues to actively seek new schools where it can make significant contributions to improve education quality and value.

After expanding its color coated line last year, UGC will now focus on expanding and acquiring new technology to improve its polyurethane processing plants to increase capacity and offer new products in this fast growing segment.

Your Company continues to be optimistic about its investment in the energy sector. Early this year, TA assumed dispatch of a 40 MW strip of power it had won in an earlier bid from the Power Sector Assets and Liabilities Management Corporation (PSALM). TA Oil looks forward to the commercial operation of the 135 MW South Luzon Thermal Energy Corporation (SLTEC) Unit 1 clean coal plant later this year. This plant puts TA Oil on the path to earnings recovery by significantly reducing its reliance on WESM power. The new 2015 capacity will result in a 57% increase in TA Oil's generation portfolio to 440 MW by year end. Beyond 2015, the second 135-MW clean coal-fired power plant of SLTEC, already under construction and scheduled for commercial operations by early 2016, will result in a net generation portfolio increase to over 500 MW by 2016.

For 2015, Phinma Properties looks forward to the launch of several projects including the Thai-themed phase 2 of SATO Premier Suites and the completion of construction of Hacienda Balai, the latest development of Phinma Properties in Metro Manila. The company's contracted housing division is also scheduled to complete Pleasant Hills, a socialized housing development in partnership with the National Housing Authority. Phinma Properties is also finalizing efforts to establish its first 20-story high-rise development in Pasay City.

This year, Coral Way City Hotel Corporation, owner of Microtel by Wyndham® Mall of Asia and your Company's investment in hotels, continues construction on its new TRYP by Wyndham hotel. The new 195-room hotel in the bay area, which complements the existing hotel by targeting a younger and trendier clientele, will result in a total of 345 hotel rooms under Coral Way by the third quarter of 2016.

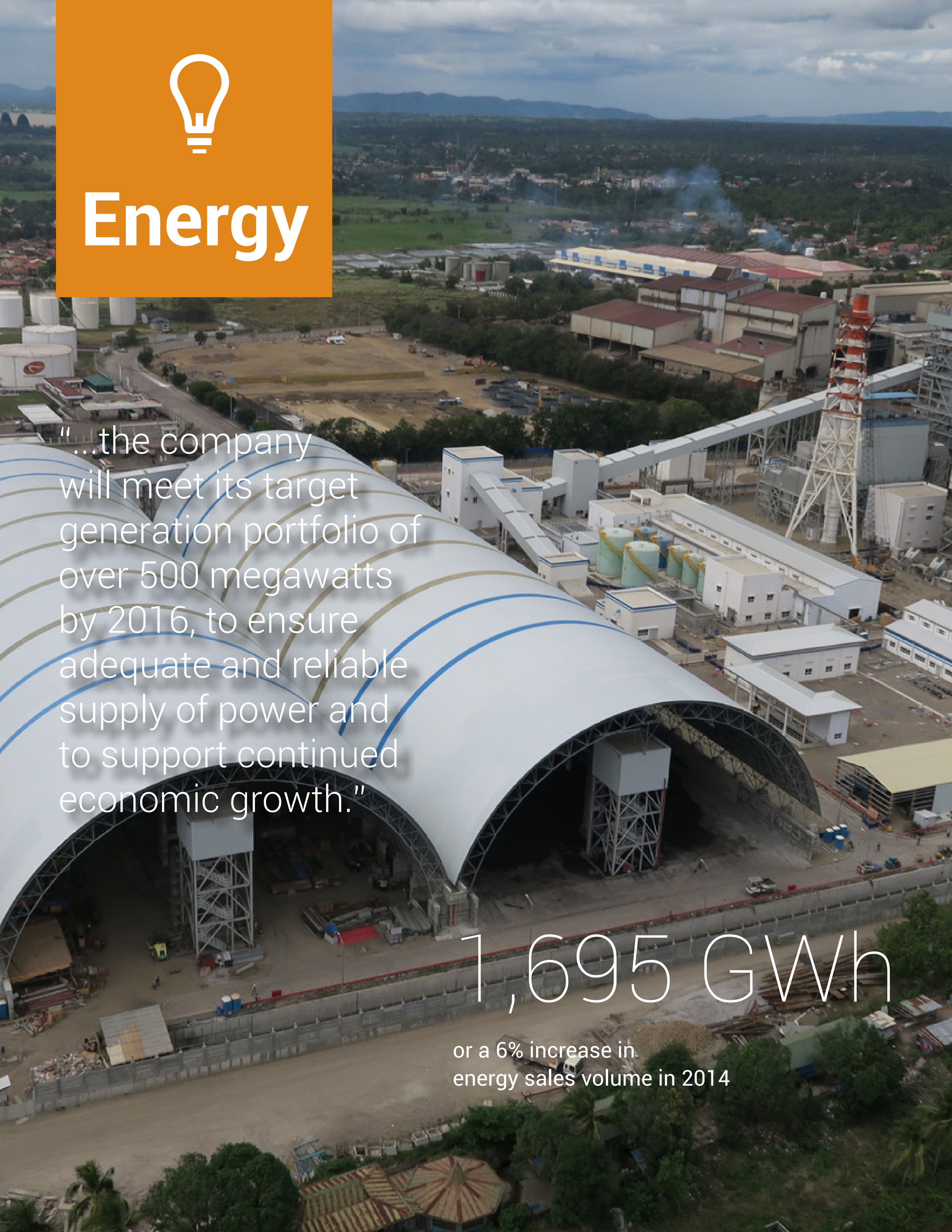
In your Company's endeavors in all its chosen areas of business, we remain committed not only to our customers but also to our suppliers, business partners, and creditors, all of whom have been invaluable stakeholders in our business. We would also like to express our gratitude to our employees and management team who are our partners in our mission to improve the lives of Filipinos.

To our shareholders, who have always provided steadfast support, we reiterate our commitment to improve shareholder value. We are optimistic that the plans we have laid out will set the stage for robust growth and more attractive returns in the future, as we continue 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

Energy



"...the company will meet its target generation portfolio of over 500 megawatts by 2016, to ensure adequate and reliable supply of power and to support continued economic growth."

1,695 GWh

or a 6% increase in energy sales volume in 2014

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

In 2014, demand for energy increased in line with growth in the economy. Energy sales volume of TA Oil increased 6% to 1,695 GWh during the year. TA Oil was however challenged in 2014 by lower margins arising from higher average prices for power purchases on the Wholesale Electricity Spot Market (WESM). Net income decreased from ₱572.8 million in 2013 to ₱180 million in 2014. As of December 31, 2014, total consolidated assets stood at ₱16.6 billion, total liabilities at ₱9.3 billion and total equity at ₱7.2 billion.

During the year, TA Oil affiliate Maibarara Geothermal Inc. commenced commercial operation of its 20 MW Geothermal Power Plant in February. 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.

TA Oil subsidiary Trans Asia Power Generation Corporation completed in May the acquisition of shares of One Subic Power Corporation, the lessee and operator of the 116 MW Diesel Power Plant located in the Subic Bay Freeport. In July, TA Oil was also awarded three hydropower service contracts by the Department of Energy with an aggregate potential capacity of 320 MW, covering areas in Rizal, Isabela, and Benguet.

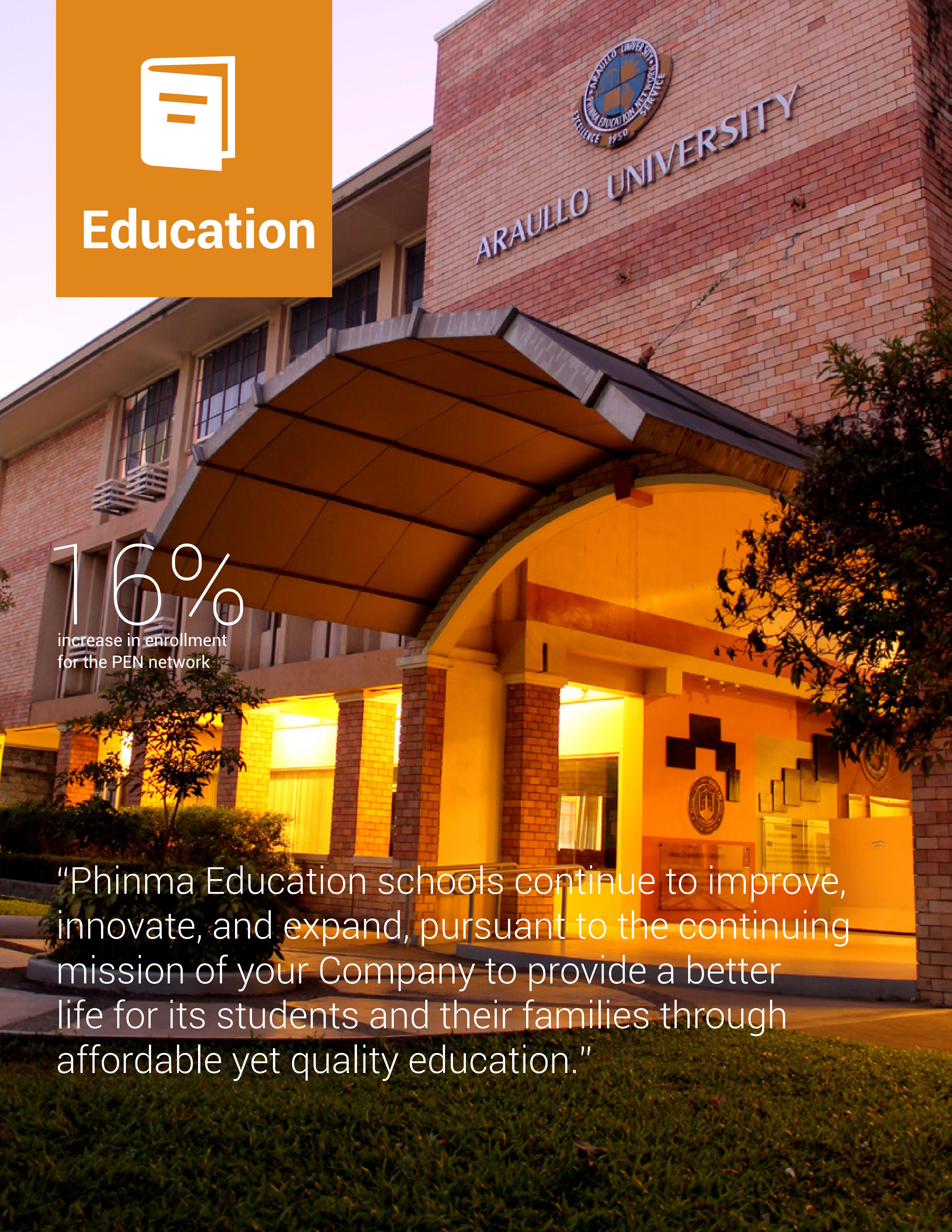
TA Oil remains committed to renewable energy. In December, TA Oil subsidiary Trans Asia Renewable Energy Corporation (TAREC) completed construction and began full commercial operation of its 54 MW wind farm in San Lorenzo, Guimaras. The project, the largest private investment in Guimaras in recent years, included the installation of a 2.8 kilometer long world class submarine transmission cable connecting Guimaras with Panay, enabling the transmission of 100% of the project's available capacity to the grid. In 2014 the wind project sold 11.5 GWh of energy to the grid and achieved a maximum capacity of 52 MW or 96% of total installed capacity. Of equal importance, the project comparably reduces greenhouse emissions estimated at over 65,000 tons of CO_2 per year.

On the Oil & Gas front, in January 2014 TA Oil disclosed the assumption by Otto Energy of BHP Billiton Petroleum Philippines Corporation's 60% participating interest in SC55. Subsequently, in May 2014 TA Oil disclosed the confirmation by the DOE of a revised work program for SC 55, extending the previous schedule by 14 months and providing for a new schedule of up to December 2015 for the drilling of the SP4 deepwater well.

In early 2015, TA Oil assumed dispatch over a 40 MW strip of power from the Unified Leyte Geothermal Power Plant which it had earlier won in a bid from the Power Sector Assets and Liabilities Management Corporation (PSALM), providing TA Oil increased baseload capacity and an entry into the Visayas grid. TA Oil looks forward to the commercial operation of South Luzon Thermal Energy Corporation's (SLTEC) first 135-MW environmentally friendly Circulating Fluidized Bed coal plant by the second quarter of 2015. SLTEC is TA Oil's joint venture with Ayala Corporation's energy arm, AC Energy Holdings Corporation. This plant significantly reduces the company's reliance on WESM power and puts the company on a path to earnings recovery.
All told, the 2015 capacity additions, net of capacity reductions, will result in a 57% increase in TA Oil's generation capacity from 280 MW in 2014 to 440 MW by 2015.

Construction of SLTEC's second 135-MW clean coal plant has already commenced and is scheduled for commercial operation by the start of 2016. With this, the company will meet its target generation portfolio of over 500 megawatts by 2016, to ensure adequate and reliable supply of power and to support continued economic growth.

Education



16%

increase in enrollment for the PEN network

"Phinma Education schools continue to improve, 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 Corporation, through Phinma Education, seeks to provide a better future for thousands of students by offering quality education at affordable rates.

Enrollment increased across all schools; enrollment for the entire system grew 16% to 36,764 students in June 2014. Cagayan de Oro College (COC) enrollment notably increased over 19% on strong contribution from its Puerto satellite campus, making it the largest higher education institution in the city. Freshman enrollment at University of Iloilo (UI) increased 20% to over 3,600 students on continuing efforts to provide better value for the school's programs.

In 2014, income from the four schools amounted to ₱192.0 million, an increase of 19% from ₱160.8 million in 2013. The combined assets of the network grew by 4% from ₱2.6 billion to ₱2.72 billion.

In terms of academic results, the schools continued to perform well. COC maintained its position as one of the top Criminology schools in the country with a top ten placer in the April board exams. In the August 2014 Elementary Education board examinations, Phinma Education had two students in the top ten, one from COC and another from UI. Passing rates of University of Pangasinan (UPang) for its first ever batch of Criminology graduates was 100%, while its passing rate was 100% for the May 2014 Nursing board examination, cementing its position as the top nursing school in the region. Araullo University (AU) continued its academic dominance in Nueva Ecija with high passing rates in Accountancy, Criminology, and in Elementary and Secondary Education.

To produce these academic results yet remain accessible, Phinma Education continues to innovate. Phinma Education's Active Learning System which integrates online material with drills, continued to gain traction over the year. In 2014, 16 more subjects used this learning framework, bringing the total to 32 subjects. The Student Success Program simultaneously deals with nonacademic student issues such as adjustment and integration. Results continue to be very positive, with improving overall passing rates, scaled ability scores, and proficiency scores.

Building on the success of satellite campuses for COC and AU, Phinma Education broke ground early this year on Phinma Upang College Urdaneta (UPang Urdaneta). The campus, which will offer Accountancy, Tourism, Civil Engineering, and Criminology courses in the booming Eastern region of Pangasinan, is scheduled to offer classes in June 2015. UPang Urdaneta will also offer Senior High School in 2016. Meanwhile, UI is finalizing its relations with leading hospital system, Medical City (TMC), to offer courses such a medical technology and pharmacy through the TMC-UI College of Allied Health Sciences.

