2013 annual report

A. SORIANO CORPORATION

anscor 2013 annual report

CONCURRENT RESOLUTION OF THE BOARD OF DIRECTORS

The Board of Directors of A. Soriano Corporation by unanimous concurrence, submits herewith the Statement and Annual Report of the Chairman of the Board and President of the Corporation as its own Report to the Stockholders for the year ended December 31, 2013.

chairman's message

the economic environment

The year 2013 will be remembered as the year super typhoon *Yolanda* tore through the central regions of the archipelago—devastating coastal areas, forcing the evacuation of 125,000 people, rendering millions homeless and without livelihood and resulting in economic damage worth billions of pesos. The impact of the super typhoon notwithstanding, 2013 was a robust year for the Philippine economy.

The first quarter of 2013 had the highest growth rate at 7.8% since this government began its term in 2010. This is a result of the combined effects of strong performances of the manufacturing and construction sectors, and the increase in consumer and government spending. Domestic consumption remained the main driver of growth, fueled by remittances from about ten million overseas Filipino workers. The country earned its first ever investment grade credit rating in March 2013, followed by another upgrade in May 2013.

The National Statistical Coordination Board reports that the country had the fastest growing economy among Asian countries with its GDP outpacing that of Asian neighbors China, Indonesia, Thailand and Vietnam. On the other hand, Europe was in recession and the United States was slowly recovering.

It was in this milieu that your Company operated in 2013 as an investment company that prudently chooses when, where and in what to invest, to try and ensure optimum return for its diverse investment portfolio.

ANDRES SORIANO III
Chairman of the Board and President

Your Company earned a consolidated net income of ₱1.36 billion.

financial performance

Your Company earned a consolidated net income of ₱1.36 billion, against last year's net profit of ₱1.47 billion.

Anscor's financial assets continued to perform during the first half of the year. Its gains on the sale of marketable securities, amounting to ₱1.10 billion, equal the ₱1.16 billion profits it posted in 2012; and this despite weakness in the Philippine stock market during the second semester of 2013.

Our core investments in traded shares which included Aboitiz Power Corporation, Aboitiz Equity Ventures, Inc. and International Container Terminal Services, Inc. as well as other marketable equity holdings contributed dividend income of ₱237.97 million, slightly higher than the ₱231.96 million dividend income we reported in 2012. Interest income for 2013 amounted to ₱95.59 million, a small increase compared to the interest income earned in the previous year.

Our operating investments made ₱228.95 million in equity earnings, 47% better than in 2012. Growth drivers included Phelps Dodge Philippines Energy Products Corporation and Anscor's newest investment, Atlantic Gulf and Pacific Company (AG&P), which was equitized beginning on 1 July 2013.

Depreciation of the peso against the US dollar and the euro increased the peso value of Anscor's foreign currency-denominated investments. The Company posted a consolidated foreign exchange gain of ₱32.70 million, reversing last year's foreign exchange loss of ₱78.73 million. Anscor continues to hedge its foreign currency positions, to minimize exchange fluctuations.

Your Board of Directors declared a cash dividend of ₱0.25 per share in 2013, with record date October 31, 2013 and payment made on November 27, 2013. The Company's book value per share stood at ₱10.82 as of December 31, 2013.

the soriano group operations

PHELPS DODGE INTERNATIONAL PHILIPPINES, INC. (PDP)

Construction remained buoyant in 2013. Growth continued along all sectors of the industry—commercial, residential, energy and industrial—and PDP, the country's leading manufacturer of wires and cables, was able to surpass 2012's record domestic volume by 6.15%.

Despite higher volumes and unit sales, revenue dropped to ₱5.7 billion from ₱6.4 billion in the previous year. Domestic revenues remained largely at par with 2012 levels, because of lower copper prices. By contrast, export revenues declined significantly, owing to a change in the product mix of PDP's Australian export market.

PDP's income growth posted two consecutive years of record income, rising 11.05% to ₱432.0 million, versus ₱389.0 million in 2012. Several factors contributed to this outcome: a favorable domestic product mix, increased efficiencies, tighter control of fixed operating expenses and effective implementation of PDP's commercial programs that include expanded product offerings and services, and a much-improved delivery system.

Amanpulo continues to upgrade from its renowned hilltop spa to its personal service and varied cuisine. It continues to work hard to remain the industry leader among Philippine luxury resorts.

As a member of the General Cable Group, PDP has been able to tap into the group's global network, to market its portfolio of premium quality products—particularly high-voltage cables, special cables and aluminum cables. PDP's ability to access cutting-edge research and development, new technologies and best practices, has enhanced the company's competitiveness within the industry.

PDP's balance sheet remains strong and prudent management of its working capital has enabled the company to continue to generate cash dividends for its shareholders.

SEVEN SEAS RESORTS AND LEISURE, INC. (OWNER OF AMANPULO)

Occupancy rates for Amanpulo averaged 57.4% (based on available rooms) versus 46.7% in 2012, while average rates improved by US$46 to US$1,057. Villa occupancy improved from 23.4% to 27.3% in 2013. Amanpulo embarked on a casita refurbishment program in mid 2013 that resulted in the closure of twenty five casitas from June until November. Eighteen casitas were renovated and updated with the remaining twenty two casitas scheduled for remodeling in the second half of 2014.

As a result, total revenue declined by ₱99.5 million and the Resort incurred a net loss of ₱53.1 million. This was offset by the gain from the sale of villa lots, netting out to a consolidated net loss of ₱16.4 million compared to a net profit of ₱50.1 million in the previous year. These results also reflect the closure of the Resort for thirty days because of the damage incurred due to typhoon Yolanda. The company is working on its insurance claims for property damage and business interruption which proceeds are expected to be received during the first half of 2014.

Although Amanpulo lay directly in typhoon Yolanda's path, the roofing of the Resort's Beach Club, and its clubhouse suffered the major damage while the casitas sustained minor impairment. There was extensive damage to vegetation that needed clearing and replanting. This left management with no option but to close the resort for a month. It reopened to guests in mid-December.

The company continues to upgrade from its renowned hilltop spa to its personal service and varied cuisine. Major projects for 2013 included the plugging of reef holes on the western side of Pamalican, the building of a seawall on the northeastern side of the island and the paving of the runway. Construction to build five more villas on the northwest part of the island has commenced.

By November 2014, all improvement projects will have been completed, in time to mark the Resort's 21st year. Amanpulo continues to work hard to remain the industry leader among Philippine luxury resorts and it is gratifying to note that Gallivanter's Guide has cited Amanpulo as No. 1 among 'Best Leisure Resorts Worldwide' in 2013.

AG&P is optimistic about opportunities in Europe, North and South America, Southeast Asia, the Middle East and Russia.

CIRRUS MEDICAL STAFFING, INC.

Demand for temporary health-care staff in the United States started off briskly in 2013, but tapered off as the year progressed. Federal government cuts in Medicare reimbursements resulted in weaker demand for physical therapists. Demand for nurses, however, was steady throughout the year.

Despite the soft environment, revenues rose by 5% to ₱1.2 billion. Sales in Cirrus' largest segment, Nursing, rose by 28%. Therapy sales declined by 50% and sales at NurseTogether, a social network for nurses, dropped by 31%, due to the delayed launch of its new development platform. The company reported a consolidated net loss of ₱14.2 million, compared to a profit of ₱4.0 million in 2012. Profitability was also affected by the one-time write-off of technology development costs; expenses incurred in opening a second branch in Fort Lauderdale (Florida); and lower advertising sales by NurseTogether.

Moving forward, Cirrus expects improvement to be underpinned by a steady increase in American demand for health care, a doubling of the company's recruitment capacity, the launch of an improved online platform and a reduction in general and administrative expenses.

The Affordable Health Act— known popularly as "Obamacare"— took effect in November 2013. Although it had a bad start, owing to the repeated crashing of Healthcare.gov, the federal health insurance exchange, it is eventually expected to stimulate strong demand for the nursing services that Cirrus provides.

AG&P INTERNATIONAL HOLDINGS LTD.

AG&P revenues rose by 103% to US$122.74 million, driven primarily by the ramp-up of the Bechtel Gladstone Liquid Natural Gas (LNG) project and the beginning of construction for the company's Ichthys LNG project. Gross profit exceeded expectations, yielding a 39% margin and net income rose 99% from 2012 levels to US$8.19 million.

AG&P is projecting similar revenue for 2014. Growth will come from the fast tracking of the Ichthys project and contracts anticipated in the second semester, as the Bechtel project winds down during the first half of the year.

AG&P is optimistic about opportunities in Europe, North and South America, Southeast Asia, the Middle East and Russia. The company anticipates strong global demand to continue over the coming years for modularization and skilled manpower solutions across the supply chains of petroleum, mining, power and civil infrastructure.

PROPLE LIMITED

On 22 November 2013, Prople acquired 100% of the non-audit business of US-based Kellogg and Andelson Accountancy Corporation (K&A). Founded in 1939, K&A is a well- established accounting firm that provides tax, general accounting and consulting services to thousands of small-to-medium-sized companies in California and the Midwest. It operates out of five locations in Los Angeles, Woodland Hills, San Diego, Kansas City and Chennai (India).

Prople is positioned to capture a bigger slice of the market opportunities from the high-growth segments of finance and accounting, human resources and information services.