Innovation allows Phinma Education to face the massive K to12 reform with optimism. Phinma Education has already begun the process of creating new modules for Senior High School based on its Active Learning System. For Phinma Education, Grades 11 and 12 will contribute to overall enrollment even beyond the transition years.

To take further advantage of opportunities created by K to 12, Phinma Corporation approved in July 2014 an investment in Career Academy Asia, a niche senior high school. The new Manila school will operate under the Phinma Education umbrella and will offer Grades 11 and 12 specializing in the areas of Design, Arts, and Management in partnership with a Singaporean school. The specialized programs complement Phinma Education's present offerings and enable the entry into a higher-end market.

Phinma Education continues to innovate and grow, pursuant to the continuing mission of your Company to provide a better life for its students and their families through education. Phinma Education continues to seek new opportunities both locally and internationally, including the next school of the group.

Housing

₱1.1B

Total revenues for 2014, a 7% increase from the previous year

"Phinma Properties is poised to explore new heights as it finalizes its first 20-story high-rise development."

Phinma Property Holdings Corporation (Phinma Properties), a 35%-owned affiliate of the Company, is a leading developer of affordable medium- rise condominium units in Metro Manila.

In 2014, the temporary oversupply of residential condominium units from previous years began to taper off and return to more rational levels. Phinma Properties posted a modest 7% increase in total condominium units sold and delivered, offset by a slight decrease in socialized housing units completed.

Total revenues for 2014 increased 7% to ₱1.1 billion. Net income for the year increased to ₱36.3 million from ₱15.3 million in the previous year. Total assets increased to ₱3.6 billion from ₱3.3 billion in 2013. Because sales reservations outpaced delivery, a portion of 2014 sales will be recognized as revenue and income in 2015 as these projects are completed.

Phinma Properties posted significant milestones in 2014. ASiA Enclaves Alabang, the company's premiere development, was awarded "Best Affordable Condo Development (Manila)" at the Philippines Property Awards 2014 and "Highly Commended Best Condo Development (Philippines)" at the Southeast Asia Property Awards 2014. Building on this, the company introduced SATO Premiere Suites in November 2014. This project features premiere finishing and the largest unit sizes among all developments of Phinma Properties. In November 2014, the company launched Arezzo Place Davao, its first condominium project outside Metro Manila. The project has enjoyed strong sales reservation for two buildings, expected to be completed by the end of 2015.

In providing Filipinos a home for their dreams, Phinma Properties gives equal importance to socialized housing. The company, together with the Quezon City LGU and other partners, completed in December 2014 the construction of Bistekville II, one of the largest, in-city mass housing projects for hundreds of Informal Settler Families (ISF). The project's unique model provides an affordable financing scheme for ISFs to purchase and own their homes. The success of Bistekville II merited its inclusion in the United Nations Business Call to Action Forum held in New York last September 2014. In October 2014 Phinma Properties was recognized as one of the top performing NCR developers by the Pag-IBIG Fund in terms of total take-out value.

This year, Phinma Properties looks forward to the fourth quarter launch of the Thai-themed Phase 2 of SATO Premier Suites. Two more buildings in Arezzo Place Davao are scheduled to commence selling by the second quarter. Construction is also ongoing at Hacienda Balai, the newest PPHC development in Metro Manila, with the first four buildings due for completion by the 4th quarter of 2015. In socialized housing, the company, in partnership with National Housing Authority, is scheduled to complete Pleasant Hills by the 3rd quarter of 2015. Strikeville IV, in Bacoor Cavite, will benefit government-employed HDMF members and is expected to begin land development by the 2nd quarter of 2015.

Moving forward, Phinma Properties is poised to explore new heights to cater to a more diverse market base. The company is finalizing its efforts to establish its first 20-storey high-rise development in Pasay City which will serve as a precedent for future high-rise developments.

Phinma Properties remains committed to providing affordable quality homes for every Filipino and continuing a legacy of integrity and social responsibility. The company will continue to serve the Filipino people by making city living easy.

Steel Products

"UGC will focus on expanding and acquiring new technology for its polyurethane processing plants to boost capacity and profitability..."

15%

Increase in sales revenues to ₱3.6 billion

Union Galvasteel Corporation (UGC) is the market leader in the manufacture of pre-painted galvanized roofing and other steel products such as steel deckings, 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 expanded over 20% in the fourth quarter of 2014, ending the year with annual growth of 8.5% and outperforming all other sectors of the economy. On the heels of this strong growth, UGC posted a 15% increase in sales revenues to ₱3.6 billion despite challenges posed by the port congestion and truck ban and by competition from imported products. This performance was made possible with the increased capacity from the commercial operation in March 2014 of the new state-of-the-art Color Coating Line (CCL) in Calamba, Laguna as well the full utilization of the polyurethane production facilities in Calamba and Davao. The company also leveraged its nationwide distribution network, taking full advantage of the new and existing production capacities.

Union Galvasteel Corporation realized a net income of ₱145.2 million in 2014, a 40% improvement over net income of P103.8 million earned in 2013. In terms of resources, the company ended 2014 with total assets of ₱2.4 billion and total liabilities of ₱1.5 billion, ₱508 million of which is long term bank debt. The company also declared cash dividends of ₱150 million during the year, bringing stockholders equity to ₱852 million at year end.

Business prospects for 2015 remain bullish as strong demand continues in line with accelerating government and private sector construction activity. With the expanded color coating line in full operation, UGC will focus on expanding and acquiring new technology for its polyurethane processing plants to boost capacity and profitability in this fast growing product. In 2015 the company will also upgrade its distribution and logistics facilities, rebuild its portfolios, and offer new products to the market in support of its mission of making life better for its customers.

Hotels

"Microtel sees continuous growth in the tourism industry resulting in increased demand for accommodations."

84%

Occupancy rate at Microtel by Wyndham Mall of Asia

More tourists are discovering the Philippines on the heels of the government's aggressive international awareness campaign. Phinma Corporation addresses the need for affordable quality hotel services through its investment in Microtel by Wyndham® (Microtel) hotels. Microtel is an international chain of hotels under the Wyndham Hotel Group with more than 300 properties worldwide, offering a limited-service hotel option, and providing comfortable and secure accommodations at value rates.

During the year, Phinma Corporation converted its ₱66 million investment in Coral Way City Hotel Corporation (Coral Way) preferred shares to common shares representing 23.8% ownership in the company. Coral Way owns the 150-room Microtel by Wyndham® Mall of Asia (Microtel MOA) hotel which commenced operations in September 2010.

Microtel MOA is strategically situated near SMX Convention Center, Mall of Asia Arena, and SM Mall of Asia. The hotel is a preferred hotel for both business and leisure travelers. In 2014, the hotel posted an occupancy rate of 84%, with 62% of bookings coming from the leisure market and the balance from corporate accounts and attendees of conventions and events in the area. In 2014, Microtel MOA posted revenues of ₱183 million and net income of ₱6.7 million.

For 2015, Microtel sees continuous growth in the tourism industry resulting in increased demand for accommodations. Asian Plaza, Inc., a subsidiary of your Company, will invest in Microtel Development Corporation (MDC). The company manages 13 Microtel properties in key regional hubs and resort locations namely Acropolis in Quezon City, Baguio, Batangas, Boracay, Cabanatuan, Cavite, Davao, General Santos, Manila, Puerto Princesa, South Forbes, Tarlac, and UP Technohub. MDC is also a joint venture partner in several Microtel properties.

Krypton Esplanade Hotel Corporation, a wholly-owned subsidiary of Coral Way, has commenced construction of a 195-room hotel located along Seaside Avenue near Mall of Asia. The new hotel will carry the brand TRYP by Wyndham® - a sister brand of Microtel - with 120 properties in highly urbanized cities in Europe, North and Latin America. Coral Way's new TRYP hotel complements the existing Microtel hotel by targeting a young and trendy clientele and is expected to be completed by the third quarter of 2016.

Strategic Consulting

"The Fuld Group looks forward to renewed growth along these areas of expertise and to expansion of Omniscope's Philippine back office, expected to employ more Filipinos in the years ahead."

₱535M

Combined revenues, a 3% increase from 2013

Fuld + Company is a competitive strategy and intelligence consulting firm that provides decision-relevant strategic and market insights to clients to help improve business strategies. With offices in Boston and London, Fuld + Company helps clients address competitive challenges and illuminate business opportunities.

Fuld Omniscope provides strategic market research and analytics services to clients to help address information needs and support business decisions. From Manila, it provides research to support customer understanding and engagement, growth, and market monitoring and sizing.

The combined Fuld group provides clients strategic advisory and consulting services as well as offshore research solutions that showcase Filipino talents.

Overall growth in the enterprise strategy consulting segment was flat in 2014. On the research side, 2014 was a year of transition for Omniscope as it initiated an integrated US and Asia strategy. In this challenging environment, the group posted combined revenues equivalent to ₱535 million, a 3% increase from 2013. While Fuld's core businesses in the US and UK generated positive results, the Fuld group posted a net loss of ₱13.8 million for the year due to losses in the start-up Philippine research business.

Moving forward, demand for consulting services is shifting from cost-cutting opportunities to growth strategies for new product development and market entry - services that better align with Fuld + Company's capabilities. On the research side, the Knowledge Process Outsourcing (KPO) market is expected to grow particularly in higher value added insights-based services, which aligns with Omniscope capabilities and growth plans. The Fuld Group looks forward to renewed growth along these areas of expertise and to expansion of Omniscope's Philippine back office, expected to employ more Filipinos in the years ahead.

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 the Chairman of the Board of the Company since 2003. He is also Chairman of the Board of Phinma, Inc., Trans Asia Oil and Energy Development Corporation; Phinma Property Holdings Corporation and Union Galvasteel Corporation. Mr. Hilado is also a Director and Chairman of the Audit Committee of A. Soriano Corporation; First Philippine Holdings Corporation; Philex Mining Corporation; Smart Communications, Inc. and Seven Seas Resort and Leisure, Inc. He is also a Director of Digital Telecommunications Philippines, Inc. (DIGITEL); Manila Cordage Company; Beacon Property Ventures, Inc., Pueblo de Oro Development Corporation and United Pulp and Paper Co., 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. He attended the Business Continuity Management Training on June 20, 2013 and completed the seminar on Corporate Governance on July 28, 2014 both facilitated by SGV and Co. 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 Corp., Trans-Asia Renewable Energy Corp., Trans-Asia Petroleum Corp., CIP II Power Corp., Microtel Inns and Suites (Pilipinas), Inc., Microtel Development Corp., United Pulp and Paper., Inc., Fuld & Co., Inc. and Fuld & Co. (Philippines), Inc. and a member of the Board of Directors of South Luzon Thermal Energy Corp. He is Vice Chairman of Trans-Asia Oil and Energy Development Corp., PHINMA Property Holdings Corp. and PHINMA Foundation. He is also an independent Director of Ayala Corp., chairman of its Nomination and Compensation Committees and a member of the Audit and Risk Management Committees. 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 of the Ramon Magsaysay Award Foundation and is a 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. He attended the Ayala Group Corporate Governance Seminar in February 2014. Mr. Del Rosario graduated from De La Salle College-Manila with a degree in BSC-Accounting and AB-Social Sciences *(Magna cum Laude)* in 1967 and obtained his Masters in Business Administration at Harvard Business School in 1969.

MAGDALENO B. ALBARRACIN, JR. is the Vice-Chairman of Phinma, Inc. He was a former director of Holcim Philippines, Inc. and holds directorates in various Phinma companies. Dr. Albarracin is a member of the Board of Regents of UP as well as Board of Trustees of U.P. Engineering Research and Development Foundation, Inc. (UPERDF). He is the Chairman of the Board of Trustees of the University of San Carlos, Cebu City. He served as Dean of the University of the Philippines 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 the University of the Philippines and a Master of Science degree in Electrical Engineering from the University of Michigan. He obtained his Master in Business Administration degree from the University of the Philippines 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 TransAsia Oil and Energy Development Corporation. He also occupies various executive posts in PHINMA managed companies and is a Member of the Board of all the companies in the Phinma Group which include companies in power generation, education, hotels, steel roofing, property development, oil exploration, strategic consulting and insurance brokers. For the years 2013 and 2014, he attended various trainings as follows: a) Business Continuity Management Training conducted by SGV on June 20, 2013, b) Phinma Group Audit Committee Forum on Audit Committee Roles on September 19, 2013, c) Corporate Governance Seminar by SGV last July 28, 2014 and d) Crisis Communication Forum by Prof. Jose Avellana on September 2014. 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 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., RFMScience 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 as well as former President of the Asian Institute of Management. He is currently Chairman of Philam Asset Management Inc. and independent director of Alaska Milk Corp., Robinson's Land Corporation and EEI Corporation, among others. He is a graduate of both De La Salle and the Ateneo Universities, has 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 and was conferred the Ordre of the British Empire (OBE) by Queen Elizabeth and Chevalier of the Legion d'Honneur by France. 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 a Director of PHINMA Property Holdings Corporation and Ginory 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. He attended the Phinma Group Audit Committee Forum in September 2013 and SGV Seminar on Corporation Governance in July 2014.

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 Renewable Energy Corporation and Vice 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, Union Cement Corporation (now 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 Head of Corporate Finance Department of the Investment Division and the Country Credit Officer of The Philippine American Life and General Insurance Company . He is also responsible for the real estate investment portfolio of the Company and is the Chief Executive Officer of Philam Properties Corporation. 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., and RFM-Science Park of the Philippines, Inc. He is also the President of the Tower Club, Inc. 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 of 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

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

Nanette P. Villalobos
Assistant Vice President - Treasury

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 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 July 31, 2014, as required by the Securities and Exchange Commission under SEC Memorandum Circular Number 12, Series of 2014, the Compliance Officer submitted to the SEC the Consolidated Changes in the ACGR for the Calendar Year 2013. Updates and changes to the ACGR for 2014 were subsequently submitted to the SEC on July 3, 2014, August 27, 2014 and November 24, 2014. The Consolidated Changes in the ACGR for the Calendar Year 2014 was submitted to the SEC on January 5, 2015. As of December 31, 2014, the Company complied with the principles and best practices contained in the Manual on Good Corporate Governance. There were no sanctions imposed on any director, officer or employee for non-compliance of the Manual.

As required by the Philippine Stock Exchange, the Corporation submitted on March 20, 2014, a Corporate Governance Guidelines Disclosure Survey Report for the year 2013. For the year under review, the Corporation was compliant with all guidelines except Sections 2.3 which recommends the election of three (3) independent directors.

On March 26, 2105, the Company submitted its report for the year 2014.