Prople's consolidated post-acquisition 2013 revenues grew to ₱168.4 million, a 33% increase over the previous year. Profit performance increased 17% year-to-year behind consolidated operational EBITDA results of ₱22.4 million, excluding one-time closing costs.

Prople's revenues, excluding the K&A acquisition, grew 10% year-on-year to ₱138.0 million, while EBITDA declined by 10% to ₱17.0 million from 2012 levels. Anticipating the acquisition, Prople continued to invest in technology, in processes and in its manpower. Following the acquisition, Prople now manages a workforce of 350 employees who serve over 5,500 clients through operations located in six cities worldwide.

Moving forward, with the increased size, reach and capability, Prople is positioned to capture a bigger slice of the market opportunities from the high-growth segments of finance and accounting, human resources and information services.

ENDERUN COLLEGES, INC.

For its fiscal year that runs from 1 June 2012 to 31 May 2013, Enderun posted a net income of ₱38.7 million and EBITDA of ₱89.9 million on revenues of ₱406.0 million. As of 31 May 2013, the company's cash position stood at ₱43.6 million. The company is debt-free and it has made appropriate accruals to cover retirement liabilities and provisions for uncollectible receivables.

During 2013, Enderun's student population grew to over 1,000 full-time college and certificate students, spread nearly evenly across the school's three main degree offerings in Hospitality Management, Business Administration and Entrepreneurship. The company saw a steady growth of 44% to ₱58.2 million in its continuing education unit, Enderun Extension.

In April 2013, Enderun held its fourth graduation ceremony, at which 156 students received their degrees. Its academic partners from Les Roches (Geneva) and Alain Ducasse Formation (Paris) attended the ceremonies. Enderun continues to expand its network of industry partners throughout the world. It provided 340 internships to students during the June 2012, November 2012 and Summer 2013 terms.

Investments have been made to upgrade campus facilities. Capital expenditures in 2013 amounted to ₱150.0 million. The company finished construction of its banquet tent facility and two-story Athletic Building, which contains a full-sized gymnasium and a new library.

KSA REALTY CORPORATION

The commercial leasing market in the Philippines continued to flourish with close to 113,000 square meters of new office spaces introduced in the Makati Central Business District during the year. Notwithstanding the significant growth in available office spaces, the increasing demand for premium office spaces had the occupancy rates of the prime grade buildings on a continuous upward trend. Rental offering rates increased by up to 18%.

Lease operations of KSA remained vibrant. More than 20,000 square meters of leasable area was due for renewal in 2013 and 80% was readily renewed. Most of the remaining vacant spaces were either leased out to new tenants or taken by existing tenants who expanded their operations.

To provide more value to tenants, KSA has embarked on improvement programs that include improving the building's lighting, overall signage and landscaping.

By year-end, KSA had an occupancy rate of 98%, a significant improvement over the 86% occupancy it had at the end of 2012. Average rental yield increased to ₱856 per square meter from ₱791 in the previous year.

The higher occupancy and rental yield translated into 8% higher rental income of ₱827.0 million, and a net income of ₱618.0 million, 17% over the prior year. KSA declared and paid cash dividends of ₱350.0 million, of which ₱40.0 million accrued to Anscor.

To provide more value to tenants, KSA has embarked on improvement programs that include improving the building's lighting, overall signage and landscaping.

PREDICTIVE EDGE TECHNOLOGIES, LLC

Predictive Edge Technologies is Anscor's US-based, early-stage technology company. Its mission is to provide products and services that make practical and effective use of its patented behavioral science. This technology is based on psychological principles and state-of-the-art mathematics, that allow the company to measure and quantify emotions associated with all digital content.

The company is focused on four customer-segments: federal, consumer, pharmaceutical and political. It has made considerable progress in strengthening demand for its services in each segment. A new sales staff and more aggressive marketing have helped expand the company's client base. Predictive Edge Technologies is about to receive its eighth patent and this will further strengthen its position in the industry.

corporate social responsibility

The Andres Soriano Foundation (ASF), now on its 45th year, provides funding to projects focused on the environment, health, education and community organizations through its 'Small Islands Sustainable Development Program' (SISDEP) in Palawan. In this effort, it is aided by its corps of friends and generous donors.

SISDEP Highlights in 2013:

- Twelve marine sanctuaries are now spread across three towns with excellent coral covers. There were 1,931 mangrove propagules added to the 20,550 planted the previous years.
- Additional fifteen units of Bio-Gas plants were donated and installed, benefitting thirty indigent households.
- The Annual Health Caravan provided medical services to 1,835 patients. It served 449 underweight children in its Supplementary Feeding Program and its Reproductive Health Project provided counseling to about 500 couples, giving them access to cheaper but high quality Family Planning commodities.
- The town of Agutaya now has a functional Level-2 Potable Water System funded in part by Aus-Aid. This water system provides potable water to three coastal barangays with 780 households.
- Under its pre-school program, the Foundation supported 244 children in 2013. There are 301 preschool children enrolled in the current school year.

Of our work in Palawan, it is critical that the children who will inherit the islands be given the skills in life to protect and be responsible for the natural beauty of their patrimony.

ANDRES SORIANO III
Chairman
Andres Soriano Foundation, Inc.

- ASF's Loan Assistance Program helped 160 micro-enterprises operating in three assisted municipalities of Cuyo, Agutaya and Magsaysay.
- Bio-Gardening and vermicomposting technology transfer courses were conducted in three Quiniluban Schools attended by around 350 students.
- The Manamoc Livelihood Association continued its marketing tie-up with Amanpulo Resort.
- The Demo Farm continued to be upgraded to create awareness on the viability of small agri-poultry farms in an island setting where farm lots are small or limited.

Cancer Care Program in 2013:

- Introduced the country's first nursing course specializing in oncology in early 2013 in partnership with the 'Forum Against Cancer through Encouragement and Support' and Bacolod's University of St. La Salle School of Nursing. La Salle (Bacolod) is adopting the new curriculum and plans to offer it as a regular certificate course.
- In partnership with the Philippine General Hospital Cancer Institute, maintains its support to forty five breast cancer patients, by providing them their maintenance chemotherapy medicines for a year.

Together we work as a team to ensure our investments continue to perform for our shareholders.

Other Programs:

The Foundation's Quick-Response Team was stretched delivering emergency relief assistance during 2013—an unusually bad year for natural disasters:

- It succored over 3,000 families in areas of Cavite, Laguna, Taguig, Muntinlupa, Pasay and Cainta flooded by south monsoon (habagat) rains and typhoon Maring in August;
- In October, in partnership with the Social Action Center of Tagbilaran (Bohol), ASF came to the help of 1,500 families affected by the 7.2-magnitude earthquake that shook the Central Visayas.
- Typhoon Yolanda's last landfall in Northern Palawan devastated island-villages in Quiniluban and destroyed the seaweed farms and the pump boats. ASF brought relief to 2,114 families; continuing its resource mobilization and fund raising, it is helping rebuild homes, school buildings and livelihood for the island's indomitable folk.

accelerating growth

With signs of acceleration in the global and domestic economy, Anscor is well positioned to realize growth and capitalize on the attractive dynamics that it is currently seeing in Philippine industry.

We allow our subsidiaries a high level of controlled autonomy and they are encouraged to draw on the competence and know-how of our senior management team and experienced Board of Directors. Together we work as a team to ensure our investments continue to perform for our shareholders. We benefit from a focused and independent management culture that allows us to attract strategic partners and gain access to emerging technologies.

Whether it is competing for talent or business, investing in its future or pursuing a more focused industry-specific growth strategy, Anscor strives to have the flexibility and financial resources to perform. Each of our companies is part of the larger Group precisely because they have great potential and bright prospects.

We thank you our Shareholders, Board of Directors and employees for your continued support as we work ever harder to provide you with the sustained, long-term growth and value.

financial highlights

(In Million Pesos Except for Ratios and Per Share Data)

CONSOLIDATED FOR THE YEAR	2013	2012	2011
REVENUES	**3,525.1**	3,716.5	2,807.8
Services	**1,812.1**	1,918.8	1,572.7
Gain on sale of available for sale (AFS) investments	**1,101.9**	1,169.3	676.8
Dividend income	**238.0**	232.0	223.2
Equity in net earnings of associates	**229.0**	155.3	93.0
Interest income	**95.6**	93.5	120.2
Gain (loss) on increase (decrease) in market values of fair value through profit or loss (FVPL) investments	**(102.8)**	67.2	(7.2)
Management fees	**59.0**	55.8	36.1
Gain on sale - others	**–**	3.5	56.6
Other income	**10.5**	21.0	36.4
Recoveries (valuation allowances) - net	**(73.7)**	(70.5)	34.3
Foreign exchange gain (loss) - net	**32.7**	(78.7)	(7.4)
NET INCOME*	**1,358.0**	1,467.9	993.4
EARNINGS PER SHARE**	**1.08**	1.07	0.74
CONSOLIDATED AT YEAR-END	**12-31-13**	12-31-12	12-31-11
Total Assets	**17,326.5**	13,949.9	12,550.1
Equity Attributable to Equity Holdings of the Parent	**13,637.9**	12,211.7	11,293.3
Investment Portfolio	**14,721.3**	11,551.6	10,519.4
Current Ratio	**1.96**	1.79	3.24
Debt to Equity Ratio	**0.24**	0.11	0.08
Book Value Per Share***	**10.82**	9.71	8.69

* *Attributable to equity holdings of the parent.*

** *Based on weighted average number of shares of 1,377.1 million in 2013, 1,374.3 million in 2012 and 1,350.8 million in 2011.*

*** *Based on outstanding shares of 1,261.0 million, 1,258.2 million and 1,298.6 million as of December 31, 2013, 2012 and 2011, respectively.*

the soriano group's **key financial data**

(In Million Pesos)

	2013	2012
PHELPS DODGE PHILIPPINES ENERGY PRODUCTS CORPORATION (NOTE 1)		
Revenues	**5,726**	6,376
Net Income	**432**	389
Total Assets	**2,824**	2,886
Equity	**2,307**	2,017
SEVEN SEAS RESORTS AND LEISURE, INC.		
Revenues	**527**	545
Net Income (Loss)	**(16)**	50
Total Assets	**1,372**	1,065
Equity	**800**	707
CIRRUS MEDICAL STAFFING, INC. AND SUBSIDIARIES		
Revenues	**1,208**	1,146
Income (Loss) BeforeTax	**(14)**	4
Total Assets	**853**	828
Equity	**731**	714
REVENUES – OTHER AFFILIATES		
KSA Realty Corporation	**827**	765
Enderun Colleges, Inc.	**406**	362
Island Aviation, Inc.	**161**	175
Prople, Inc.	**138**	126
Cirrus Global, Inc. (consolidated; formerly IQMAN)	**27**	55

Available figures as of March 6, 2014.
Note 1: Inclusive of PD Energy International Corporation's financial information.

five-year review

Consolidated Financial Information

(In Million Pesos Except Per Share Data)

YEAR	NET INCOME	EQUITY ATTRIBUTABLE TO EQUITY HOLDINGS OF THE PARENT	WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	EARNINGS PER *SHARE	BOOK VALUE PER **SHARE
2013	**1,358.0**	**13,637.9**	**1,261.0**	**1.08**	**10.82**
2012	1,467.9	12,211.7	1,374.3	1.07	9.71
2011	993.4	11,293.3	1,350.7	0.74	8.69
2010	1,975.4	10,776.1	1,351.6	1.46	8.28
2009	289.6	7,453.9	1,442.6	0.20	5.17

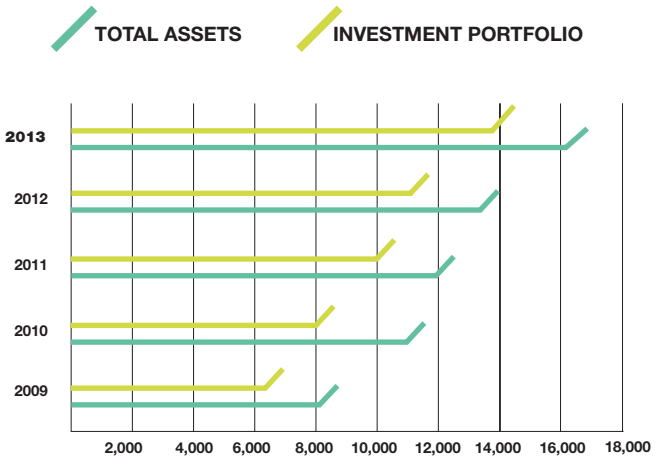
YEAR	GROSS REVENUE	TOTAL ASSETS	INVESTMENT PORTFOLIO
2013	**3,525.1**	**17,326.5**	**14,721.3**
2012	3,716.5	13,949.9	11,551.6
2011	2,807.8	12,550.1	10,519.4
2010	3,501.9	11,430.3	8,742.5
2009	1,736.2	8,354.7	7,173.7

* *Ratio of net income to weighted average number of shares outstanding during the year.*

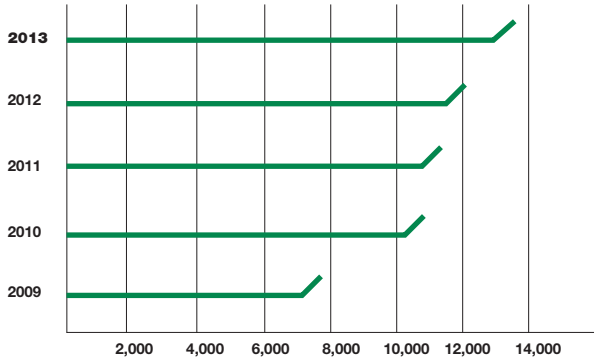
** *Ratio of equity attributable to equity holdings of the parent to outstanding number of shares as of end-December.*

(In Million Pesos)

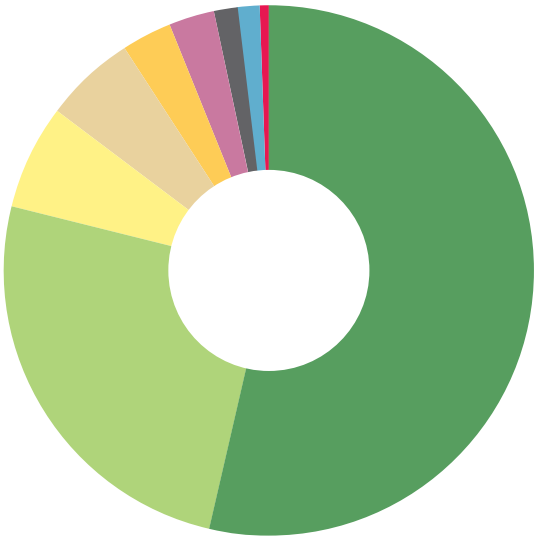
Consolidated Total Assets & Investment Portfolio



Equity Attributable to Equity Holdings of the Parent



Consolidated Investment Portfolio Details December 31, 2013



AFS - QUOTED EQUITY SHARES
₱7,915.2
53.8%

EQUITIZED INVESTMENTS
₱3,686.2
25.0%

AFS - UNQUOTED EQUITY SHARES
₱969.3
6.6%

AFS - BONDS
₱843.9
5.7%

AFS - FUNDS & EQUITIES
₱442.9
3.0%

FVPL - BONDS
₱410.4
2.8%

INVESTMENT PROPERTIES
₱206.8
1.4%

AFS - PROPRIETARY SHARES
₱177.2
1.2%

FVPL -FUNDS & EQUITIES/ OTHERS
₱69.4
0.5%

Statement of Management's Responsibility

The management of A. Soriano Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the years ended December 31, 2013, 2012 and 2011, 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.

ANDRES SORIANO III
Chairman & Chief
Executive Officer/President

ERNEST K. CUYEGKENG
Executive Vice President &
Chief Financial Officer

Signed this 19th day of February 2014

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

SUBSCRIBED AND SWORN to before me this 19th day of February 2014 affiants exhibited to me the following:

NAME	PASSPORT NO.	DATE & PLACE OF ISSUE
Andres Soriano III	711786600	Aug. 11, 2005 to Aug 10, 2015/U.S.
Ernest K. Cuyegkeng	EB4390925	Jan. 6, 2012 to Jan. 5, 2017/Manila

Doc. No. 423;
Page No. 86;
Book No. XI;
Series of 2014.

REGINALDO L. HERNANDEZ
Notary Public for and in the City of Makati
Appointment No. M-292; Roll No. 20642
Commission Expires on 12-31-14
PTR No. 4235754; 01-10-14; Makati City
IBP No. 960331; 1-22-14; Pasig City
TIN No. 100-364-501

Audited Consolidated Financial Statements

Independent Auditors' Report


SGV
Building a better working world

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6760 Ayala Avenue
1226 Makati City
Philippines

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

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

The Stockholders and the Board of Directors
A. Soriano Corporation
7th Floor, Pacific Star Building
Makati Avenue corner Gil Puyat Avenue Extension
Makati City

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

Management's Responsibility for the 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 A. Soriano Corporation and Subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225170, January 2, 2014, Makati City

February 19, 2014

Consolidated Balance Sheets

	December 31		January 1,
	2013	2012 (As restated, Notes 2 and 23)	2012 (As restated, Notes 2 and 23)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 6 and 7)	₱ 743,892,509	₱ 870,552,614	₱ 542,426,682
Fair value through profit or loss (FVPL) investments (Note 8)	479,879,789	534,168,795	883,456,012
Receivables (Notes 6 and 9)	439,038,918	355,962,623	335,048,616
Inventories (Notes 6 and 10)	82,690,608	88,365,726	83,192,215
Available-for-sale (AFS) investments - current (Note 11)	48,949,783	46,578,955	59,542,830
Prepayments	41,644,515	72,233,326	50,439,880
Other current assets (Note 29)	85,115,844	11,792,465	8,092,889
Total Current Assets	1,921,211,966	1,979,654,504	1,962,199,124
Noncurrent Assets			
AFS investments - net of current portion (Note 11)	10,299,579,269	9,272,047,012	8,034,234,901
Investments and advances (Note 12)	3,078,289,972	919,282,979	725,232,813
Goodwill (Note 6)	612,333,405	565,712,343	604,598,071
Property and equipment (Notes 6, 13 and 18)	1,031,160,231	874,662,596	906,768,274
Investment properties (Notes 6, 14 and 29)	206,769,100	216,432,223	216,432,223
Retirement plan asset (Notes 6 and 23)	53,846,435	38,369,388	–
Other noncurrent assets (Notes 6, 15 and 29)	123,326,239	83,744,142	100,593,994
Total Noncurrent Assets	15,405,304,651	11,970,250,683	10,587,860,276
TOTAL ASSETS	₱ 17,326,516,617	₱ 13,949,905,187	₱ 12,550,059,400
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable (Note 16)	₱ 125,095,466	₱ 332,189,721	₱ 86,797,229
Accounts payable and accrued expenses (Notes 6, 17 and 29)	400,910,183	372,987,283	346,679,822
Dividends payable (Note 19)	264,014,626	369,162,064	146,644,057
Customer's deposits for property development (Note 12)	156,858,000	–	–
Income tax payable	2,055,860	2,675,309	1,113,407
Current portion of long-term debt (Notes 6 and 18)	31,337,632	28,976,456	23,854,113
Total Current Liabilities	980,271,767	1,105,990,833	605,088,628