BOARD OF DIRECTORS

Composition

As of December 31, 2014, the Board of directors consists of 11 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 4 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:

DIRECTORS	2014 BOARD MEETINGS				
	Mar 4 Regular	April 11 Organizational	May 28 Regular	Jul 31 Regular	Nov 19 Regular
OSCAR J. HILADO	P	P	P	P	P
MAGDALENO B. ALBARRACIN, JR.	P	P	P	P	P
RAMON R. DEL ROSARIO, JR.	P	P	P	P	P
JOSE L. CUISIA, JR.	P	P	P	A	P
VICTOR J. DEL ROSARIO	P	P	P	P	P
ROBERTO M. LAVIÑA	P	P	P	P	P
FILOMENO G. FRANCISCO	P	P	P	P	P
ROBERTO F. DE OCAMPO	P	P	P	A	P
GUILLERMO D. LUCHANGCO	P	P	P	P	P
FRANCISCO L. VIRAY	P	P	P	P	A
ERIC S. LUSTRE	P	A	A	P	P

P. Present A: Absent

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, 2014 the board committees and its members were as follows:

DIRECTORS	BOARD COMMITTEES				
	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
ROBERTO F. DE OCAMPO	Chairman			Member	
FILOMENO G. FRANCISCO	Vice-Chairman				
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

We believe that our commitment to ethical business practices, good corporate governance and social responsibility is vital and integral to the pursuit of our Mission to help build our Nation through competitive and well-managed business enterprises.

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 Committee assists the board of directors of PHINMA Corporation in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, risk management process, and the Company's process for monitoring compliance with laws and regulations.

In 2014, the Audit Committee held four meetings and overall attendance was 81%. 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 2014. 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 2013 Audit Committee Report. Also, the Audit Committee reviewed and approved the Integrity Assurance Program for the PHINMA Corporation and its subsidiaries, including the appointment of the Integrity Officer and the adoption of a Code of Business Conduct for its officers and employees.

Attendance

	YEAR 2014			
AUDIT COMMITTEE	**March 3**	**May 7**	**July 30**	**Nov. 5**
ROBERTO F. DE OCAMPO	A	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	A

P. Present *A: Absent*

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 11, 2014, 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 2014. On March 4, 2015, SGV & Co. issued its report on the financial statements for the year ended December 31, 2014, 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 (5) consecutive years or more. Mr. Ang has been the audit partner of the Company for two years.

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

Year	Audit Fees
2014	P3,700,000
2013	3,700,000

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 that are designed to add value and improve operations. Consistent with its thrust to become better business partners, GIA 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 GIA, 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 GIA 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.

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 items. The disclosures are also uploaded to the company website for the benefit of the public.

CODE OF CONDUCT

The PHINMA Code of Business Conduct (the "PHINMA Code"), founded on the PHINMA core values of integrity, patriotism, competence and professionalism, embodies our unwavering commitment to ethical business practices, and sets forth policies and guidelines on the following :

- Conflict of interest
- Insider trading
- Gifts and gratuities
- Sexual harassment
- Fraud
- Whistleblowing and non-retaliation

In 2014, the Phinma Group launched a comprehensive, Group-wide Integrity Assurance Program (IAP) for Phinma Corporation and its subsidiaries and affiliates. The program also includes various initiatives such as the Values Integration Program for employees, the Vendor Integrity Program for our business partners, and the Integrity Hotline for whistleblowers. The program seeks to ensure effective implementation of company policies and procedures and to promote the highest standards of business conduct.

Corporate Social Responsibility

Phinma Corporation's Corporate Social Responsibility (CSR) 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

Social responsibility is integral to Phinma Education's commitment to provide affordable quality education to children of the communities in which it operates. Phinma Education extends scholarships in various forms to about a third of its students.

Phinma's commitment to education is also demonstrated by its continued support of the Phinma National Scholarship (PNS) program under the Phinma Foundation, which celebrated its 25th anniversary in 2014. From its initial group of 10 scholars in 2006, the PNS program has grown to a total of 98 scholars enrolled in education, accounting and engineering. The program has produced 68 graduates, 20 of whom graduated with cum laude honors while two ranked among the top 10 examinees nationwide in their respective board exams.

In 2014, Trans-Asia Oil and Energy Development Corporation (TA Oil) continued its annual Brigada Eskwela program in partnership with the Department of Education. The company officers and employees assisted 18 schools, not only providing construction and repair materials but also volunteering and engaging with the community.

ENVIRONMENT

Harnessing Energy Literacy for Planet Earth (HELP Earth), TA Oil's flagship CSR program, aims to educate the youth on energy conservation and environment protection through the establishment of HELP Earth interactive multimedia science exhibits. In 2014, TA Oil added seven new schools to its program. To date, the program covers 29 partner schools, 350 faculty members, and more than 9,000 students across the country.

This year, TA Oil launched its PATHS (Positive Action Through Help Earth Savers) Project through which young members of the HELP Earth Savers Club created their own projects promoting the 3R's: Reduce, Reuse, Recycle. Some projects generated livelihood opportunities for the students and their parents while also cleaning up the surrounding community.

In 2014, TA Oil employees also participated in tree planting activities. The company propagates its own nurseries and maintains a 5-hectare reforestation program in cooperation with the Subic Bay Metropolitan Authority in Olongapo. In 2014, TA Oil planted 1,538 seedlings to increase carbon sequestration and improve the company's green footprint. TA Oil also participated in two coastal clean-ups and various waste management initiatives in partner host communities.

Union Galvasteel Corporation (UGC), in partnership with the Calamba City Environment and Natural Resource Office (CENRO), spearheaded last October 2014 reforestation efforts in Mount Makiling. In 2014 Phinma Education students also participated in mangrove reforestation efforts in Katunggan Park, Barangays Nabitasan and Leganes, Iloilo City.

LIVELIHOOD

TA Oil's livelihood program in Quirino, Bacnotan, La Union has become a source of empowerment for the community. Quirino's Best, now on its second year under a community of mothers in Bacnotan, has modestly grown into a successful and recognizeable brand of frozen products in the community.

TA Oil has also initiated a long-term livelihood project in Guimaras where its subsidiary's wind farm is situated. In 2014, the company offered training programs to prepare local residents for a potential rise in tourism in their island due to the picturesque wind farm. The programs consisted of TESDA skills training, financial responsibility training and first aid training, benefitting over 200 residents.

In February 2015, TA Oil launched a livelihood program with Guimaras State College. College trainors introduced photographic Silk Screen Printing to the company's host beneficiaries, the technology of which could be invaluable in light of a possible influx of tourists into the province.

DISASTER RESPONSE

In 2014, UGC together with the Phinma Foundation completed two reconstruction projects for municipalities heavily affected by Super Typhoon Yolanda.

During the year, UGC completed the reconstruction and rebuilding of the heavily damaged Palo Metropolitan Cathedral in Leyte. UGC acted as project manager and lead coordinator of the effort, which entailed restoration of the Cathedral's main dome structure and complete replacement of the main roof. The project was completed in August 2014 and culminated in the rededication of the cathedral by Pope Francis in January 2015. In 2014, UGC, in coordination with the Phinma Foundation, also completed a rebuild of the Elementary School in Barangay Marasbaras, Tacloban City, Leyte. The project, which entailed re-roofing of the school building and replacement of damaged computers, was completed in May 2014.

Phinma Foundation also worked with UI to complete the second and third phase of its assistance to Barangay Batad, a coastal community in Northern Iloilo heavily damaged by super typhoon Yolanda. The UI Barangay Batad project team distributed and installed over 1,700 GI sheets to repair roofing of 12 school buildings. UI also contributed materials, contracted workers, and conducted skills training to construct 210 fishing boats to enable the partial recovery of livelihood for fishermen families in four affected coastal barangays.

INDIVIDUAL SOCIAL RESPONSIBILITY

The PHINMA HERO Network, the employee volunteer program of the PHINMA group, seeks to inspire, equip, and mobilize PHINMA employees to make life better through volunteering and giving.

In 2014, close to 500 volunteers in Manila contributed their time, talent, and resources in different outreach programs of the companies. During the year, the HERO program, together with the Phinma Foundation, launched the SPARK Project, which encouraged employees to design their own outreach program. An urban container farm project was launched in July; crops were distributed to provide one community a home grown vegetable food source. Employees from Phinma Properties, on the other hand, conducted a series of Disaster Resiliency and Health seminars for residents and neighboring communities. Another urban farming project was also launched with Dream Big Pilipinas in 2014, which assisted mothers from Mandaluyong communities in raising their own crops and vegetables.

The HERO program will continue to collaborate with the different CSR departments within the group and strengthen partnerships with the various adopted communities and beneficiaries in order to provide more meaningful avenues for employee volunteerism. Through these efforts, HERO continues to work towards achieving 100% employee participation in CSR projects by 2016.

FINANCIAL REPORT

Report of Audit Committee to the Board Of Directors

The Board of Directors
PHINMA Corporation

The Audit Committee is composed of one (1) independent director and three (3) executive directors. An independent director chairs the Audit Committee. The Committee has accounting expertise and adequate understanding of the Company's business and industry in which it operates.

The roles and responsibilities of the Audit Committee are defined in the Audit Committee Charter approved by the Board of Directors. We assist the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to the financial statements and financial reporting process, internal control system, internal and external auditor's performance, risk management, and compliance with legal and regulatory matters.

We are pleased to report our activities for Calendar Year 2014.

The Audit Committee had four (4) meetings during the year, including an executive session with the internal auditors. Only one meeting obtained complete attendance, while only three members attended the other three meetings. Overall, attendance is at eighty one percent (81%). 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, SGV & Co., the findings and status of Group Internal Audit's engagements, the status of Business Resiliency activities and the 2013 Audit Committee Report.

We received information and support from Management, the Compliance Officer and Group Internal Audit to enable us to carry out our functions effectively.

ACTIVITIES

Management's Financial Report

We reviewed and endorsed to the Board of Directors for approval the 2013 audited consolidated financial statements and the 2014 unaudited quarterly consolidated financial statements.

Informatively, in our first meeting for 2015 held on March 3, 2015, we likewise reviewed and endorsed to the Board of Directors for approval the 2014 audited consolidated financial statements presented in this 2014 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.

The related party transactions were also reviewed for potential conflicts of interest. The Audit Committee found these related party transactions to be part of the regular course of business with terms and conditions based on market and in the best interest of the Company.

External Audit

We endorsed to the Board of Directors the nomination of SyCip, Gorres, Velayo & Co. (SGV) as the Company's external auditor for 2014. 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). Non-audit services and related fees for their services were also reviewed and we concluded that these fees are not significant to impair their independence.

We also proposed to the Board of Directors to retain SGV & Co. as the external auditor for 2015 as discussed in our Committee meeting held March 3, 2015.

Internal Audit

We reviewed and approved the Internal Audit plan for 2014 and found them to be appropriate. Based on this plan, the Committee received and reviewed the audit reports submitted by Group Internal Audit and found that the Company's internal control system is adequate and effective. Various audit and control issues including actions taken by management were discussed in the Committee meetings. This is to ensure that management has taken appropriate corrective actions in a timely manner.

We also reviewed the organization and perfonnance of Group Internal Audit for 2014 and found them to be sufficiently independent and effective.

Business Resiliency Program

We reviewed the status of ongoing activities related to the Business Resiliency program. This program encompasses a wide range of disciplines, including Business Continuity Management and Risk Management.

Integrity Assurance Program

We reviewed and approved the Integrity Assurance Program currently rolled out for the Phinma Group, including the appointment of the Integrity Officer and the adoption of a Code of Business Conduct for its officers and employees.

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.

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, 2014 and 20 1 3 and for the three years in the period ended December 31, 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whethdr due tofraud 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 2015.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO
President and Chief Executive Officer

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

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
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, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

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. 4751253, January 5, 2015, Makati City

March 4, 2015

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
	(Amounts in Thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8, 32 and 33)	**₱559,611**	₱472,708
Investments held for trading (Notes 9, 32 and 33)	**794,205**	894,591
Trade and other receivables (Notes 10, 29, 32 and 33)	**1,010,277**	887,720
Inventories (Note 11)	**1,148,898**	803,568
Input value-added taxes	**17,369**	2,247
Available-for-sale (AFS) investments (Notes 13, 32 and 33)	**–**	103,656
Derivative asset and other current assets (Notes 32 and 33)	**96,230**	95,138
Total Current Assets	**3,626,590**	3,259,628
Noncurrent Assets		
Investments in associates - at equity (Note 12)	**2,533,201**	2,290,844
AFS investments (Notes 13, 32 and 33)	**55,515**	121,765
Property, plant and equipment (Notes 14 and 20)	**2,469,337**	2,517,626
Investment properties (Notes 15 and 20)	**431,702**	437,849
Intangible assets (Notes 6 and 16)	**1,072,557**	1,091,033
Deferred tax assets - net (Note 30)	**84,611**	36,968
Other noncurrent assets (Note 17)	**35,832**	174,567
Total Noncurrent Assets	**6,682,755**	6,670,652
	₱10,309,345	₱9,930,280
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 18, 32 and 33)	**₱390,054**	₱144,025
Trade and other payables (Notes 19, 32 and 33)	**561,969**	649,318
Unearned revenues - inclusive of current portion of deferred rent revenue of ₱1.2 million in 2014 and 2013 (Note 29)	**308,201**	234,413
Trust receipts payable (Notes 11, 32 and 33)	**200,497**	44,153
Income and other taxes payable	**41,689**	34,787
Current portion of long-term debt (Notes 20, 29, 32 and 33)	**106,623**	94,586
Due to related parties (Notes 29, 32 and 33)	**44,777**	54,381
Current portion of long-term loan payable (Notes 6, 32 and 33)	**25,759**	25,572
Total Current Liabilities	**1,679,569**	1,281,235
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 29, 32 and 33)	**912,288**	1,056,839
Long-term loan payable - net of current portion (Notes 6, 32 and 33)	**–**	25,572
Deferred tax liabilities - net (Note 30)	**252,632**	281,433
Pension and other post-employment benefits (Note 31)	**217,857**	202,521
Deferred rent revenue - net of current portion (Note 29)	**43,730**	44,896
Other noncurrent liabilities (Note 29)	**14,555**	5,803
Total Noncurrent Liabilities	**1,441,062**	1,617,064
Total Liabilities	**3,120,631**	2,898,299
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 21)	**₱2,604,284**	₱2,596,654
Additional paid-in capital	**259,248**	258,958
Share in other comprehensive income of associates	**18,372**	26,786
Exchange differences on translation of foreign operations	**5,983**	(5,850)
Other reserves	**(4,315)**	8,682
Retained earnings (Note 21)	**3,688,989**	3,552,193
Equity attributable to equity holders of the parent	**6,572,561**	6,437,423
Non-controlling Interests	**616,153**	594,558
Total Equity	**7,188,714**	7,031,981
	₱10,309,345	₱9,930,280