(Forward)

Consolidated Balance Sheets

	December 31		January 1,
	2013	2012 (As restated, Notes 2 and 23)	2012 (As restated, Notes 2 and 23)
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 6 and 18)	₱ 2,109,426,619	₱ 116,929,430	₱ 118,625,887
Deferred revenues (Note 29)	28,448,316	29,675,045	80,142,589
Deferred income tax liabilities - net (Notes 6 and 24)	108,876,698	77,327,984	42,588,616
Retirement benefits payable (Notes 6 and 23)	10,965,263	14,846,513	39,857,885
Other noncurrent liabilities (Notes 6, 15 and 29)	80,623,353	51,373,839	49,809,710
Total Noncurrent Liabilities	2,338,340,249	290,152,811	331,024,687
Total Liabilities	3,318,612,016	1,396,143,644	936,113,315
Equity Attributable to Equity Holdings of the Parent (Note 19)			
Capital stock - ₱1 par value	2,500,000,000	2,500,000,000	2,500,000,000
Additional paid-in capital	1,605,613,566	1,574,103,911	1,574,103,911
Equity reserve on acquisition of noncontrolling interest (Note 3)	(26,356,543)	(26,356,543)	(26,356,543)
Cumulative translation adjustment	(20,417,578)	(156,169,590)	(70,632,555)
Unrealized valuation gains on AFS investments (Note 11)	3,675,941,998	3,458,799,647	2,495,985,688
Cumulative actuarial gains (Note 23)	35,720,041	25,202,686	549,622
Retained earnings:			
Appropriated (Note 19)	3,000,000,000	2,100,000,000	2,100,000,000
Unappropriated (Note 19)	4,898,587,228	4,755,876,861	4,556,260,395
Cost of shares held by a subsidiary (1,238,997,391 shares, 1,241,797,039 shares, 1,201,397,039 shares in 2013, 2012 and 2011, respectively) (Note 19)	(2,031,222,641)	(2,019,724,599)	(1,836,655,862)
	13,637,866,071	12,211,732,373	11,293,254,656
Noncontrolling Interests (Note 3)	370,038,530	342,029,170	320,691,429
Total Equity	14,007,904,601	12,553,761,543	11,613,946,085
TOTAL LIABILITIES AND EQUITY	₱ 17,326,516,617	₱ 13,949,905,187	₱ 12,550,059,400

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

	Years Ended December 31		
	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
REVENUES			
Services (Note 29)	₱ 1,812,136,972	₱ 1,918,796,648	₱ 1,572,687,890
Dividend income (Note 11)	237,966,271	231,958,775	223,197,863
Equity in net earnings of associates (Note 12)	228,945,588	155,327,752	93,029,847
Interest income (Notes 7, 8, 11 and 22)	95,592,251	93,512,782	120,204,004
Sale of villa lots (Note 14)	82,033,482	–	–
Management fee (Notes 9, 26 and 29)	58,926,242	55,776,625	36,064,697
Others	10,468,291	21,049,349	36,435,545
	2,526,069,097	2,476,421,931	2,081,619,846
INVESTMENT GAINS (LOSSES)			
Gain on sale of:			
AFS investments (Note 11)	1,101,883,509	1,169,315,456	676,840,454
Property and equipment and investment property (Notes 13 and 14)	–	3,510,150	39,885,688
Long-term investments (Note 3)	–	–	16,725,079
Gain (loss) on increase (decrease) in market values of FVPL investments (Note 8)	(102,835,133)	67,242,449	(7,243,193)
	999,048,376	1,240,068,055	726,208,028
TOTAL	3,525,117,473	3,716,489,986	2,807,827,874
Costs of services rendered (Note 20)	(1,330,261,339)	(1,288,064,254)	(1,108,860,054)
Cost of villa lots sold (Note 14)	(19,860,844)	–	–
Operating expenses (Note 20)	(761,493,193)	(721,118,746)	(693,551,163)
Recoveries (valuation allowances) - net (Note 22)	(73,678,356)	(70,521,700)	34,259,012
Foreign exchange gain (loss) - net	32,696,008	(78,729,221)	(7,446,980)
Interest expense (Note 22)	(34,877,538)	(18,246,049)	(9,092,211)
Other income (charges) - net (Note 29)	25,253,743	(15,181,075)	2,441,842
	(2,162,221,519)	(2,191,861,045)	(1,782,249,554)
INCOME BEFORE INCOME TAX	1,362,895,954	1,524,628,941	1,025,578,320
PROVISION FOR INCOME TAX (Note 24)	16,113,987	34,986,166	30,451,132
NET INCOME	₱ 1,346,781,967	₱ 1,489,642,775	₱ 995,127,188
Attributable to:			
Equity holdings of the Parent	₱ 1,358,036,019	₱ 1,467,919,427	₱ 993,357,832
Noncontrolling interests	(11,254,052)	21,723,348	1,769,356
	₱ 1,346,781,967	₱ 1,489,642,775	₱ 995,127,188
Earnings Per Share			
Basic/diluted, for net income attributable to equity holdings of the Parent (Note 25)	₱ 1.08	₱ 1.07	₱ 0.74

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
NET INCOME	₱ 1,346,781,967	₱ 1,489,642,775	₱ 995,127,188
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealized valuation gains on AFS investments (Note 11)	1,468,825,443	2,171,495,685	536,801,995
Income tax effect	(18,177,103)	(29,799,220)	23,694,655
	1,450,648,340	2,141,696,465	560,496,650
Realized gains on sale of AFS investments, net of impairment losses, recognized in the consolidated statements of income (Note 11)	(1,237,321,771)	(1,182,576,855)	(712,214,022)
Income tax effect	3,815,782	3,694,349	(3,243,866)
	(1,233,505,989)	(1,178,882,506)	(715,457,888)
	217,142,351	962,813,959	(154,961,238)
Cumulative translation adjustment	135,752,012	(85,537,035)	(2,392,478)
	352,894,363	877,276,924	(157,353,716)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Unrealized actuarial gains (losses) (Note 23)	15,440,233	35,549,095	1,380,890
Income tax effect	(4,747,470)	(10,765,305)	473,964
	10,692,763	24,783,790	1,854,854
OTHER COMPREHENSIVE INCOME (LOSS)	363,587,126	902,060,714	(155,498,862)
TOTAL COMPREHENSIVE INCOME	₱ 1,710,369,093	₱ 2,391,703,489	₱ 839,628,326
Attributable to:			
Equity holdings of the Parent	₱ 1,721,447,737	₱ 2,369,849,415	₱ 836,553,738
Noncontrolling interests	(11,078,644)	21,854,074	3,074,588
	₱ 1,710,369,093	₱ 2,391,703,489	₱ 839,628,326

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Equity Attributable to Equity Holdings of the Parent (Note 19)					
	Capital Stock	Additional Paid-in Capital	Equity Reserve on Acquisition of Noncontrolling Interest (Note 3)	Cumulative Translation Adjustment	Unrealized Valuation Gains (Losses) on AFS Investments (Note 11)	Cumulative Actuarial Gains (Note 23)
BALANCES AT DECEMBER 31, 2010, AS PREVIOUSLY REPORTED	₱ 2,500,000,000	₱ 1,574,103,911	(₱ 26,356,543)	(₱ 68,240,077)	₱ 2,650,946,926	₱ –
Effect of change in accounting policy (Note 2)	–	–	–	–	–	–
BALANCES AT DECEMBER 31, 2010, AS RESTATED	2,500,000,000	1,574,103,911	(26,356,543)	(68,240,077)	2,650,946,926	–
Total comprehensive income (loss) for the year	–	–	–	(2,392,478)	(154,961,238)	549,622
Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱287.9 million (Note 19)	–	–	–	–	–	–
Shares repurchased during the year (Note 19)	–	–	–	–	–	–
Acquisition of a subsidiary (Note 6)	–	–	–	–	–	–
Movement in noncontrolling interests (Notes 3 and 6)	–	–	–	–	–	–
Appropriation of retained earnings (Note 19)	–	–	–	–	–	–
BALANCES AT DECEMBER 31, 2011, AS RESTATED	₱ 2,500,000,000	₱ 1,574,103,911	(₱ 26,356,543)	(₱ 70,632,555)	₱ 2,495,985,688	₱ 549,622

	Equity Attributable to Equity Holdings of the Parent (Note 19)						
		Retained Earnings					
	Subtotal*	Appropriated	Unappropriated	Cost of shares Held by a Subsidiary	Total	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2010, AS PREVIOUSLY REPORTED	₱6,630,454,217	₱ –	₱ 5,972,637,668	(₱ 1,827,024,465)	₱ 10,776,067,420	₱ 38,151,082	₱ 10,814,218,502
Effect of change in accounting policy (Note 2)	–	–	2,347,433	–	2,347,433	1,368,819	3,716,252
BALANCES AT DECEMBER 31, 2010, AS RESTATED	6,630,454,217	–	5,974,985,101	(1,827,024,465)	10,778,414,853	39,519,901	10,817,934,754
Total comprehensive income (loss) for the year	(156,804,094)	–	993,357,832	–	836,553,738	3,074,588	839,628,326
Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱287.9 million (Note 19)	–	–	(312,082,538)	–	(312,082,538)	–	(312,082,538)
Shares repurchased during the year (Note 19)	–	–	–	(9,631,397)	(9,631,397)	–	(9,631,397)
Acquisition of a subsidiary (Note 6)	–	–	–	–	–	277,897,423	277,897,423
Movement in noncontrolling interests (Notes 3 and 6)	–	–	–	–	–	199,517	199,517
Appropriation of retained earnings (Note 19)	–	2,100,000,000	(2,100,000,000)	–	–	–	–
BALANCES AT DECEMBER 31, 2011, AS RESTATED	₱6,473,650,123	₱2,100,000,000	₱ 4,556,260,395	(₱ 1,836,655,862)	₱ 11,293,254,656	₱ 320,691,429	₱ 11,613,946,085

* *Sum of equity details in the first table.*

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Equity Attributable to Equity Holdings of the Parent (Note 19)					
	Capital Stock	Additional Paid-in Capital	Equity Reserve on Acquisition of Noncontrolling Interest (Note 3)	Cumulative Translation Adjustment	Unrealized Valuation Gains (Losses) on AFS Investments (Note 11)	Cumulative Actuarial Gains (Note 23)
BALANCES AT DECEMBER 31, 2011, AS PREVIOUSLY REPORTED	₱ 2,500,000,000	₱ 1,574,103,911	(₱ 26,356,543)	(₱ 70,632,555)	₱ 2,495,985,688	₱ –
Effect of change in accounting policy (Note 2)	–	–	–	–	–	549,622
BALANCES AT AT DECEMBER 31, 2011, AS RESTATED	2,500,000,000	1,574,103,911	(26,356,543)	(70,632,555)	2,495,985,688	549,622
Total comprehensive income (loss) for the year	–	–	–	(85,537,035)	962,813,959	24,653,064
Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱1,231.7 million (Note 19)	–	–	–	–	–	–
Shares repurchased during the year (Note 19)	–	–	–	–	–	–
Movement in noncontrolling interests (Notes 3 and 6)	–	–	–	–	–	–
BALANCES AT DECEMBER 31, 2012, AS RESTATED	₱ 2,500,000,000	₱ 1,574,103,911	(₱ 26,356,543)	(₱ 156,169,590)	₱ 3,458,799,647	₱ 25,202,686

	Equity Attributable to Equity Holdings of the Parent (Note 19)						
		Retained Earnings					
	Subtotal*	Appropriated	Unappropriated	Cost of shares Held by a Subsidiary	Total	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2011, AS PREVIOUSLY REPORTED	₱6,473,100,501	₱2,100,000,000	₱ 4,555,062,107	(₱ 1,836,655,862)	₱ 11,291,506,746	₱ 318,017,378	₱ 11,609,524,124
Effect of change in accounting policy (Note 2)	549,622	–	1,198,288	–	1,747,910	2,674,051	4,421,961
BALANCES AT DECEMBER 31, 2011, AS RESTATED	6,473,650,123	2,100,000,000	4,556,260,395	(1,836,655,862)	11,293,254,656	320,691,429	11,613,946,085
Total comprehensive income (loss) for the year	901,929,988	–	1,467,919,427	–	2,369,849,415	21,854,074	2,391,703,489
Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱1,231.7 million (Note 19)	–	–	(1,268,302,961)	–	(1,268,302,961)	–	(1,268,302,961)
Shares repurchased during the year (Note 19)	–	–	–	(183,068,737)	(183,068,737)	–	(183,068,737)
Movement in noncontrolling interests (Notes 3 and 6)	–	–	–	–	–	(516,333)	(516,333)
BALANCES AT DECEMBER 31, 2012, AS RESTATED	₱7,375,580,111	₱2,100,000,000	₱ 4,755,876,861	(₱ 2,019,724,599)	₱ 12,211,732,373	₱ 342,029,170	₱ 12,553,761,543

* *Sum of equity details in the first table.*

See accompanying Notes to Consolidated Financial Statements.

	Equity Attributable to Equity Holdings of the Parent (Note 19)					
	Capital Stock	Additional Paid-in Capital	Equity Reserve on Acquisition of Noncontrolling Interest (Note 3)	Cumulative Translation Adjustment	Unrealized Valuation Gains (Losses) on AFS Investments (Note 11)	Cumulative Actuarial Gains (Note 23)
BALANCES AT DECEMBER 31, 2012, AS PREVIOUSLY REPORTED	₱ 2,500,000,000	₱ 1,574,103,911	(₱ 26,356,543)	(₱ 156,169,590)	₱ 3,458,799,647	₱ –
Effect of change in accounting policy (Note 2)	–	–	–	–	–	25,202,686
BALANCES AT DECEMBER 31, 2012, AS RESTATED	2,500,000,000	1,574,103,911	(26,356,543)	(156,169,590)	3,458,799,647	25,202,686
Total comprehensive income (loss) for the year	–	–	–	135,752,012	217,142,351	10,517,355
Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱309.8 million (Note 19)	–	–	–	–	–	–
Shares repurchased during the year (Note 19)	–	–	–	–	–	–
Treasury shares reissued during the year	–	31,509,655	–	–	–	–
Movement in noncontrolling interests (Notes 3 and 6)	–	–	–	–	–	–
Additional investment in a subsidiary	–	–	–	–	–	–
Appropriation of retained earnings (Note 19)	–	–	–	–	–	–
BALANCES AT DECEMBER 31, 2013	**₱ 2,500,000,000**	**₱ 1,605,613,566**	**(₱ 26,356,543)**	**(₱ 20,417,578)**	**₱ 3,675,941,998**	**35,720,041**

	Equity Attributable to Equity Holdings of the Parent (Note 19)						
		Retained Earnings					
	Subtotal*	Appropriated	Unappropriated	Cost of shares Held by a Subsidiary	Total	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2012, AS PREVIOUSLY REPORTED	₱7,350,377,425	₱2,100,000,000	₱ 4,757,264,098	(₱ 2,019,724,599)	₱ 12,187,916,924	₱ 338,816,679	₱ 12,526,733,603
Effect of change in accounting policy (Note 2)	25,202,686	–	(1,387,237)	–	23,815,449	3,212,491	27,027,940
BALANCES AT DECEMBER 31, 2012, AS RESTATED	7,375,580,111	2,100,000,000	4,755,876,861	(2,019,724,599)	12,211,732,373	342,029,170	12,553,761,543
Total comprehensive income (loss) for the year	363,411,718	–	1,358,036,019	–	1,721,447,737	(11,078,644)	1,710,369,093
Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱309.8 million (Note 19)	–	–	(315,325,652)	–	(315,325,652)	–	(315,325,652)
Shares repurchased during the year (Note 19)	–	–	–	(21,419,406)	(21,419,406)	–	(21,419,406)
Treasury shares reissued during the year	31,509,655	–	–	9,921,364	41,431,019	–	41,431,019
Movement in noncontrolling interests (Notes 3 and 6)	–	–	–	–	–	(1,939,021)	(1,939,021)
Additional investment in a subsidiary (Note 12)	–	–	–	–	–	41,027,025	41,027,025
Appropriation of retained earnings (Note 19)	–	900,000,000	(900,000,000)	–	–	–	–
BALANCES AT DECEMBER 31, 2013	**₱7,770,501,484**	**₱3,000,000,000**	**₱ 4,898,587,228**	**(₱ 2,031,222,641)**	**₱ 13,637,866,071**	**₱ 370,038,530**	**₱ 14,007,904,601**

* *Sum of equity details in the first table.*

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱ 1,362,895,954	₱ 1,524,628,941	₱ 1,025,578,320
Adjustments for:			
Depreciation and amortization (Note 13)	127,561,862	117,903,279	105,230,051
Loss (gain) on decrease (increase) in market values of FVPL investments (Note 8)	102,835,133	(67,242,449)	7,243,193
Valuation allowances (recoveries) - net (Note 22)	73,678,356	70,521,700	(34,259,012)
Gain on sale of:			
AFS investments (Note 11)	(1,101,883,509)	(1,169,315,456)	(676,840,454)
Investment property (Note 14)	–	–	(39,885,688)
Property and equipment (Note 13)	–	(3,510,150)	–
Long-term investments (Note 3)	–	–	(16,725,079)
Dividend income (Note 11)	(237,966,271)	(231,958,775)	(223,197,863)
Gain from fair value adjustment on net assets of acquired subsidiary (Note 6)	–	–	(3,479,270)
Equity in net earnings of associates (Note 12)	(228,945,588)	(155,327,752)	(93,029,847)
Interest income (Note 22)	(95,592,251)	(93,512,782)	(120,204,004)
Interest expense (Note 22)	34,877,538	18,246,049	9,092,211
Retirement benefit expense (Note 23)	11,474,829	15,384,331	16,109,144
Unrealized foreign exchange losses - net	106,014,593	46,324,451	84,246,951
Operating income before working capital changes	154,950,646	72,141,387	39,878,653
Decrease (increase) in:			
FVPL investments	(54,078,824)	399,344,115	(74,254,005)
Receivables	(97,790,402)	(28,626,949)	19,092,592
Inventories	4,186,191	(5,173,511)	(13,556,102)
Advances from customer	–	–	(22,141,811)
Prepayments and other current assets	(42,734,568)	12,778,054	28,119,936
Increase (decrease) in:			
Accounts payable and accrued expenses	32,152,326	21,326,851	(81,463,790)
Customer's deposit for property development	156,858,000	–	–
Deferred revenues	(1,226,729)	(50,467,544)	–