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2014	2013	2012
	(Amounts in Thousands, Except Per Share Data)		
REVENUES			
Sale of goods	**₱3,639,445**	₱3,252,946	₱3,082,380
Tuition and school fees	**1,117,057**	906,437	726,872
Consultancy services	**534,335**	519,849	471,262
Rental income (Note 15)	**47,048**	44,813	42,655
Investment income (Note 22)	**28,797**	27,277	133,068
Animation services	**–**	32,857	80,396
	5,366,682	4,784,179	4,536,633
COSTS AND EXPENSES			
Cost of sales (Note 23)	**2,916,789**	2,572,299	2,407,269
Cost of educational, animation and consultancy service (Note 23)	**582,452**	588,382	666,918
General and administrative expenses (Note 24)	**950,248**	913,340	913,144
Selling expenses (Note 25)	**534,814**	476,565	442,086
	4,984,303	4,550,586	4,429,417
OTHER INCOME (CHARGES)			
Interest expense and other financing charges (Note 28)	**(91,498)**	(84,417)	(101,303)
Equity in net earnings of associates (Note 12)	**65,857**	161,691	118,944
Gain on conversion of investment in preferred shares to common shares (Note 12)	**23,161**	–	–
Income from reversal of (provision for) unrecoverable input value-added tax (Note 17)	**(3,808)**	1,807	1,542
Foreign exchange gains (losses) - net (Note 32)	**(3,144)**	4,247	(22,874)
Net gains (losses) on derivatives (Note 33)	**(24)**	(8,458)	12,270
Impairment loss on goodwill (Notes 4 and 16)	**–**	–	(212,300)
Gain on sale of investment properties (Note 15)	**–**	–	16,277
Others - net	**19,458**	10,531	30,399
	10,002	85,401	(157,045)
	392,381	318,994	(49,829)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)			
Current	**101,679**	71,646	69,535
Deferred	**(11,305)**	(14,341)	(27,760)
	90,374	57,305	41,775
NET INCOME (LOSS)	**₱302,007**	₱261,689	(₱91,604)
Attributable to			
Equity holders of the Parent	**₱246,548**	₱224,040	(₱37,250)
Non-controlling interests	**55,459**	37,649	(54,354)
Net income (loss)	**₱302,007**	₱261,689	(₱91,604)
Basic/Diluted Earnings (Loss) Per Common Share - Attributable to Equity Holders of the Parent (Note 35)	**₱0.95**	₱0.86	(₱0.14)

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2014	2013	2012
	(Amounts in Thousands, Except Per Share Data)		
NET INCOME (LOSS)	**₱302,007**	₱261,689	(₱91,604)
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)	**(7,456)**	11,449	(35,625)
Re-measurement gain (loss) on defined benefit obligation of associates (Note 12)	**3,049**	(1,196)	20
Income tax effect	**711**	(2,687)	9,369
	(3,696)	7,566	(26,236)
Items to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations	**11,833**	(4,982)	(5,803)
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	**(7,241)**	3,022	4,713
Share in net other comprehensive loss of a joint venture of an associate (Note 12)	**(1,173)**	–	–
Unrealized loss on change in fair value of AFS investments (Note 13)	**–**	(350)	(635)
	3,419	(2,310)	(1,725)
Total other comprehensive income (loss)	**(277)**	5,256	(27,961)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱301,730**	₱266,945	(₱119,565)
Attributable to			
Equity holders of the Parent	**₱244,087**	₱229,783	(₱63,401)
Non-controlling interests	**57,643**	37,162	(56,164)
Total comprehensive income (loss)	**₱301,730**	₱266,945	(₱119,565)

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 Other Comprehensive Income of Associates (Note 12)	Retained Earnings (Note 21) Appropriated	Retained Earnings (Note 21) Unappropriated	Subtotal	Non-controlling Interests	Total Equity
					(Amounts in Thousands)						
Balance, January 1, 2014	**₱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**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**246,548**	**246,548**	**55,459**	**302,007**
Other comprehensive income (loss)	**–**	**–**	**–**	**11,833**	**–**	**(8,414)**	**–**	**(5,880)**	**(2,461)**	**2,184**	**(277)**
Total comprehensive income (loss)	**–**	**–**	**–**	**11,833**	**–**	**(8,414)**	**–**	**240,668**	**244,087**	**57,643**	**301,730**
Cash dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(103,872)**	**(103,872)**	**(45,709)**	**(149,581)**
Dilution of Parent's interests in subsidiaries (Note 6)	**–**	**–**	**–**	**–**	**(5,193)**	**–**	**–**	**–**	**(5,193)**	**9,661**	**4,468**
Stock purchase plan (Note 21)	**–**	**–**	**–**	**–**	**116**	**–**	**–**	**–**	**116**	**–**	**116**
Issuances (Note 21)	**7,630**	**290**	**–**	**–**	**(7,920)**	**–**	**–**	**–**	**–**	**–**	**–**
Balance, December 31, 2014	**₱2,604,284**	**₱259,248**	**₱–**	**₱5,983**	**(₱4,315)**	**₱18,372**	**₱1,000,000**	**₱2,688,989**	**₱6,572,561**	**₱616,153**	**₱7,188,714**
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)
Stock purchase plan (Note 21)	–	–	–	–	6,067	–	–	–	6,067	–	6,067
Issuances (Note 21)	7,708	2,463	–	–	(10,171)	–	–	–	–	–	–
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	₱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)
Stock purchase plan (Note 21)	–	–	–	–	24,315	–	–	–	24,315	–	24,315
Effect of business combination	–	–	–	–	–	–	–	–	–	9,971	9,971
Acquisition of non-controlling interests (Note 6)	–	–	–	–	(8,065)	–	–	–	(8,065)	(1,501)	(9,566)
Issuances	11,697	710	–	–	(12,407)	–	–	–	–	–	–
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

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
	(Amounts in Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱392,381**	₱318,994	(₱49,829)
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Note 27)	**202,368**	184,726	233,048
Interest expense and other financing charges (Note 28)	**91,498**	84,417	101,303
Equity in net earnings of associates (Note 12)	**(65,857)**	(161,691)	(118,944)
Pension and other employee benefits expense (Note 31)	**36,856**	38,630	61,320
Gain on conversion of investment in preferred shares to common shares (Note 12)	**(23,161)**	–	–
Interest income (Note 22)	**(13,548)**	(22,962)	(58,303)
Gain on sale of AFS investments	**(3,791)**	(350)	–
Dividend income (Note 22)	**(1,072)**	(2,034)	(23,896)
Unrealized foreign exchange loss - net	**549**	4,394	3,107
Loss (gain) on sale of property and equipment	**(165)**	25	(1,992)
Stock purchase plan expense (Note 21)	**116**	6,067	19,821
Net loss (gains) on derivatives (Note 33)	**24**	8,458	(12,270)
Impairment loss on goodwill (Note 16)	**–**	–	212,300
Gain on sale of investment property	**–**	–	(16,276)
Operating income before working capital changes	**616,198**	458,674	349,389
Decrease (increase) in:			
Investments held for trading	**100,383**	(96,587)	(27,206)
Trade and other receivables	**(123,010)**	(28,007)	(16,665)
Inventories	**(345,330)**	152,904	21,447
Other current assets	**(16,214)**	3,569	99,308
Increase (decrease) in:			
Trade and other payables	**(122,288)**	101,349	10,612
Trust receipts payable	**156,450**	(511,385)	451,061
Other taxes payable	**8,751**	(923)	(6,424)
Unearned revenues	**72,622**	36,196	(7,515)
Cash from operations	**347,562**	115,790	874,007
Interest paid	**(94,692)**	(82,123)	(103,835)
Income tax paid	**(94,777)**	(78,655)	(63,734)
Net cash from (used in) operating activities	**158,093**	(44,988)	706,438
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment and investment properties (Notes 14 and 15)	**(215,026)**	(462,012)	(250,638)
Investments in associates (Notes 12 and 38)	**(1,770)**	(6,197)	(533,153)
AFS investments	**–**	(3,116)	–
Proceeds from sale/settlement of:			
AFS investments	**107,447**	10,101	9,502
Property, plant and equipment	**71,677**	4,408	26,196
Forward currency contracts (Note 33)	**(24)**	(7,930)	9,460
Investment properties	**–**	–	24,538
Dividends received	**56,102**	76,514	54,201
Adjustments to acquisition cost of subsidiaries (Notes 6 and 16)	**39,361**	–	7,063
Payments of long-term loans payable related to acquisition of a subsidiary (Note 6)	**(25,198)**	(15,938)	(34,894)

(Forward)

	Years Ended December 31		
	2014	2013	2012
	(Amounts in Thousands)		
Interest received	**₱14,001**	₱29,628	₱59,424
Deposits received	**–**	–	96,120
Acquisition of subsidiaries - net of cash acquired	**–**	–	(10,081)
Decrease (increase) in other noncurrent assets	**(72,518)**	34,166	(83,329)
Net cash used in investing activities	**(25,948)**	(340,376)	(625,591)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Notes payable	**602,900**	193,478	380,792
Long-term debt	–	745,927	–
Payments of:			
Notes payable	**(359,453)**	(426,837)	(462,309)
Long-term debt	**(132,514)**	(6,688)	(330,359)
Cash dividends	**(145,732)**	(127,060)	(103,547)
Increase (decrease) in due to related parties	**(9,604)**	13,664	(6,841)
Acquisition of non-controlling interests (Note 6)	**–**	–	(9,566)
Net cash from (used in) financing activities	**(44,403)**	392,484	(531,830)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(839)**	409	5
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**86,903**	7,529	(450,978)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**472,708**	465,179	916,157
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱559,611**	₱472,708	₱465,179

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 2014	2013
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 Subsidiaries[(b)]	Educational institution	March 31	**69.75**	69.75
Career Academy Asia, Inc. (CAA) [(c)]	Educational Institution	March 31	**100.00**	
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. UPANG established a new educational institution – PHINMA-UPANG College Urdaneta, Inc. which was incorporated and duly registered with the Philippine SEC on November 11, 2014.*
[(c)] *On November 28, 2014, CAA was incorporated and duly registered with the Philippine SEC. It will engage in providing technical vocational education and training programs.*

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. 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, 2014 and 2013 and for each of the three years in the period then ended December 31, 2014 were reviewed and recommended for approval by the Audit Committee on March 3, 2015. The same consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 4, 2015.

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).

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 part of "Other reserves" under 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 and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to PFRS, which were effective beginning January 1, 2014. Except as otherwise stated, the adoption of the following new and amended Standards and Philippine Interpretations did not have any impact on the financial statements:

- *Investment Entities* (Amendments to PFRS 10, PFRS 12 and PAS 27)

  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. Retrospective application is required for all amendments, subject to certain transition relief.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)

  These amendments clarify the meaning of 'currently has legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

Standards Issued but not yet Effective
The Company did not early adopt the following new standards, amendments and improvements to PFRS that have been approved but are not yet effective. The Company does not expect these changes to have a significant impact on its financial statements unless otherwise indicated.

Effective 2015

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)

  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefits plan. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contribution is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015.

Effective Subsequent 2015

- PAS 16, *Property, Plant and Equipment, and* PAS 38*, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- PAS 16, *Property, Plant and Equipment, and* PAS 41*, Agriculture – Bearer Plants* (Amendments)

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- PFRS 10, *Consolidated Financial Statements and* PAS 28, *Investments in Associates and Joint Ventures – Sale of Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)

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

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)

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

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- PFRS 14, *Regulatory Deferral Accounts* (Amendments)

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016.

- PFRS 9, *Financial Instruments – Classification and Measurement*

  PFRS 9 reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

PFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS is permitted if the date of initial application is before February 1, 2015.

Annual Improvements to PFRS
These improvements contain non-urgent but necessary amendments to PFRS. These amendments are effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively, except as otherwise stated. Early application is permitted. Unless otherwise stated, these amendments will have no material impact on the Company's financial position or performance.

2010–2012 cycle

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*

  This improvement is applied prospectively and clarifies various issues relating to the definition of performance and service conditions, which are vesting conditions, including:

  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 (or PFRS 9, if early adopted).

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

  The amendments are applied retrospectively and clarify that:

  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment,* and PAS 38*, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*

  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel*

  The amendment is applied retrospectively and clarifies that a management, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

2011–2013 cycle

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*

  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*

  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

- PAS 40, *Investment Property*

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

<u>Annual Improvements to PFRS</u>
These improvements contain non-urgent but necessary amendments to PFRS. These amendments are effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively, except as otherwise stated. Early application is permitted. Unless otherwise stated, these amendments will have no material impact on the Company's financial position or performance.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

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

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*

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

- PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – regional market issue regarding discount rate*

  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

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.

Derivative Financial Instruments
The Company enters into short-term forward currency contracts to hedge its currency exposure. 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’s embedded derivatives in loan contracts pertain to interest rate floors. These did not qualify for separate recognition.

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.

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, 2014 and 2013.

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.

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 loans payable and long-term debts are classified under this category.

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.

<u>Derecognition of Financial Assets and Liabilities</u>

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.

<u>Offsetting Financial Instruments</u>
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 reflects 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	10–25 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. For business combinations for which the acquisition date is before January 1, 2010, subsequent adjustments to the consideration transferred are treated as adjustments to goodwill.

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, customer contracts and software) 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. Software is amortized over the estimated life of five years.

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.

Current versus Non-current Classification

The Company presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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. Total assessments of tuition and other school fees, net of monthly amortization, 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.

Stock Purchase Plan
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.

Leases
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.

Earnings Per Common Share (EPS) Attributable to the Equity Holders of the Parent
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.

Diluted Earnings Per Share
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.

Segment Reporting
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.

Contingencies
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.

Events After Financial Reporting Period
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.

Judgments
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 ₱47.0 million, ₱44.8 million and ₱42.7 million in 2014, 2013 and 2012, 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) in March 2011, 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 (ABCIC Property Holdings, Inc. or APHI) in exchange for shares in APHI and/or by sale or assignment of assets to 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
(e) On Closing Date, PHN shall transmit to the Buyer the Deed of Absolute Sale

On June 29, 2012, 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 was accounted for in accordance with PAS 39 from that date.

The investment in AB Capital shares to be sold to Vicsal was presented at fair value of ₱101.8 million as an available-for sale financial asset. The difference between the fair value and carrying amount of the AB Capital shares to be sold to Vicsal amounting to ₱6.7 million was recorded as “Unrealized fair value adjustment on AFS investment previously held as associate” included under “Others-net” in the consolidated statement of income in 2012.

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 carrying value of non-controlling interest greater than 5% of total 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 carrying amount of the Company’s investment is greater than 5% of the total investments in associates as at end of the year.

Estimates and Assumptions

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	
	2014	2013	**2014**	2013	**2014**	2013
	(Amounts in Thousands)					
UPANG	**₱420,213**	₱459,575	4%	4%	5%	5%
Fuld U.S. and Fuld Phils.	**316,389**	351,582	8%	7%	2%	3%
UI	**213,995**	213,995	4%	4%	5%	5%
AU	**35,917**	45,437	5%	5%	5%	5%
COC	**20,445**	20,445	5%	5%	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 2014 and 2013. Impairment loss of ₱212.3 million was recognized in 2012. No impairment loss on trademarks was recognized in 2014, 2013 and 2012. The carrying amount of goodwill and trademarks amounted to ₱1,054.9 million and ₱1,091.0 million as at December 31, 2014 and 2013, and is presented as part of the "Intangible assets" 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, intangible assets) 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 were no impairment of nonfinancial assets in 2014 and 2013. The carrying amounts of investment in associates, property, plant and equipment and investment properties as at December 31 are as follows:

	2014	2013
	(Amounts in Thousands)	
Investment in associate (see Note 12)	**₱2,533,201**	₱2,290,844
Property, plant and equipment (see Note 14)	**2,469,337**	2,517,626
Investment properties (see Note 15)	**431,702**	437,849

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.