(Forward)

	Years Ended December 31		
	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Net cash provided by (used in) operations	₱ 152,316,640	₱ 421,322,403	₱ (104,324,527)
Dividends received	307,566,271	276,758,775	268,797,863
Retirement benefit contribution (Note 23)	(15,695,633)	(42,909,632)	(8,330,343)
Interest received	97,227,033	96,986,204	120,654,946
Interest paid	(34,877,538)	(18,246,049)	(9,092,211)
Income taxes paid	(23,226,651)	(24,564,933)	(23,849,020)
Net cash flows from operating activities	483,310,122	709,346,768	243,856,708
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
AFS investments (Note 11)	(5,131,238,087)	(5,269,523,768)	(5,585,359,166)
Property and equipment (Note 13)	(283,486,670)	(90,791,210)	(111,945,990)
Acquisition of an associate (Note 12)	(1,737,200,000)	–	–
Proceeds from sale of:			
AFS investments (Note 11)	5,181,601,386	5,973,486,059	4,120,839,967
Long-term investment (Note 3)	–	–	44,619,226
Investment property (Note 14)	–	–	111,455,100
Property and equipment (Note 13)	–	8,503,759	–
Advances to affiliates (Note 12)	(1,886,405)	–	–
Acquisition of subsidiaries, net of cash acquired (Note 6)	–	–	(141,759,179)
Net cash flows from (used in) investing activities	(1,972,209,776)	621,674,840	(1,562,150,042)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable (Note 16)	176,133,976	432,787,492	263,518,777
Proceeds from long-term debt (Note 18)	1,973,976,357	30,000,000	43,840,000
Proceeds from sale of company shares held by a subsidiary (Note 19)	41,431,019	–	–
Payments of:			
Notes payable (Note 16)	(389,625,547)	(187,395,000)	(241,115,400)
Long-term debt (Note 18)	(24,254,167)	(26,574,114)	(72,942,100)
Dividends (Note 19)	(420,473,090)	(1,045,784,954)	(300,294,818)
Company shares purchased by a subsidiary (Note 19)	(21,419,406)	(183,068,737)	(9,631,397)
Increase (decrease) in noncontrolling interests	39,263,412	(542,303)	199,517
Net cash flows from (used in) financing activities	1,375,032,554	(980,577,616)	(316,425,421)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(113,867,100)	350,443,992	(1,634,718,755)
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	(12,793,005)	(22,318,060)	(10,978,152)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	870,552,614	542,426,682	2,188,123,589
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱ 743,892,509	₱ 870,552,614	₱ 542,426,682

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

A. Soriano Corporation (Anscor or the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on February 13, 1930 to, among others, act as agent or representative of corporations, partnerships or individuals whether residing here or abroad; to buy, retain, possess shares of stock, franchises, patents of any person or entity and to issue shares of stock, bonds or other obligations for the payment of articles or properties acquired by the Company; and to buy or acquire all or part of the property, assets, business and clientele of any person, corporation or partnership, managing the properties or businesses so purchased or acquired and exercising all the powers necessary and convenient for the management and development of the said properties or businesses. On July 17, 1979, the SEC approved the Company's amended articles of incorporation extending the term of its existence for another fifty years up to February 12, 2030. The Company is a corporation incorporated and domiciled in the Philippines whose shares are publicly traded. The registered office address of the Company is at 7th Floor, Pacific Star Building, Makati Avenue corner Gil Puyat Avenue Extension, Makati City, Philippines.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issue by the Board of Directors (BOD) on February 19, 2014.

2. Basis of Preparation and Changes in Accounting Policies and Disclosures

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for securities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value. The consolidated financial statements are presented in Philippine pesos (Peso), which is the Group's functional and presentation currency. Amounts are presented to the nearest Peso unless otherwise stated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies as discussed below.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on IFRIC Interpretation which were adopted as of January 1, 2013.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the consolidated balance sheet;
  c) The net amounts presented in the consolidated balance sheet;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments have no impact on the Group's consolidated financial statements.

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

  This new standard has no impact on the Group's financial position or performance. A reassessment of control was performed by the Company on all its subsidiaries and associates in accordance with the provisions of PFRS 10. Following the reassessment, the Company determined that there are no additional entities that need to be consolidated nor are there subsidiaries that need to be deconsolidated.

- Amendments to PAS 27, *Separate Financial Statements*. As a consequence of the issuance of the new PFRS 10 and PFRS 12, *Disclosure of Interest in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, joint ventures, and associates in the separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The adoption of the amended PAS 27 has no significant impact on the separate financial statements of the Group.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

  The Group does not have any jointly controlled entities so the adoption of this new standard has no significant impact on the consolidated financial statements of the Group.

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

  The adoption of PFRS 12 affects disclosures only and has no impact on the Group's financial position or performance. The additional disclosures required are presented in Note 12 to the financial statements.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*. As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group does not have any joint venture so the adoption of this amendment has no significant impact on its consolidated financial statements.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. PFRS 13 also requires additional disclosures.

  The Group has assessed its policies for measuring fair values of its financial instruments and changes were applied prospectively. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

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

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

  On January 1, 2013, the Group adopted the Revised PAS 19, *Employee Benefits*.

  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period be recognized immediately in profit or loss when incurred.

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

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

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

(In Millions)

	December 31, 2013	December 31, 2012	January 1, 2012
Increase (decrease) in:			
Consolidated Balance Sheets			
Net defined benefit liability	(₱ 11.0)	(₱ 11.7)	(₱ 3.4)
Net defined benefit asset	40.9	26.0	–
Deferred tax assets	(15.2)	(10.7)	1.0
Cumulative actuarial gains	35.7	25.2	0.5
Retained earnings	(2.2)	(1.4)	1.2
Noncontrolling interests	3.2	3.2	2.7

	Years Ended December 31		
	2013	2012	2011
Increase (decrease) in:			
Consolidated Statements of Income			
Cost of services rendered	₱ –	₱ 1.3	₱ –
Operating expenses	(0.8)	1.6	1.4
Income before income tax	0.8	(2.9)	(1.4)
Income tax benefits	(0.2)	(0.9)	0.4
Net income	(1.0)	(2.0)	(1.0)
Attributable to equity holdings of the Parent Company	(0.8)	(2.6)	(1.0)
Attributable to noncontrolling interests	(0.2)	0.6	–
Basis/diluted earnings per share	–	–	–
Consolidated Statement of Comprehensive Income			
Unrealized actuarial gains	₱ 15.4	₱ 35.5	₱ 1.4
Income tax effect	(4.7)	(10.8)	0.4
Other comprehensive income for the year, net of tax	10.7	24.7	1.8
Attributable to equity holdings of the Parent Company	10.5	24.7	0.5
Attributable to noncontrolling interests	0.2	(0.1)	1.3

The additional disclosures required are presented in Note 23 to the consolidated financial statements.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The adoption did not have a significant impact on consolidated statements of cashflows.

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

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

Annual Improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

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

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

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment has no impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group assessed that this amendment has no impact on its financial position or performance.

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

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2013

The Group will adopt the standards, amendments and interpretations enumerated below when these become effective. The Group continues to assess the impact of the following new and amended accounting standards and interpretations. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective in 2014

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

- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets,* remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The Group did not early adopt these amendments. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- Philippine Interpretation IFRIC 21, Levies (IFRIC 21). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*, provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- Amendments to PFRS 10, PFRS 12 and PAS 27 - *Investment Entities*, 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. These amendments are effective for annual periods beginning on or after January 1, 2014. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

Effective in 2015

- Amendments to PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current

service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. It is not expected that this amendment would be relevant to the Group since the Group has no contributory defined benefit retirement plan.

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

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

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

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, requires entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance since the Group does not have any revalued property, plant and equipment.