There were no impairment of AFS investments in 2014 and 2013. The carrying values of AFS investments amounted to ₱55.5 million and ₱225.4 million as at December 31, 2014 and 2013, 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 ₱1,010.3 million and ₱887.7 million as at December 31, 2014 and 2013, respectively (see Note 10). The allowance for impairment of receivables amounted to ₱245.5 million and ₱200.0 million as at December 31, 2014 and 2013, 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 ₱129.1 million and ₱122.8 million as at December 31, 2014 and 2013, respectively. Unrecognized deferred tax assets amounted to ₱334.3 million and ₱214.6 million as at December 31, 2014 and 2013, 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 2014, the Company recorded provision for unrecoverable input value-added tax of ₱3.8 million. In 2013, the Company reversed allowance for impairment of unrecoverable input VAT amounting ₱1.8 million.

The carrying amount of input VAT classified as current assets amounted to ₱17.4 million and ₱2.2 million as at December 31, 2014 and 2013, respectively. Input VAT classified as other noncurrent assets amounted to nil and ₱0.7 million as at December 31, 2014 and 2013, respectively (see Note 17).

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangible Assets. The Company estimates the useful lives of depreciable property, plant and equipment, depreciable investment properties and intangible assets with finite useful lives based on the period over which the property, plant and equipment, investment properties and intangible assets 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 intangible assets, useful lives are also based on the contracts covering such intangible assets. 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:

	2014	2013
	(Amounts in Thousands)	
Property, plant and equipment (see Note 14)	**₱1,564,402**	₱1,128,806
Investment properties (see Note 15)	**62,961**	69,108

The intangible assets with finite useful lives are fully amortized as at December 31, 2014 and 2013 (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.

In 2014, the Company recorded provision for inventory obsolescence of ₱22.8 million. The carrying amounts of inventories amounted to ₱1,148.9 million and ₱803.6 million as at December 31, 2014 and 2013, 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.

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 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 ₱181.7 million and ₱169.9 million as at December 31, 2014 and 2013, respectively. Net pension expense amounted to ₱33.7 million, ₱34.8 million and ₱51.4 million in 2014, 2013 and 2012, 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. **Transactions with Non-controlling Interests and Others**

Adjustments to Cost of Business Combinations of UPANG (acquired in 2009) and AU (acquired in 2006)
In 2014, the Parent Company adjusted its consideration transferred for the acquisition of UPANG by ₱39.4 million due to receipt of cash deposits in escrow which pertains to consideration waived by the sellers. The adjustment was recorded as reduction of goodwill in 2014 (see Note 16). The cash received also included interest of ₱5.4 million which is recorded as part of "Investment income" account (see Note 22).

The Parent Company also reversed retention payable of ₱9.5 million related to the acquisition of AU due to settlement in 2014 of open cases at the time of acquisition. This resulted in reduction of goodwill in AU by the same amount (see Note 16).

Dilution of Parent Company's interest in Fuld U.S. and Fuld Philippines
The Parent Company invested additional ₱9.2 million in Fuld U.S. and ₱25.4 million in Fuld Philippines without corresponding increase in its economic interests. The transaction resulted in increase of non-controlling interests by ₱5.2 million and decrease of "Other reserves" account for the same amount in 2014. In addition, a key officer of Fuld U.S. exercised stock options in 2014 resulting in further increase in non-controlling interest by ₱4.7 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 ₱9.6 million. The difference between the acquisition cost and the book value of the interest acquired amounting to ₱8.1 million was recognized as part "Other reserves" account in the equity section of the consolidated statement of financial position.

Acquisition of Fuld U.S.
On June 10, 2011, PHN acquired 85% voting shares of stock of Fuld U.S. The acquisition cost 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 installment with an interest rate of 4.5% per annum. As at December 31, 2014, the balance of the long-term loan payable amounted to ₱25.8 million, and is presented under current liabilities. As at December 31, 2013, both current and noncurrent portions of the long-term loan payable amounted to ₱25.6 million (US$0.6 million).

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:

Name	Country of Incorporation	Percentage of Ownership 2014	2013
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	2014	2013
	(Amounts in Thousands)	
API	**₱178,835**	₱183,661
UPANG and subsidiaries	**164,013**	151,719
UI	**117,286**	115,838
COC	**77,811**	75,127
OAL and subsidiary	**(57,382)**	(57,446)
AU	**54,379**	53,303
PSHC	**49,675**	48,558

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

Name	**2014**	2013	2012
		(Amounts in Thousands)	
API	**₱2,459**	(₱3,628)	(₱6,082)
UPANG and subsidiaries	**19,259**	19,470	13,548
UI	**11,966**	9,213	698
COC	**12,367**	7,927	5,634
OAL and subsidiary	**64**	415	(71,345)
AU	**7,652**	6,097	5,084
PSHC	**1,117**	1,315	1,113

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, 2014 follow:

	API	**UPANG and Subsidiaries**	**UI**	**COC**	**OAL and subsidiary**	**AU**	**PSHC**
				(Amounts in Thousands)			
Current assets	**₱345,393**	**₱208,734**	**₱166,584**	**₱185,600**	**₱3,862**	**₱138,833**	**₱80,977**
Non-current assets	**8,000**	**1,519,494**	**970,733**	**398,607**	**4,702**	**541,658**	**220,000**
Current liabilities	**(1,383)**	**(182,708)**	**(165,336)**	**(156,875)**	**(305,154)**	**(115,478)**	**(4,115)**
Non-current liabilities	**(184)**	**(330,581)**	**(139,137)**	**(138,879)**	**(3,201)**	**(139,989)**	**(172,674)**
Total equity	**₱351,826**	**₱1,214,939**	**₱832,844**	**₱288,453**	**(₱299,791)**	**₱425,024**	**₱124,188**
Attributable to:							
Equity holders of parent	**₱202,722**	**₱838,178**	**₱581,242**	**₱214,061**	**(₱239,834)**	**₱334,239**	**₱74,513**
Non-controlling interests	**₱149,104**	**₱376,761**	**₱251,602**	**₱74,392**	**(₱59,957)**	**₱90,785**	**₱49,675**

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

	API	UPANG and Subsidiary	UI	COC	OAL and subsidiary	AU	PSHC
				(Amounts in Thousands)			
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	(₱59,052)	₱85,178	₱48,558

Summarized statements of income for 2014 follow:

	API	**UPANG and Subsidiaries**	**UI**	**COC**	**OAL and Subsidiary**	**AU**	**PSHC**
				(Amounts in Thousands)			
Revenues	**₱7,290**	**₱393,832**	**₱246,347**	**₱259,779**	**₱16**	**₱229,300**	**₱21,195**
Cost of sales	**–**	**(172,077)**	**(112,109)**	**(107,785)**	**–**	**(104,350)**	**–**
Administrative expenses	**(1,876)**	**(140,131)**	**(92,309)**	**(93,848)**	**(1,419)**	**(77,454)**	**(3,870)**
Finance costs	**–**	**(12,356)**	**(202)**	**(5,220)**	**–**	**(7,434)**	**(13,655)**
Other income - net	**400**	**612**	**813**	**2**	**1,724**	**827**	**–**
Income before income tax	**5,814**	**69,880**	**42,540**	**52,928**	**321**	**40,889**	**3,670**
Income tax	**(10)**	**(8,220)**	**(2,931)**	**(4,975)**	**–**	**(5,067)**	**(878)**
Net income	**₱5,804**	**₱61,660**	**₱39,609**	**₱47,953**	**₱321**	**₱35,822**	**₱2,792**

Summarized statements of income for 2013 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and Subsidiary	AU	PSHC
				(Amounts in Thousands)			
Revenues	₱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 - net	–	619	1,674	16	238	581	5
Income 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	₱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
				(Amounts in Thousands)			
Revenues	₱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 cash flows for 2014 follow:

	API	**UPANG and Subsidiaries**	**UI**	**COC**	**OAL and subsidiary**	**AU**	**PSHC**
				(Amounts in Thousands)			
Operating	**₱75,802**	**₱131,094**	**₱62,341**	**₱122,716**	**₱(3,326)**	**₱60,474**	**₱2,350**
Investing	**–**	**(45,821)**	**(17,892)**	**(36,332)**	**583**	**217**	**(68,036)**
Financing	**(26,874)**	**(36,998)**	**(35,872)**	**(53,613)**	**(7,176)**	**(50,095)**	**(25,000)**
Net increase (decrease) in cash and cash equivalents	**₱48,928**	**₱48,275**	**₱8,577**	**₱32,771**	**(₱9,919)**	**₱10,596**	**(₱90,686)**
Dividends paid to non-controlling interests	**₱7,285**	**₱7,008**	**₱11,895**	**₱9,544**	**₱–**	**₱7,101**	**₱–**

Summarized statements of cash flows for 2013 follow:

	API	UPANG and Subsidiary	UI	COC	OAL and subsidiary	AU	PSHC
				(Amounts in Thousands)			
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
			(Amounts in Thousands)				
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	₱–

8. **Cash and Cash Equivalents**

This account consists of:

	2014	2013
	(Amounts in Thousands)	
Cash on hand and in banks	**₱180,390**	₱178,643
Short-term deposits	**379,221**	294,065
	₱559,611	₱472,708

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 ₱3.3 million, ₱4.9 million and ₱22.1 million in 2014, 2013 and 2012, respectively (see Note 22).

9. **Investments Held for Trading**

This account consists of investments in:

	2014	2013
	(Amounts in Thousands)	
Unit Investment Trust Funds (UITFs)	**₱772,769**	₱887,755
Marketable equity securities	**7,526**	6,836
Bonds	**13,910**	–
	₱794,205	₱894,591

Net gains from investments held for trading amounted to ₱14.2, ₱2.3 million and ₱50.9 million in 2014, 2013 and 2012, respectively (see Note 22).

Investments held for trading have yields ranging from 3.12% to 5.45% in 2014 and 5.87% to 11.75% in 2013. Interest income from investments held for trading amounted to ₱0.8 million, ₱12.9 million and ₱23.7 million in 2014, 2013 and 2012, respectively (see Note 22).

10. **Trade and Other Receivables**

This account consists of:

	2014	2013
	(Amounts in Thousands)	
Trade	**₱1,118,238**	₱948,893
Due from related parties (see Note 29)	**47,123**	52,298
Advances to suppliers and contractors	**36,528**	15,157
Advances to officers and employees	**9,382**	7,553
Receivable from PHN Retirement/Gratuity Plan (PHN Retirement) (see Note 29)	**8,939**	8,939
Installment contract receivables	**1,192**	3,359
Dividends receivable (see Notes 12 and 29)	**–**	16,559
Others	**34,332**	34,992
	1,255,734	1,087,750
Less allowance for doubtful accounts	**245,457**	200,030
	₱1,010,277	₱887,720

Trade receivables include receivables from sale of roofing and other steel products to customers 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.

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

Advances to suppliers and contractors and other receivables are noninterest-bearing and normally collected throughout the financial year.

Movements in the allowance for doubtful accounts are as follows:

		2014	
	Trade	**Others**	**Total**
		(Amounts in Thousands)	
Balance at January 1, 2014	**₱194,461**	**₱5,569**	**₱200,030**
Provisions (see Notes 24 and 25)	**51,477**	**–**	**51,477**
Write-offs	**(3,451)**	**(2,599)**	**(6,050)**
Balance at December 31, 2014	**₱242,487**	**₱2,970**	**₱245,457**
Individual impairment	**₱43,652**	**₱1,268**	**₱44,920**
Collective impairment	**198,835**	**1,702**	**200,537**
	₱242,487	**₱2,970**	**₱245,457**

		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
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

11. **Inventories**

This account consists of:

	2014	2013
	(Amounts in Thousands)	
At cost:		
Finished goods	**₱1,073,974**	₱729,309
Raw materials	**17,404**	13,769
Other inventories	**34,934**	27,267
At net realizable value -		
Spare parts and others	**22,586**	33,223
	₱1,148,898	₱803,568

Under the terms of the agreements covering liabilities under trust receipts, certain inventories amounting to ₱200.5 million and ₱44.2 million as at December 31, 2014 and 2013, 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 ₱46.8 million and ₱34.6 million as of December 31, 2014 and 2013, respectively. In 2014, the Company recorded provision for inventory obsolescence of ₱22.8 million (see Note 23).

Cost of inventories sold, presented as "Inventories used" under "Cost of Sales", amounted to ₱2,555.6 million, ₱2,291.0 million and ₱2,083.9 million in 2014, 2013 and 2012, respectively (see Note 23).

12. **Investments in Associates**

This account consists of investments in the following entities:

	Percentage of Ownership	
	2014	2013
PHINMA Property Holdings Corporation (PPHC)	**35.34**	35.34
Trans-Asia Oil and Energy Development Corporation (TA Oil)	**26.24**	26.22
ABCIC Property Holdings, Inc. (APHI)	**26.51**	26.51
Coral Way City Hotel Corporation (Coral Way)	**23.75**	–
Trans-Asia Petroleum Corporation (TA Pet)	**12.99**	–
Academy of Competitive Intelligence	**47.50**	47.50
Asia Coal Corporation (Asia Coal) (*)	**12.08**	12.08

(*) *Ceased commercial operations and in the process of dissolution.*

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

	2014	2013
	(Amounts in Thousands)	
Acquisition costs:		
Balance at beginning of year	**₱2,311,375**	₱2,305,178
Additions	**237,119**	6,197
Balance at end of year	**2,548,494**	2,311,375
Accumulated equity in net income (losses):		
Balance at beginning of year	**(43,606)**	15,122
Equity in net earnings	**65,857**	161,691
Dividends	**(55,254)**	(220,419)
Balance at end of year	**(33,003)**	(43,606)
Share in other comprehensive income of associates:		
Balance at beginning of year	**23,075**	21,249
Changes during the year	**(5,365)**	1,826
Balance at end of year	**17,710**	23,075
	₱2,533,201	₱2,290,844

The carrying values of the investments in associates are as follows:

	2014	2013
	(Amounts in Thousands)	
TA Oil*	**₱1,765,854**	₱1,768,080
PPHC	**430,347**	417,520
TA Pet**	**145,336**	–
APHI	**100,773**	99,906
Coral Way	**90,385**	–
Academy of Competitive Intelligence***	**238**	5,070
Asia Coal	**268**	268
	₱2,533,201	₱2,290,844

* *The fair value based on quoted share price amounted to ₱2,847.1 million and ₱1,785.7 million as at December 31, 2014 and 2013, respectively.*
** *The fair value based on quoted share price amounted to ₱37.6 million as at December 31, 2014.*
*** *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:

	2014			2013	
	TA Oil	**PPHC**	**TA Pet**	TA Oil	PPHC
	(Amounts in Thousands)				
Current assets*	**₱5,121,798**	**₱3,139,016**	**₱114,176**	₱4,870,801	₱2,841,772
Noncurrent assets	**11,469,561**	**462,358**	**994,905**	6,115,466	504,998
Current liabilities**	**(2,370,267)**	**(1,349,078)**	**(689)**	(3,657,968)	(972,595)
Noncurrent liabilities	**(6,998,970)**	**(1,033,758)**	–	(200,941)	(1,195,867)
Non-controlling interests	**(110,036)**	**–**	**(2,542)**	–	–
Equity attributable to Equity Holders of the Parent	**7,112,086**	**1,218,538**	**1,105,850**	7,127,358	1,178,308
Proportion of the Parent Company's ownership	**26.22%**	**35.34%**	**12.99%**	26.22%	35.34%
	1,864,789	**430,631**	**143,650**	1,868,793	416,414
Valuation differences	**(98,935)**	**(284)**	**1,686**	(100,713)	1,106
Carrying amount of the investments	**₱1,765,854**	**₱430,347**	**₱145,336**	₱1,768,080	₱417,520