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

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*, clarifies that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

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

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

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

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

Effectivity date to be determined

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

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

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project. The Group shall conduct another impact evaluation in early 2014 using the consolidated financial statements for the year ended December 31, 2013.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This 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. The Philippine SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and the following wholly-owned and majority-owned subsidiaries as at December 31:

	Nature of Business	Percentage of Ownership		
		2013	2012	2011
A. Soriano Air Corporation (Note 29)	Services/Rental	100	100	100
Pamalican Island Holdings, Inc. (PIHI)	Holding	62	62	62
Island Aviation, Inc. (IAI, Notes 18 and 29)	Air Transport	62	62	62
Anscor Consolidated Corporation (Anscorcon)	Holding	100	100	100
Anscor International, Inc. (AI, Note 12)	Holding	100	100	100
IQ Healthcare Investments Limited (IQHIL, Note 12)	Manpower Services	100	100	100
Cirrus Medical Staffing, Inc. (Cirrus, Notes 6 and 12)	Manpower Services	94	94	94
Cirrus Holdings USA, LLC (Cirrus LLC, Note 6)	Manpower Services	94	94	94
Cirrus Allied, LLC (Cirrus Allied, Note 6)	Manpower Services	94	94	94
NurseTogether, LLC (NT) (Note 6)	Online Community Management	94	94	94
Anscor Property Holdings, Inc. (APHI, Note 14)	Real Estate Holding	100	100	100
Akapulko Holdings, Inc. (Akapulko)	Real Estate Holding	100	100	100
Goldenhall Corp.	Real Estate Holding	100	100	–
Lakeroad Corp.	Real Estate Holding	100	100	–
Mainroad Corp.	Real Estate Holding	100	100	–
Makatwiran Holdings, Inc. (Makatwiran)	Real Estate Holding	100	100	100
Makisig Holdings, Inc. (Makisig)	Real Estate Holding	100	100	100
Malikhain Holdings, Inc. (Malikhain)	Real Estate Holding	100	100	100
Mountainridge Corp.	Real Estate Holding	100	100	–
Rollingview Corp.	Real Estate Holding	100	100	–
Summerside Corp.	Real Estate Holding	100	100	–
Timbercrest Corp.	Real Estate Holding	100	100	–
Sutton Place Holdings, Inc. (Sutton)	Holding	100	100	100
Cirrus Global, Inc. (CGI, Note 29)	Manpower Services	93	93	93
IQ Healthcare Professional Connection, LLC (IQHPC, Notes 15 and 29)	Manpower Services	93	93	93
Seven Seas Resorts and Leisure, Inc. (SSRLI, Note 12)	Villa Project Development	62	62	62
Pamalican Resort, Inc. (PRI, Note 12)	Resort Operations	62	62	62

In 2012, Goldenhall, Lakeroad, Mainroad, Mountainridge, Rollingview, Summerside and Timbercast, wholly-owned subsidiaries of APHI, were incorporated as real estate holding companies.

Except for AI, IQHIL, Cirrus and its subsidiaries and IQHPC, the above companies are all based in the Philippines. The principal business location of AI and IQHIL is in the British Virgin Islands (BVI), while Cirrus and its subsidiaries and IQHPC are based in the United States of America (USA).

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it 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 Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins from the date of acquisition, being the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Noncontrolling interests represent a portion of profit or loss and net assets of subsidiaries not held by the Group, directly or indirectly, and are presented separately in the consolidated statement of comprehensive income and within the equity section in the consolidated balance sheet and consolidated statement of changes in equity, separately from Company's equity.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group 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. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any noncontrolling 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 recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

In 2008, Sutton acquired an additional 32% interest in CGI, increasing its ownership to 93%. The excess of the consideration are the book value of the interest acquired was taken to "Equity Reserve on Acquisition of Noncontrolling Interest" in the consolidated balance sheets.

Investments in Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for under the equity method of accounting in the consolidated financial statements and are initially recognized at cost. On acquisition of investment in an associate, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill. Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the assets transferred. The reporting dates of the associates of the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The Group determines at the end of each reporting period whether there is any evidence that the investments in associates are impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investments and their recoverable amount.

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

The following are the Group's associates:

	Nature of Business	Percentage of Ownership		
		2013	2012	2011
NewCo., Inc. (Newco, Note 12)	Real Estate	45	45	45
AFC Agribusiness Corporation	Real Estate	45	45	45
Anscor-Casto Travel Corporation	Travel Agency	44	44	44
Phelps Dodge International Philippines, Inc. (PDIPI, Notes 12 and 29)	Holding	40	40	40
Minuet Realty Corporation (Minuet)	Landholding	60	60	60
Phelps Dodge Philippines Energy Products Corporation (PDP Energy, Notes 12 and 29)	Wire Manufacturing	40	40	40
PD Energy International Corporation (PDEIC)	Wire Manufacturing	40	40	40
Vicinetum Holdings, Inc. (VHI, Note 12)	Holding	32	32	32
AG&P International Holdings Ltd. (AGPI, Note 12)	Holding	27	–	–

Minuet has been excluded in the consolidated financial statements as special voting requirements adopted by its shareholders manifested that the Company's 60% holdings in Minuet is not sufficient to carry major business decisions.

On June 28, 2013, AI converted its convertible bridge Notes from AGPI to series B voting preferred shares. On June 29, 2013, AI Inc., signed a definitive agreement with AGPI for the subscription to series C voting preferred shares. The subscription increases its holdings to 26.8 %, making AGPI an associate of the Group.

Except for AGPI, the above companies are all based in the Philippines. The principal business location of AGPI is in the British Virgin Islands.

On December 2, 2011, a deed of assignment was executed for the sale of the Company's 60% holdings in Vesper Industrial and Development Corporation. Gain recognized from the sale amounted to ₱16.7 million recorded under gains on sale of long-term investments in 2011.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any noncontrolling interests in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's 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 or a group of cash-generating units 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.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of income.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in Peso based on the exchange rate recorded at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing exchange rate at the end of reporting period. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the closing exchange rates at the date when the fair value was determined. Foreign exchange gains and losses relating to AFS equity instruments are presented under other comprehensive income.

Financial statements of consolidated foreign subsidiaries which are considered foreign entities are translated into the presentation currency of the Group (Peso) at the closing exchange rate at end of reporting period and their statements of income are translated using the monthly weighted average exchange rates for the year. The exchange differences arising from the translation are taken directly to a separate component of equity (under cumulative translation adjustment). On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of income.

Fair Value Measurement

The Group measures financial assets (such as FVPL and AFS investments) at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost and of investment properties are disclosed.

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

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

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

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets 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 that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group 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 Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted AFS financial assets, and for non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

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

The fair value of instruments that are actively traded in organized financial markets is determined by reference to market prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date. Derivatives are recognized on trade date basis.

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value

The fair value of instruments that are actively traded in organized financial markets is determined by reference to market prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Classification of financial instruments

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.

As of December 31, 2013 and 2012, the Group has the following categories of financial assets and financial liabilities:

(a) Financial assets and financial liabilities at FVPL

This category includes financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL. Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets or financial liabilities classified in this category may be designated by management on initial recognition 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.

Derivatives recorded at FVPL

The Group enters into derivative contracts such as currency forwards. These derivative financial instruments are initially recorded at fair value and are subsequently remeasured at fair value at each reporting date. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. There are no outstanding freestanding derivative contracts as of December 31, 2013 and 2012.

The Group has certain derivatives that are embedded in host financial contracts, such as structured notes and debt investments and conversion. These embedded derivatives include calls and puts in debt investments and interest rate and conversion options among others.

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 designated at FVPL.

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.

Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in "Gain (loss) on increase (decrease) in market values of FVPL investments". Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded as such according to the terms of the contract, or when the right of payment has been established.

As of December 31, 2013 and 2012, the Group has designated as FVPL all investments in bonds that have callable and other features, managed/hedged funds, and derivatives amounting to ₱479.9 million and ₱534.2 million, respectively. No financial liability at FVPL is outstanding as of December 31, 2013 and 2012 (see Notes 8, 27 and 28).

(b) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less 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 rate. The amortization is included in the interest income in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized as "Recoveries (valuation allowances) - net" in the consolidated statement of income.

Included under loans and receivables are cash in banks, short-term investments, trade receivables, receivables from villa owners, notes receivables, interest receivable, advances to officers and employees and other receivables. As of December 31, 2013 and 2012, the Group has loans and receivables amounting to ₱1,116.3 million and ₱1,187.8 million, respectively (see Note 28).

(c) AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as FVPL, HTM or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers, investments in managed funds and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. However, AFS instruments in unquoted equity shares whose fair values cannot be reliably measured are carried at cost, less any impairment loss. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statements of income. The unrealized gains and losses arising from the fair valuation of AFS investments and the impact of restatement on foreign currency-denominated AFS equity securities are reported as part of other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is transferred to profit or loss as "Gain on sale of AFS investments". Where the Group holds more than one investment in the same security, cost of the disposed investment is determined on a weighted average cost basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized as such in the consolidated statements of income when the right of payment has been established.

The Group classifies bonds held as AFS investments as current assets when the investments are expected to mature within twelve months after the reporting period.

As of December 31, 2013 and 2012, the Group's AFS investments amounted to ₱10,348.5 million and ₱9,318.6 million, respectively (see Notes 11, 27 and 28).

(d) Other financial liabilities

All loans and borrowings are initially recognized at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Borrowings are classified as current liabilities unless these are expected to be settled within 12 months after the reporting date or the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

As of December 31, 2013 and 2012, included in other financial liabilities are the Group's notes payable, accounts payable and accrued expenses, long-term debt and dividends payable totaling to ₱2,884.0 million and ₱1,137.3 million, respectively (see Note 28).

As of December 31, 2013 and 2012, there were no financial instruments classified as HTM.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the consolidated balance sheet where:

- the contractual rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its 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 Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is removed from the consolidated balance sheet when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification will result into the removal of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

For individually significant financial assets, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statements of income. Interest income, if any, continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to "Recoveries (valuation allowances) - net" in the consolidated statement of income.