**Includes cash and cash equivalents of TA Oil amounting to ₱541.6 million and ₱688.0 million in 2014 and 2013, respectively, cash and cash equivalents of PPHC amounting to ₱56.7 million and ₱48.6 million in 2014 and 2013, respectively, and cash and cash equivalents of TA Pet amounting to ₱42.8 million in 2014.*
***Includes other current liabilities of TA Oil amounting to ₱1,303.2 million and ₱247.4 million in 2014 and 2013, respectively, other current liabilities of PPHC amounting to ₱486.0 million and ₱465.2 million in 2014 and 2013, respectively and other current liabilities of TA Pet amounting to 0.07 million in 2014.*

Summarized statements of comprehensive income follow:

	2014			2013		2012	
	TA Oil	**PPHC**	**TA Pet**	TA Oil	PPHC	TA Oil	PPHC
	(Amounts in Thousands)						
Revenues	**₱1,087,068**	**₱1,116,936**	**₱–**	₱1,990,797	₱1,042,175	₱1,031,831	₱880,650
Cost of sales	**(13,544)**	**(731,139)**	**–**	(1,083,239)	(703,894)	(111,017)	(623,516)
Depreciation and amortization	**(161,407)**	**(16,516)**	**(9)**	(99,136)	(21,111)	(44,426)	(16,024)
Interest income	**6,113**	**19,391**	**131**	40,600	22,034	35,626	31,887
Interest expense	**(170,967)**	**(19,259)**	**–**	(13,936)	(18,145)	(1,343)	(28,819)
Other income (expenses) - net	**(433,754)**	**(329,273)**	**(13,759)**	(102,629)	(298,064)	(257,107)	(237,801)
Net income before tax	**313,509**	**40,140**	**(13,637)**	732,457	22,995	653,564	6,377
Income tax	**(133,119)**	**(3,432)**	**69**	(159,662)	(7,582)	(182,132)	(1,685)
Net income	**180,390**	**36,708**	**(13,568)**	572,795	15,413	471,432	4,692
Other comprehensive income	**(19,010)**	**3,065**	**–**	(2,366)	6,371	6,841	–
Total comprehensive income	**₱161,380**	**₱39,773**	**(₱13,568)**	₱570,429	₱21,784	₱478,273	₱4,692
Company's share of total comprehensive income (loss)	**₱42,314**	**₱14,056**	**(₱1,762)**	₱150,461	₱7,669	₱122,294	(₱2,325)
Dividends received	**₱51,037**	**₱–**	**₱–**	₱213,449	₱–	₱31,729	₱22,469

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

	2014	2013	2012
		(Amounts in Thousands)	
Net income	**₱4,082**	₱6,376	₱6,693
Other comprehensive income	**–**	–	8,452
Total comprehensive income	**₱4,082**	₱6,376	₱15,145

The aggregate carrying amount of the investments in the individually immaterial associates amounted to ₱191.7 million and ₱ 105.2 million as at December 31, 2014 and 2013, respectively.

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

a. TA Oil/TA Pet

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 23, 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. On the same day, the BOD of TA Oil approved a property dividend declaration which resulted in the distribution to TA Oil shareholders of 2.55 shares in TA Pet, a 100% subsidiary of TA Oil, 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.

On September 10, 2013, the Philippine SEC approved TA Oil's application for exemptive relief from the 18-day payment date requirement. As approved, the payment date for the property dividend was moved to within ten (10) trading days from the date the following regulatory approvals are obtained:

- Approval of the property dividend by SEC;
- Approval of the registration statement of Trans-Asia Petroleum by the SEC; and
- Issuance by the Bureau of Internal Revenue (BIR) of the corresponding Certificate Authorizing Registration (CAR).

The Philippine SEC approved the property dividend on October 7, 2013, while the BIR issued CAR on March 27, 2014. The SEC issued on August 14, 2014, an Order of Registration approving TA Oil's Registration Statement. The payment date of August 20, 2014 is thus within 10 trading days from issuance of the last regulatory approval on August 14, 2014.

On August 24, 2014, PHN received 32.4 million shares of TA Pet, representing 13% interest, from TA Oil as property dividends.

On August 1, 2014, the Philippine Stock Exchange (PSE) notified TA Pet of its approval of TA Pet's application for initial listing by way of introduction of 250,000,000 common shares, with a par value of ₱1.00 per share, under the Main Board of the Exchange, at an initial price of ₱4.60 per share.

On March 24, 2014, the BOD of TA Oil declared cash dividend amounting to ₱194.6 million, equivalent to ₱0.04 a share, to all common stockholders of record as of April 7, 2014 and was paid on May 7, 2014.

Dividends received by the Parent Company from TA Oil amounted to ₱51.0 million, ₱213.4 million and ₱31.7 million in 2014, 2013 and 2012, respectively. As at December 31, 2013, dividends receivable amounted to ₱162.5 million (see Note 10).

The Parent Company acquired additional shares in TA Oil amounting to ₱2.3 million and ₱6.2 million in 2014 and 2013, 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 ₱22.5 million in 2012.

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

c. AB Capital/APHI

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 in March 2011, 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 December 9, 2013, the SEC approved the return of capital of APHI to PHN and other selling shareholders.

On January 16, 2014, after 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.

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).

e. Coral Way City Hotel Corporation (Coral Way)

In March 2014, PHN entered into a Memorandum of Agreement (MOA) with Coral Way wherein PHN converted the preferred shares to common shares of Coral Way. The conversion resulted in a gain of ₱23.2 million, representing accumulated dividends on the preferred share.

Coral Way was incorporated in the Philippines and registered with the Securities and Exchange Commission on December 10, 2007. It owns and operates Microtel Mall of Asia (the Hotel) which started commercial operations on September 1, 2010.

13. **AFS Investments**

This account consists of:

	2014	2013
	(Amounts in Thousands)	
Unquoted equity securities (see Note 12)	**₱101,032**	₱270,938
Less accumulated impairment losses	**45,517**	45,517
	55,515	225,421
Less current portion	**–**	103,656
	₱55,515	₱121,765

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 both 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, 2014 and 2013.

	2014	2013
	(Amounts in Thousands)	
Balance at beginning of year	**₱–**	₱350
Realized gain on redemption of AFS investments recycled to profit or loss	**–**	(350)
Balance at end of year	**₱–**	₱–

14. **Property, Plant and Equipment**

This account consists of:

	January 1, 2014	**Additions**	**Disposals**	**Reclassifications**	**December 31, 2014**
			(Amounts in Thousands)		
Cost					
Land	**₱1,154,287**	**₱–**	**₱–**	**(₱369,318)**	**₱784,969**
Plant site improvements	**51,204**	**11,736**	**–**	**48,630**	**111,570**
Buildings and improvements	**1,399,714**	**28,652**	**–**	**250,606**	**1,678,972**
Machinery and equipment	**780,323**	**49,622**	**(182,422)**	**434,078**	**1,081,601**
Transportation and other equipment	**477,142**	**32,818**	**(8,955)**	**(157,231)**	**343,774**
	3,862,670	**122,828**	**(191,377)**	**206,765**	**4,000,886**
Less Accumulated Depreciation					
Plant site improvements	**₱27,043**	**17,220**	**–**	**5,317**	**49,580**
Buildings and improvements	**594,233**	**50,652**	**–**	**(34,591)**	**610,294**
Machinery and equipment	**625,350**	**86,517**	**(117,869)**	**131,751**	**725,749**
Transportation and other equipment	**332,951**	**37,414**	**(1,996)**	**(102,477)**	**265,892**
	1,579,577	**191,803**	**(119,865)**	**–**	**1,651,515**
	2,283,093	**(68,975)**	**(71,512)**	**206,765**	**2,349,371**
Construction in progress	**234,533**	**92,198**	**–**	**(206,765)**	**119,966**
Net Book Value	**₱2,517,626**	**₱23,223**	**(₱71,512)**	**₱–**	**₱2,469,337**

	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

Undepreciated capitalized borrowing costs amounted to ₱4.3 million and ₱4.2 million as at December 31, 2014 and 2013, respectively. Capitalized borrowing costs in 2013 amounted to ₱0.6 million based on a 4.11% capitalization rate.

Certain property, plant and equipment of UGC, AU, COC and UPANG with aggregate amount of ₱924 million and ₱92.0 million as at December 31, 2014 and 2013, 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 ₱450.1 million and ₱750.2 million as at December 31, 2014 and 2013, respectively.

15. **Investment Properties**

This account consists of:

	January 1, 2014	**Additions**	**Disposals**	**Reclassification** (see Note 14)	**December 31, 2014**
			(Amounts in Thousands)		
Cost:					
Land	**₱368,741**	**₱–**	**₱–**	**₱–**	**₱368,741**
Buildings for lease	**94,579**	**–**	**–**	**–**	**94,579**
	463,320	**–**	**–**	**–**	**463,320**
Less accumulated depreciation -					
Buildings for lease	**25,471**	**6,147**	**–**	**–**	**31,618**
	₱437,849	**(₱6,147)**	**₱–**	**₱–**	**₱431,702**

	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

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

	2014	2013	2012
		(Amounts in Thousands)	
Rental income	**₱47,048**	₱44,813	₱42,655
Direct costs and expenses (included under "General and administrative expenses" account)	**6,147**	6,147	6,147
	₱40,901	₱38,666	₱36,508

As at December 31, 2014 and 2013, 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. **Intangible Assets**

Following are the details and movements in this account:

	Student List	Software Costs	Customer Contracts	Trademarks with Indefinite Useful Life	Goodwill	Total
Cost						
At January 1, 2013	₱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**
Additions	**–**	**22,088**	**–**	**–**	**–**	**22,088**
Adjustment (see Note 6)	**–**	**–**	**–**	**–**	**(36,146)**	**(36,146)**
At December 31, 2014	**₱131,120**	**₱22,088**	**₱22,080**	**₱47,156**	**₱1,386,400**	**₱1,608,844**
Amortization and Impairment						
At January 1, 2013	₱131,120	₱–	₱22,080	₱–	₱378,669	₱531,869
Amortization	–	–	–	–	–	–
Impairment	–	–	–	–	–	–
At December 31, 2013	**131,120**	–	**22,080**	**–**	**378,669**	**531,869**
Amortization	–	**4,418**	–	–	–	**4,418**
Impairment	–	–	–	–	–	–
At December 31, 2014	**₱131,120**	**₱4,418**	**₱22,080**	**₱–**	**₱378,669**	**₱536,287**
Net Book Value						
At December 31, 2014	**₱–**	**₱17,670**	**₱–**	**₱47,156**	**₱1,007,731**	**₱1,072,557**
At December 31, 2013	–	–	**–**	47,156	1,043,877	1,091,033

The Company recognized impairment loss on goodwill amounting to ₱212.3 million in 2012.

17. **Other Noncurrent Assets**

This account consists of:

	2014	2013
	(Amounts in Thousands)	
Refundable deposits	**₱18,841**	₱13,383
Installment contract receivable	**1,800**	2,400
Dividends receivable (see Notes 12 and 29)	–	145,939
Input VAT - net of allowance for impairment of unrecoverable amount of ₱116.8 million and ₱118.6 million in 2014 and 2013, respectively (see Note 24)	**–**	731
Others - net of allowance for doubtful advances of ₱51.5 million in 2014 and 2013	**15,191**	12,114
	₱35,832	₱174,567

18. **Notes Payable**

This account consists of notes payable of the following subsidiaries:

	2014	2013
	(Amounts in Thousands)	
UGC	**₱390,054**	₱126,875
UI	**–**	17,150
	₱390,054	₱144,025

The notes payable are short-term peso-denominated loans obtained from financial institutions with an annual interest rate ranging from 3% to 4% in 2014 and interest rate of 4% in 2013.

19. Trade and Other Payables

This account consists of:

	2014	2013
	(Amounts in Thousands)	
Trade	**₱128,688**	₱163,571
Payable to third parties	**98,454**	134,662
Accruals for:		
Personnel costs (see Notes 26 and 29)	**107,679**	51,948
Professional fees and others (see Note 29)	**33,777**	100,669
Freight, hauling and handling	**16,406**	8,226
Interest (see Note 28)	**4,658**	10,434
Customers' deposits	**94,714**	104,711
Dividends	**39,260**	35,412
Others	**38,333**	39,685
	₱561,969	₱649,318

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:

	2014	2013
	(Amounts in Thousands)	
UGC	**₱512,500**	₱563,815
UPANG	**187,500**	223,214
AU	**112,500**	125,000
COC	**84,101**	94,442
	896,601	1,006,471
Less debt issuance cost	**6,564**	9,607
	890,037	996,864
PSHC	**128,198**	153,037
Fuld Philippines	**676**	793
Fuld U.S.	**–**	731
	1,018,911	1,151,425
Less current portion - net of debt issuance cost	**106,623**	94,586
	₱912,288	₱1,056,839

The balance of unamortized debt issuance cost follows:

	2014	2013
	(Amounts in Thousands)	
Beginning of year	**₱9,607**	₱2,267
Amortization	**(3,795)**	(1,304)
Additions	**752**	10,829
Effect of pre-termination	**–**	(2,185)
End of year	**₱6,564**	₱9,607

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

As at December 31, 2014, UGC's debt to equity ratio is 1.80:1, in excess of the maximum ratio of 1.75:1 under its loan covenant. UGC has obtained the necessary waivers from the Banks. UGC is in compliance with the other loan covenants. As at December 31, 2013, UGC was in compliance with all its loan covenants.

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 (February 1, 2013–May 1, 2013) 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 (February 15, 2013–May 15, 2013) 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, 2014 and 2013, UPANG was 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 follow:

Year	10-Year Loan
	(Amounts in Thousands)
2014	₱10,128
2015	10,128
2016	10,128
2017	10,128
2018-2023	50,641
	₱91,153

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:

	2014	2013
	(Amounts in Thousands)	
Loan payable	**₱111,247**	₱124,380
Less current portion	**12,257**	–
	₱98,990	₱124,380

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 Parent 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 the ₱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 ₱0.24 million, ₱0.20 million and ₱1.82 million in 2014, 2013 and 2012, respectively (see Note 28). The details of the loan are as follows:

	2014	2013
	(Amounts in Thousands)	
Loan payable to UPPC	**₱154,000**	₱154,000
Less unamortized discount	**25,802**	963
	₱128,198	₱153,037

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 ₱13.41 million in 2014 and ₱14.01 million in 2013 and 2012 (see Note 28).

21. **Equity**

a. Capital Stock

The composition of the Parent Company's capital stock as at December 31, 2014 and 2013 is as follows:

	Number of Shares	
	2014	2013
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	**260,400,814**	259,637,751
Subscribed	**39,994**	39,994
Issued and subscribed	**260,440,808**	259,677,745

The issued and outstanding shares as at December 31, 2014 and 2013 are held by 1,250 and 1,264 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, 2014 and 2013.

The following summarizes 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
As approved by the BOD of PHN last March 4, 2015, the ₱1 billion appropriation of retained earnings shall be allocated as follows:

i. ₱700 million for investment in existing businesses of energy, education and property by 2016 ; and
ii. Buyback of Phinma Corporation shares in the amount of up to ₱300 million from 2015 to 2017.

The above shall be subject to specific terms and conditions as the BOD shall fix.

Unappropriated
On March 4, 2014, the BOD of Phinma Company declared a cash dividend of ₱0.40 a share or an equivalent of ₱104.1 million, to all common shareholders of record as at March 20, 2014. The cash dividends were paid on April 15, 2014.

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.

The retained earnings is restricted for the payment of dividends to the extent of ₱345.5 million and ₱468.7 million as at December 31, 2014 and 2013, respectively, representing the accumulated equity in net earnings of the subsidiaries and associates and unrealized asset revaluation reserve. The asset revaluation reserve amounted to ₱151.8 million and ₱160.1 million as at December 31, 2014 and 2013, 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 Parent Company'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 Parent Company's Stock Purchase Plan while the PSE approved for listing the 8.4 million shares last May 23, 2012.

Under the 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, 2014 and 2013, total shares issued under the stock purchase plan were 2,703,501 and 1,940,438, respectively.

Total cumulative expense recognized in relation to the stock purchase plan amounted to ₱44.8 million and ₱33.2 million as at December 31, 2014 and 2013, respectively. There were no unexercised vested shares as at December 31, 2014.

22. **Investment Income**

This account consists of:

	2014	2013	2012
		(Amounts in Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 8)	**₱3,297**	₱4,886	₱22,131
Investments held for trading (see Note 9)	**803**	12,938	23,704
Due from related parties (see Note 29)	**2,829**	3,918	12,468
Others (see Note 6)	**6,619**	1,220	–
	13,548	22,962	58,303
Net gains from investments held for trading (see Note 9)	**14,177**	2,281	50,869
Dividend income (see Notes 12 and 13)	**1,072**	2,034	23,896
	₱28,797	₱27,277	₱133,068

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

This account consists of:

	2014	2013	2012
		(Amounts in Thousands)	
Cost of sales	**₱2,916,789**	₱2,572,299	₱2,407,269
Cost of educational services	**516,405**	494,379	510,820
Cost of consultancy services	**66,047**	74,667	49,154
Cost of animation services	**–**	19,336	106,944
	₱3,499,241	₱3,160,681	₱3,074,187

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

	2014	2013	2012
		(Amounts in Thousands)	
Inventories used (see Note 11)	**₱2,555,618**	₱2,290,953	₱2,083,862
Personnel costs (see Note 26)	**410,726**	402,763	443,194
Depreciation (see Note 27)	**120,843**	110,102	158,371
Laboratory and school supplies	**114,975**	102,137	100,062
Repairs and maintenance	**50,918**	40,367	34,081
Educational tour expenses	**27,177**	29,898	20,217
Provision for inventory obsolescence (see Note 11)	**22,842**	–	–
Equipment running	**21,418**	19,042	56,836
Sports development and school activities	**20,437**	2,731	9,268
School affiliations and other expenses	**5,007**	35,985	15,827
Accreditation expenses	**981**	523	4,606
Others	**148,299**	126,180	147,863
	₱3,499,241	₱3,160,681	₱3,074,187

24. General and Administrative Expenses

This account consists of:

	2014	2013	2012
		(Amounts in Thousands)	
Personnel costs (see Notes 26, 29 and 31)	**₱525,007**	₱487,698	₱463,803
Professional fees and outside services (see Note 29)	**109,306**	143,044	130,048
Depreciation and amortization (see Note 27)	**74,752**	67,793	66,714
Rent, light and water	**55,117**	55,805	43,534
Provision for doubtful accounts (see Note 10)	**40,031**	19,243	24,072
Taxes and licenses	**25,803**	18,961	29,821
Advertising and promotions	**21,170**	23,548	18,588
Transportation and travel	**15,156**	19,843	24,109
Donation	**10,841**	9,863	3,735
Communications	**9,734**	10,925	7,663
Office supplies	**8,736**	10,381	4,820
Insurance	**7,793**	7,366	6,189
Provision for impairment of unrecoverable input value-added tax (see Note 17)	**–**	–	45,471
Others	**46,802**	38,870	44,577
	₱950,248	₱913,340	₱913,144

25. Selling Expenses

This account consists of:

	2014	2013	2012
		(Amounts in Thousands)	
Personnel costs (see Note 26)	**₱270,002**	₱232,475	₱227,003
Freight, handling and hauling	**105,042**	74,734	71,186
Commission	**31,211**	32,816	23,578
Transportation and travel	**30,092**	33,545	35,666
Taxes and licenses	**11,992**	11,989	10,464
Provision for doubtful accounts (see Note 10)	**11,446**	19,205	12,302
Supplies	**11,341**	12,906	9,151
Repairs and maintenance	**10,986**	9,659	8,272
Postage, telephone and telegraph	**8,936**	7,905	7,339
Advertising	**6,996**	9,841	12,154
Depreciation (see Note 27)	**6,773**	6,831	7,963
Entertainment, amusement and recreation	**4,005**	2,871	2,830
Insurance	**2,874**	2,700	2,386
(forward)			
Rental and utilities	**1,958**	2,215	1,325
Outside services	**1,427**	1,294	1,919
Others	**19,733**	15,579	8,548
	₱534,814	₱476,565	₱442,086

26. Personnel Costs

This account consists of:

	2014	2013	2012
		(Amounts in Thousands)	
Salaries, employee benefits and bonuses (see Note 29)	**₱1,073,290**	₱1,012,382	₱1,017,737
Pension and other post-employment benefits (see Note 31)	**36,856**	38,630	61,320
Training	**5,835**	13,508	10,098
Others	**89,754**	58,416	44,845
	₱1,205,735	₱1,122,936	₱1,134,000

27. Depreciation and Amortization

Depreciation and amortization relate to the following assets:

	2014	2013	2012
	(Amounts in Thousands)		
Property, plant and equipment and investment properties:			
Cost of sales, educational and animation services (see Note 23)	**₱120,843**	₱110,102	₱158,371
General and administrative expenses (see Notes 14, 15 and 24)	**70,334**	67,793	63,110
Selling expenses (see Note 25)	**6,773**	6,831	7,963
Intangible assets -			
General and administrative expenses (see Note 24)	**4,418**	–	3,604
	₱202,368	₱184,726	₱233,048

28. Interest Expense and Other Financing Charges

This account consists of:

	2014	2013	2012
	(Amounts in Thousands)		
Interest expense on long-term debt (see Note 20)	**₱69,645**	₱35,776	₱40,434
Interest expense on notes payable (see Note 18)	**21,630**	47,184	59,307
Other financial charges	**223**	1,457	1,562
	₱91,498	₱84,417	₱101,303

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, 2014 and 2013, 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:

2014

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	**₱102,263**	**₱36,793**	**₱480**	Noninterest-bearing	Unsecured, no impairment
	Grant of interest bearing advances	**206,591**	–	–	1.1% for 1 day	Unsecured, no impairment
Associates	Grant of interest bearing advances	**209,538**	–	–	2.47%–3.125% for 1 day to 75 days	Unsecured, no impairment
	Share in expenses	**2,783**	–	**608**	Noninterest-bearing	Unsecured, no impairment
	Dividend income	**51,037**	–	–	Noninterest-bearing	Unsecured, no impairment
Other related parties	Grant of interest bearing advances	**2,058**	–	–	1% for 1 day	Unsecured, no impairment
	Share in expenses	**9,410**	**7,984**	**46,035**	Noninterest-bearing	Unsecured, no impairment
			₱44,777	**₱47,123**		

Company	Nature	Amount/ Volume	Amount Due to Related Parties	Amount Due from Related Parties (see Notes 10 and 17)	Terms	Conditions
		2013				
		(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	213,448	–	145,939	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	₱198,237		

PHINMA, Inc. The Parent Company has a 5-year management contract with PHINMA, Inc. up to June 30, 2019, renewable thereafter mutual agreement. Under this contract, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Parent Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance and other business activities of the Parent 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, 2014 and 2013.

<u>Management and Directors' Compensation</u>

PHN, UGC, COC, AU, UPANG and UI are under common management of 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 ₱85.2 million and ₱73.4 million in 2014 and 2013, 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 ₱53.6 million and ₱43.4 million as of December 31, 2014 and 2013, 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 ₱37.9 million and ₱29.5 million in 2014 and 2013, 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 ₱34.9 million and ₱22.9 million as of December 31, 2014 and 2013, respectively (see Note 24).

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

	2014	2013	2012
		(Amounts in Thousands)	
Short-term employee benefits	**₱81,563**	₱75,882	₱73,340
Post-employment benefits (see Note 31):			
Retirement benefits	**9,175**	3,684	6,686
Vacation and sick leave	**1,621**	2,265	1,989
	₱92,359	₱81,831	₱82,015

30. **Income Taxes**

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

	2014	2013
	(Amounts in Thousands)	
Deferred tax assets:		
NOLCO	**₱33,819**	₱40,836
Allowance for doubtful accounts	**32,502**	30,628
Accrued expenses	**26,690**	25,070
Pension liability	**24,526**	22,034
Unrealized foreign exchange losses	**3,173**	2,598
Allowance for inventory write-down	**7,261**	409
Others	**1,089**	1,273
	129,060	122,848
Deferred tax liabilities:		
Fair value adjustments on property and equipment of subsidiaries	**(224,479)**	(296,001)
Accelerated depreciation	**(42,611)**	(42,028)
Trademark recognized from business combination	**(14,617)**	(14,147)
Unrealized gain on change in fair value	**(3,206)**	(6,359)
Unamortized debt issuance costs	**(1,376)**	(1,911)
Unamortized capitalized borrowing cost	**(1,283)**	(1,266)
Others	**(9,509)**	(5,601)
	(297,081)	(367,313)
	(₱168,021)	(₱244,465)

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

	2014	2013
	(Amounts in Thousands)	
Deferred tax assets – net	**₱84,611**	₱36,968
Deferred tax liabilities – net	**(252,632)**	(281,433)
	(₱168,021)	(₱244,465)

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:

	2014	2013
	(Amounts in Thousands)	
NOLCO	**₱767,115**	₱468,473
Accrued personnel costs and employee benefits	**196,756**	87,340
Allowance for unrecoverable input VAT	**89,611**	85,836
Unrealized foreign exchange losses	**19,047**	30,549
Unamortized past service costs	**16,707**	13,643
Allowance for impairment loss	**10,725**	16,632
MCIT	**3,255**	3,837
Unrealized change in FV of investment	**3,122**	–
Accrued expenses	**434**	–
	₱1,106,772	₱706,310

Deferred tax assets 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 Republic Act (R.A.) No. 8424 which was 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 ₱3.3 million can be deducted against RCIT due while NOLCO totaling ₱579.3 million can be claimed as deduction against taxable income, as follows:

		Amount		
			NOLCO	
Date Paid/Incurred	Expiry Date	MCIT	Fuld US	Others
		(Amounts in Thousands)		
December 31, 2011	December 31, 2031*	₱–	₱36,907	₱216,576
December 31, 2012	December 31, 2015/December 31, 2032*	1,865	42,551	128,631
December 31, 2013	December 31, 2016/December 31, 2033*	783	20,028	136,090
December 31, 2014	December 31, 2017/December 31, 2034*	606	–	104,966
		₱3,254	₱99,486	₱586,263

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

MCIT amounting to ₱1.9 million and ₱4.8 million expired in 2014 and 2013, respectively. No MCIT and NOLCO were claimed as deduction against regular taxable income in 2014 and 2013.

Reconciliation between the statutory tax rates and the Company's effective tax rates follows:

	2014	2013	2012
Applicable statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Income of schools subject to lower income tax rate of 10%	**(11.1)**	(11.3)	(52.1)
Change in unrecognized deferred tax assets and others	**9.9**	15.0	(11.2)
Equity in net earnings of associates	**(5.0)**	(15.2)	(71.6)
Interest income subjected to lower final tax rate	**(0.7)**	(0.4)	19.9
Dividend income exempt from tax	**(0.1)**	(0.1)	1.2
Effective tax rates	**23.0%**	18.0%	(83.8%)

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

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

	2014	2013
	(Amounts in Thousands)	
Net pension liability	**₱181,723**	₱169,935
Vacation and sick leave	**36,134**	32,586
	₱217,857	₱202,521

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

	2014	2013	2012
		(Amounts in Thousands)	
Net pension expense	**₱33,697**	₱34,825	₱51,355
Vacation and sick leave	**3,159**	3,805	9,965
	₱36,856	₱38,630	₱61,320

A. Pension Benefit Obligation

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:

	2014	2013	2012
		(Amounts in Thousands)	
Current service cost	**₱28,832**	₱27,969	₱17,516
Net interest cost	**4,865**	6,035	5,552
Past service cost	**–**	821	28,287
Net pension expense	**₱33,697**	₱34,825	₱51,355

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

	2014	2013
	(Amounts in Thousands)	
Present value of defined benefit obligation	**₱371,046**	₱334,705
Fair value of plan assets	**(189,323)**	(164,770)
Pension liability	**₱181,723**	₱169,935

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

	2014	2013
	(Amounts in Thousands)	
Balance at beginning of year	**₱334,705**	₱306,972
Current service cost	**28,832**	27,969
Interest cost on defined benefit obligation	**13,888**	14,941
Benefits paid from plan assets	**(5,039)**	(4,073)
Benefits paid from operating funds	**(3,805)**	(382)
Actuarial (gains)/losses:		
Changes in financial assumptions	**7,700**	3,860
Experience adjustments	**(5,235)**	(9,933)
Changes in demographic assumptions	**–**	(5,470)
Past service cost	**–**	821
Balance at end of year	**₱371,046**	₱334,705

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

	2014	2013
	(Amounts in Thousands)	
Balance at beginning of year	**₱164,770**	₱141,223
Actual return excluding amount included in net interest cost	**(5,265)**	(94)
Actual contributions	**25,834**	18,808
Interest income included in net interest cost	**9,023**	8,906
Benefits paid	**(5,039)**	(4,073)
Balance at end of year	**₱189,323**	₱164,770
Actual return on plan assets	**₱3,758**	₱8,812

Change in net pension liability are as follows:

	2014	2013
	(Amounts in Thousands)	
Balance at beginning of year	**₱169,935**	₱165,749
Pension expense	**33,697**	34,825
Contributions	**(25,834)**	(18,808)
Remeasurements in OCI	**7,730**	(11,449)
Benefits paid from operating fund	**(3,805)**	(382)
Pension liability	**₱181,723**	₱169,935

The Company expects to contribute ₱38.3 million to its retirement fund in 2015.

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

	2014	2013
Discount rates	**4–5%**	4–5%
Rates of salary increase	**5–6%**	5–6%
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 ₱189.3 million and ₱164.8 million as at December 31, 2014 and 2013, respectively. The major assets are as follows:

	2014	2013
Cash and short-term investments	**₱166,564**	₱143,350
Real property	**19,150**	14,829
Marketable equity securities	**3,609**	6,591
	₱189,323	₱164,770

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 ₱21 million and ₱2.7 million as at December 31, 2014 and 2013, respectively. Cumulative unrealized fair value gains on the shares amounted 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 by the trustee through 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:

	2014	2013
	Increase (Decrease)	
	(Amounts in Thousands)	
Discount rate:		
Increase by 1%	**(₱31,126)**	(₱28,509)
Decrease by 1%	**37,445**	33,890
Salary increase rate:		
Increase by 1%	**35,042**	31,846
Decrease by 1%	**(29,991)**	(27,729)
Turnover rate:		
Increase by 2%	**(14,714)**	(13,735)
Decrease by 2%	**16,626**	15,902

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

	2014	2013
Year	Amount	
	(In Thousands)	
Within the next 12 months	**₱95,921**	₱62,771
Between 2 and 5 years	**123,644**	129,256
Between 5 and 10 years	**157,242**	156,966
Beyond 10 years	**1,785,969**	1,710,585

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

B. Vacation and Sick Leave

The following tables summarize the components of vacation and sick leave expense recognized in the consolidated statements of income and the amounts recognized in the consolidated statements of financial position.

Vacation and sick leave expense consists of:

	2014	2013	2012
		(Amounts in Thousands)	
Current service cost	**₱2,598**	₱3,453	₱8,550
Interest cost	**561**	352	1,415
Vacation and sick leave expense	**₱3,159**	₱3,805	₱9,965

Changes in the present value of the vacation and sick leave obligation are as follows:

	2014	2013
	(Amounts in Thousands)	
Balance at beginning of year	**₱37,758**	₱33,953
Current service cost	**2,598**	3,453
Interest cost	**561**	352
Balance at end of year	**₱40,917**	₱37,758

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, 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

Credit Risk

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.

	2014	2013
	(Amounts in Thousands)	
Loans and receivables:		
Cash and cash equivalents	**₱539,213**	₱448,348
Trade and other receivables	**1,010,277**	887,720
	₱1,549,490	₱1,336,068

**Excluding cash on hand amounting to ₱20,398 in 2014 and ₱24,360 in 2013.*

There are no significant concentrations of credit risk.

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:

	2014				
	Neither Past Due nor Impaired			**Past Due or**	
	High Grade	**Standard Grade**	**Substandard Grade**	**Impaired**	**Total**
	(Amounts in Thousands)				
Trade	**₱–**	**₱875,751**	**₱–**	**₱242,487**	**₱1,118,238**
Due from related parties	**–**	**47,123**	**–**	**–**	**47,123**
Installment contract receivables	**–**	**1,192**	**–**	**–**	**1,192**
Advances to suppliers and contractors	**–**	**36,528**	**–**	**–**	**36,528**
Accrued interest	**181**	**–**	**–**	**–**	**181**
Receivable from PHN Retirement	**–**	**8,939**	**–**	**–**	**8,939**
Advances to officers and employees	**–**	**9,382**	**–**	**–**	**9,382**
Others	**–**	**31,181**	**–**	**2,970**	**34,151**
	₱181	**₱1,010,096**	**₱–**	**₱245,457**	**₱1,255,734**

2013					
	Neither Past Due nor Impaired			Past Due	
	High Grade	Standard Grade	Substandard 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

As of December 31, 2014 and 2013, the aging analysis of trade and other receivables (including installment contract receivables) are as follows:

2014								
		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	**₱1,118,238**	**₱644,127**	**₱78,966**	**₱36,394**	**₱81,933**	**₱16,504**	**₱17,827**	**₱242,487**
Due from related parties	**47,123**	**47,123**	**–**	**–**	**–**	**–**	**–**	**–**
Installment contract receivables	**1,192**	**1,192**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to suppliers and contractors	**36,528**	**36,528**	**–**	**–**	**–**	**–**	**–**	**–**
Accrued interest	**181**	**181**	**–**	**–**	**–**	**–**	**–**	**–**
Receivable from PHN Retirement	**8,939**	**8,939**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to officers and employees	**9,382**	**9,382**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**34,151**	**31,181**	**–**	**–**	**–**	**–**	**–**	**2,970**
	₱1,255,734	**₱778,653**	**₱78,966**	**₱36,394**	**₱81,933**	**₱16,504**	**₱17,827**	**₱245,457**

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

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:

	2014					
	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	**₱559,611**	**₱–**	**₱–**	**₱–**	**₱–**	**₱559,611**
Financial assets at FVPL -						
Investments in marketable equity securities	**7,526**	**–**	**–**	**–**	**–**	**7,526**
Investment in UITF	**772,769**	**–**	**–**	**–**	**–**	**772,769**
Investment in Bonds	**13,910**	**–**	**–**	**–**	**–**	**13,910**
	₱1,353,816	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,353,816**

	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
Investment in UITF	6,836	–	–	–	–	6,836
	₱486,380	₱–	₱–	₱–	₱–	486,380

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

	2014					
	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	**₱390,054**	**₱–**	**₱–**	**₱–**	**₱–**	**₱390,054**
Trade and other payables	**561,969**	**–**	**–**	**–**	**–**	**561,969**
Trust receipts payable	**200,497**	**–**	**–**	**–**	**–**	**200,497**
Long-term loan payable*	**26,402**	**–**	**–**	**–**	**–**	**26,402**
Long-term debt*	**211,188**	**164,327**	**424,909**	**161,328**	**82,917**	**1,044,669**
	₱1,390,110	**₱164,327**	**₱424,909**	**₱161,328**	**₱82,917**	**₱2,223,591**

**Including current and noncurrent portion and interest.*

	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 and interest.*

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

	2014		2013	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
		(Amounts in Thousands)		
Financial assets:				
Cash and cash equivalents	**US$1,047**	**₱46,822**	US$572	₱25,397
Receivables	**86**	**3,846**	160	7,104
	US$1,133	**₱50,668**	US$732	₱32,501
Financial liabilities:				
Trust receipts payable	**US$–**	**₱–**	US$551	₱24,464
Long-term loan payable	**576**	**25,759**	1,152	51,149
	US$576	**₱25,759**	US$1,703	₱75,613

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were ₱44.72 and ₱ 44.40 to US$1.00 as at December 31, 2014 and 2013, 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, 2014 and 2013. 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, 2014 and 2013.

	2014	
	Increase (Decrease) in Peso-Dollar Exchange Rate	**Effect on Profit Before Tax**
		(Amounts in Millions)
PHN	**₱1.00**	**₱1.8**
	(1.00)	**(1.8)**
UGC	**1.00**	**0.01**
	(1.00)	**(0.01)**
Fuld Philippines	**1.00**	**0.09**
	(1.00)	**(0.09)**

	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)

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 following tables set out the carrying amounts, by maturity, of the Company's financial assets and liabilities that are exposed to interest rate risk as of December 31:

		2014					
	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)					
Financial Assets							
Placements (PHP)	0.2%–1.4%	**₱333,324**	**₱–**	**₱–**	**₱–**	**₱–**	**₱333,324**
Placements (USD)	1.04%–1.27%	**45,896**	**–**	**–**	**–**	**–**	**45,896**
Financial Liabilities							
UGC	1.375%–4.5%	**24,235**	**24,283**	**24,337**	**181,095**	**–**	**253,950**
AU	5.75% subject to repricing at end of 7th year	**12,257**	**12,279**	**12,304**	**12,328**	**62,079**	**111,247**
COC	from 5.81% PDSTF + 2% 5.81% to PDSTF + 2%	**10,014**	**10,025**	**10,038**	**20,117**	**32,820**	**83,014**

		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)					
Financial Assets							
Placements (PHP)	0.2%–3.2%	₱271,283	₱–	₱–	₱–	₱–	₱271,283
Placements (USD)	0.46%–1.27%	59,733	–	–	–	–	59,733
Financial Liabilities							
UGC	1.375%–4.5%	24,188	2,435	24,283	24,337	181,095	256,338
AU	5.75% subject to repricing at end of 7th year	12,383	12,401	12,410	12,420	74,760	124,374
COC	from 5.81% PDSTF + 2% 5.81% to PDSTF + 2%	10,003	10,014	10,025	20,090	42,885	93,017

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

The table below set forth the estimated change in the Company's income before tax due to a reasonably possible change in interest rates as at December 31, 2014 and 2013. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2014	
	Increase/(Decrease) in Basis Points	**Effect on Profit Before Tax**
		(Amounts in Thousands)
Financial Assets		
PHN – peso placement	**25**	**₱238**
	(25)	**(238)**
UGC, API, PSHC, PEN – peso placement	**50**	**595**
	(50)	**(595)**
Financial Liabilities		
UGC	**25**	**₱635**
	(25)	**(635)**
AU	**25**	**278**
	(25)	**(278)**
COC	**25**	**208**
	(25)	**(208)**

	2013	
	Increase/(Decrease) in Basis Points	Effect on Profit Before Tax
		(Amounts in Thousands)
Financial Assets		
PHN – peso placement	25	₱149
	(25)	(149)
API, PSHC, PEN – peso placement	50	529
	(50)	(529)
Financial Liabilities		
UGC	25	₱695
	(25)	(695)
AU	25	311
	(25)	(311)
COC	25	233
	(25)	(233)

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, 2014 and 2013. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2014	
	Increase/Decrease in Stock Exchange Index	**Effect on Profit Before Tax**
		(Amounts in thousands)
PHN	**+10%**	**₱244**
	-10%	**(244)**
API	**+10%**	**521**
	-10%	**(521)**

	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)

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, 2014 and 2013 are as follows:

	2014	2013
	(Amounts in Thousands)	
Total liabilities	**₱3,120,631**	₱2,898,299
Total equity	**7,188,714**	7,031,981
Debt-to-equity ratio	**0.43:1**	0.41:1

33. **Financial Instruments**

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of its assets and liabilities 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

Assets and liabilities measured or disclosed at fair value are as follows:

	2014	**Level 1**	**Level 2**	**Level 3**
		(Amounts in Thousands)		
Assets				
Investments held for trading:				
Investments in UITFs	**₱772,769**	**₱772,769**	**₱–**	**₱–**
Investments in bonds	**13,910**	**13,910**	**–**	**–**
Investments in marketable equity securities	**7,526**	**7,526**	**–**	**–**
Investment properties	**1,308,300**	**–**	**–**	**1,308,300**
	₱2,102,505	**₱794,205**	**₱–**	**₱1,308,300**
Liabilities				
Long-term loan payable	**₱25,759**	**₱–**	**₱–**	**₱25,759**
Long-term debt	**1,051,597**	**–**	**–**	**1,051,597**
	₱1,077,356	**₱–**	**₱–**	**₱1,077,356**

	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	–	–
Investment properties	894,700	–	–	894,700
	₱1,789,291	₱894,591	₱–	₱–
Liabilities				
Long-term loan payable	₱51,869	₱–	₱–	₱51,869
Long-term debt	1,193,043	–	–	1,193,043
	₱1,244,912	₱–	₱–	₱1,244,912

During the years ended December 31, 2014 and 2013, 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 3% to 5 % in 2014 and 2% to 10% in 2013.

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 value of these derivative assets (liabilities) are as follows:

	2014	2013
	(Amounts in Thousands)	
Balance at beginning of year	**₱–**	₱528
Net change in fair value during the year	**24**	(8,458)
Fair value of settled contracts	**(24)**	7,930
Balance at end of year	**₱–**	₱–

34. **Commitments and Contingencies**

a. Unused Credit Lines

PHN has an unused credit line amounting to ₱1,500 million as at December 31, 2014.

UGC has the following unused approved credit lines with local banks and financial institutions as at December 31, 2014:

Nature	Amount
	(Amounts in Thousands)
Letters of credit/trust receipts	₱1,184,344
Bills purchase line	176,252
Invoice financing	400,000
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, 2014 are as follows:

	Amount
	(Amounts in Thousands)
2015	₱17,720
2016	16,332

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:

	2014	2013	2012
		(Amounts in Thousands)	
(a) Net income (loss) attributable to equity holders of the parent	**₱246,546**	₱224,040	(₱37,250)
(b) Weighted average number of common shares outstanding	**260,059**	259,292	258,322
Basic EPS attributable to equity holders of the parent (a/b)	**₱0.95**	₱0.86	(₱0.14)

Diluted EPS is computed as follows:

	2014	2013	2012
		(Amounts in Thousands)	
(a) Net income (loss) attributable to equity holders of the parent	**₱246,546**	₱224,040	(₱37,250)
(b) Adjusted weighted average number of common shares outstanding	**260,059**	259,679	259,095
Diluted EPS attributable to equity holders of the parent (a/b)	**₱0.95**	₱0.86	(₱0.14)

	2014	2013	2012
		(Amounts in Thousands)	
Weighted average number of common shares for basic earnings per share	**260,059**	259,292	258,322
Effect of dilution resulting from Stock Purchase Plan	**–**	387	776
Adjusted weighted average number of common shares outstanding	**260,059**	259,679	259,098

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. These have no dilutive effect on the Company's EPS in 2014 and 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, 2014							
Revenue	**₱358,184**	**₱7,290**	**₱3,640,160**	**₱1,129,258**	**₱535,415**	**(₱303,625)**	**₱5,336,682**
Segment results	**(₱116,271)**	**(₱750)**	**₱246,816**	**₱238,533**	**(₱4,204)**	**(₱12,034)**	**₱352,090**
Investment income	**322,566**	**6,129**	**663**	**1,982**	**1,081**	**(303,625)**	**28,796**
Equity in net earnings of an associate	**–**		**–**	**–**	**3,108**	**60,279**	**63,387**
Interest expense and financing charges	**22,961**	**–**	**(41,963)**	**(22,958)**	**(7,882)**	**(2,455)**	**(52,297)**
Benefit from (provision for) income tax	**(1,483)**	**(10)**	**(60,353)**	**(24,803)**	**(7,334)**	**3,610**	**(90,373)**
Share of non-controlling interests	**–**	**–**	**–**	**(870)**	**–**	**(54,589)**	**(55,459)**
Net income attributable to equity holders of parent	**₱227,773**	**₱5,369**	**₱145,163**	**₱191,884**	**(₱15,231)**	**(₱308,814)**	**₱246,144**
Year Ended December 31, 2013							
Revenue	₱424,064	₱7,631	₱3,173,077	₱999,946	₱547,581	(₱373,265)	₱4,779,034
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							
Revenue	₱344,652	₱15,738	₱2,912,646	₱907,313	₱551,676	(₱195,452)	₱4,536,573
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)

37. Events after the Reporting Period

On March 4, 2015, the Parent Company's BOD declared a cash dividend amounting to ₱104.2 million, or equivalent to ₱0.40 a share, to all common shareholders of record as of March 18, 2015 and payable on March 31, 2015. On the same date, the Parent Company's BOD approved the buyback of issued shares from March 2015 to March 2017 in the open market through the trading facilities of the Philippine Stock Exchange.

38. Notes to Consolidated Statements of Cash Flows

The non-cash investing activities pertain to the following:

a. Acquisition of investment in TA Pet amounting ₱146.0 million through receipt of property dividends from TA Oil in 2014.

b. Acquisition of investment in Coral Way amounting ₱89.4 million though conversion of investment in preferred shares to common shares in 2014.

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