AFS investments

In case of equity investments classified as AFS, objective 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 - 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 equity and recognized in the consolidated statement of income. The losses arising from impairment of such investments are recognized as "Recoveries (valuation allowances) - net" in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized in the 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. Future interest income is based on the reduced carrying amount and is accrued based on the rate of 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 increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Day 1 Difference

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated balance sheet.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, and other sales taxes or duties.

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

Sale of Goods

Sale of goods, including villa lots, is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue on Villa Development Project

Revenue on Villa Development Project of a subsidiary is recognized under the completed contract method. Under this method, revenue is recognized only when the villa clusters have been constructed, turned over to, and accepted by the buyer.

Cost of Goods Sold

The cost of goods sold is recognized as expense when the related goods are sold using the average costing method.

The cost of real state sold includes the acquisition cost of the land and total development costs upon completion. Cost of lots sold is determined based on average method while cost of villa is accounted for using specific identification.

Rendering of Services

Management fees, air transport services, and other aviation-related activities are recognized when the services have been performed.

Revenue on nurse placements is recognized upon the nurses' arrival and employment in the U.S. hospitals.

All deposits on contracts with U.S. hospitals are recorded under "Deferred revenues" until the contracted nurses' arrival and employment in the U.S. hospitals.

Revenue from temporary staffing is recognized when services are rendered.

Revenue on permanent placements is recognized when the candidate starts with the contracting facility. The Company does not, in the ordinary course of business, give refunds. If a candidate leaves a permanent placement within a relatively short period of time, it is customary for the Company to provide a replacement at no additional cost to the hospital.

Revenue from contractual services consists of jobs filled by subcontractors. The Company contracts with other staffing companies to provide the travelers to fill the jobs for the Company. These staffing companies are called subcontractors. Subcontractors are paid based on agreed terms at a percentage of the invoice.

Revenue from rooms is recognized based on actual occupancy. Other ancillary services are recognized when the related services are rendered and/or facilities/amenities are used.

Costs of Services Rendered

All direct nurse costs incurred in deployment of nurses are deferred and included in "Other noncurrent assets" in the consolidated balance sheets, until the nurses' arrival and employment in the U.S. hospitals. Upon the nurses' arrival and employment in the U.S. hospitals, deferred costs are reversed to "Costs of services rendered".

Cost and expenses related to room services are charged to operations when incurred.

Selling, General and Administrative Expenses

All selling and general and administrative expenses are expensed as incurred.

Interest

Interest income from bank deposits and investments in bonds are recognized as interest accrues based on the effective interest rate method.

Dividends

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

Rental

Rental income is accounted for on a straight-line basis over the lease term.

Other Comprehensive Income

Other comprehensive income comprises of items of income and expense that are not recognized in consolidated profit or loss for the year in accordance with PFRS. Other comprehensive income of the Group pertains to gains and losses on remeasuring AFS investments, exchange differences on translating foreign operations and remeasurements comprising actuarial gains and losses on retirement plan assets and liabilities. In computing for the earnings available for dividend declaration and earnings per share, other comprehensive income is not considered.

Cash and Cash Equivalents

Cash includes cash on hand and with 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 and that are subject to an insignificant risk of change in value.

Restricted cash funds are recorded as other noncurrent assets unless the restriction is expected to be released at least 12 months after the reporting period.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost of aircraft spare parts and supplies is determined at purchase price using the first-in, first-out method while NRV is the estimated current replacement cost of such spare parts and supplies.

Cost of food and beverage inventories and operating supplies is determined using the moving average method. NRV of food and beverage inventories is the estimated selling price in the ordinary course of business, less the estimated cost of preparation and the estimated cost necessary to make the sale. NRV of operating supplies is the estimated current replacement cost.

Residential units held for sale include those costs incurred for the development and improvement of the properties. Its NRV is based on the available net selling price of similar residential units sold during the year.

Prepayments

Prepayments include advance payments of various goods and services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within the normal operating cycle or, within 12 months from the reporting date.

They are initially measured at the amount paid in advance by the Group for the purchase of goods and services and are subsequently decreased by the amount of expense incurred.

Property and Equipment

Depreciable properties, including buildings and improvements, leasehold improvements, machinery and other equipment, flight and ground equipment, furniture, fixtures and office equipment, and transportation equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when 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 and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Property and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefit expected from its use or disposal.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed on a straight-line method over the following estimated useful lives of the properties, except for aircraft engine which is computed based on flying hours.

Category	Number of Years
Buildings and improvements	10 - 30
Land improvements	25
Leasehold improvements*	5 - 20
Machinery and equipment	5 - 25
Flight and ground equipment	5 - 10
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5

** or lease term, whichever is shorter*

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

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

Property Development in Progress

Property development in progress includes the acquisition costs of raw lots and development costs incurred.

Property development in progress is carried at the lower of cost incurred and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that 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, the Group's investment properties are stated at cost, less accumulated depreciation and any accumulated impairment losses. Land is subsequently carried at cost less any impairment in value.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed:

Category	Number of Years
Land improvements	25
Buildings	20 - 30
Condominium units	20

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment properties are written-off when either these are disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of the investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (namely, property and equipment and investment properties) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. 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, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

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

Goodwill

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statements of income.

Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill as of December 31 of each year.

Noncurrent Assets Held for Sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Depreciable assets are no longer depreciated once they are classified as noncurrent assets held for sale and discontinued operations.

In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Group retains a noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately from the consolidated statement of income.

Customer's Deposit for Property Development

Customer's deposit for property development is recorded at cost. The deposit is an advance payment by a villa buyer which is required to start and complete the villa development. Upon sale, the deposit will be applied against the total selling price of the villa.

Other Noncurrent Assets and Other Noncurrent Liabilities

Other noncurrent assets represent restricted cash funds for future acquisition of specific property and equipment and for future villa operating requirements. A corresponding liability is recognized for these funds under other noncurrent liabilities.

Capital Stock

Capital stock represents the total par value of the shares issued.

Additional Paid-in Capital

Additional paid-in capital pertains to the amount paid in excess of the par value of the shares issued.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, net of any dividend declared.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders, after adjustments for any unrealized items, which are considered not available for dividend declaration.

Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Cost of Shares Held by a Subsidiary

The Company's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issue or cancellation of the Company's shares. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid in capital.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date 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.

The Group as Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the 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.

The Group as Lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Pension Benefits

The Group has a non-contributory defined benefit retirement plan.

Defined benefit plan

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

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

Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

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 Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Contingent assets are not recognized but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Income Taxes

Current income tax

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

Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise 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 income nor taxable income.

Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in foreign subsidiaries and associates, deferred income tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are re-assessed at each end of reporting period and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred income tax assets to be recovered.

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

Current income tax and deferred income tax relating to items recognized directly in equity are also recognized in equity and not in the consolidated statement of income.

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

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Company does not have potentially dilutive common shares as of December 31, 2013 and 2012.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Company and subsidiaries. Dividends for the year that are approved after the end of reporting period are dealt with as an event after the end of reporting period.

Events After the Reporting Period

Post year-end events that provide additional information about the Group's position at the end of 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 consolidated financial statements when material.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 5.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, other comprehensive income (loss) and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

Determination of functional currency

The Company's functional currency was determined to be the Peso. It is the currency of the primary economic environment in which the Company operates.

Classification of financial instruments

The Group classifies a financial instrument, or its component parts, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheets (see Note 28).

Operating Lease Commitments - The Group as Lessee

The Group has entered into leases of office and commercial spaces. The Group has determined that all significant risks and rewards of ownership of these spaces remain with the lessors.

Operating Lease Commitments - The Group as Lessor

The Group has entered into a commercial property lease on its investment property. The Group has determined that it retains all the significant risks and rewards of ownership of this property and so accounts for it as an operating lease.

Financial assets not in an active market

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on loans and receivables

The Group reviews its loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For the advances to related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and their current credit status, are considered to ascertain the amount of reserves that will be recognized. These reserves are re-evaluated and adjusted as additional information is received. Allowance for doubtful accounts as of December 31, 2013 and 2012 amounted to ₱605.3 million and ₱602.9 million, respectively. Receivables and advances, net of valuation allowance, amounted to ₱443.5 million and ₱358.6 million as of December 31, 2013 and 2012, respectively (see Notes 9 and 12).

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's-length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for terms with similar terms and risk characteristics; or,
- other valuation models.

However, if the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed, the Company measures the investment at cost.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group performs periodic reassessment by reference to prices from observable current market transactions in the same instrument or from other available observable market data (see Note 28).

Unquoted equity investments amounted to ₱969.3 million and ₱702.6 million as of December 31, 2013 and 2012, respectively (see Note 11).

Impairment of AFS equity investments
The Group recognizes impairment losses on AFS equity investments when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In determining whether the decline in value is significant, the Group considers historical volatility of share price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the share price has been depressed (i.e., a sudden decline is less significant than a sustained fall of the same magnitude over a longer period).

AFS equity investments amounted to ₱9,504.7 million and ₱8,571.9 million as of December 31, 2013 and 2012, respectively (see Note 11).

Impairment of investments carried at equity method
Investments carried at equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group's impairment test on investments carried at equity is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years as well as the terminal value at the end of five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

As of December 31, 2013 and 2012, allowance for decline in value of investments amounted to ₱27.3 million. The carrying amounts of the investments, net of valuation allowance, amounted to ₱3,073.8 million and ₱916.7 million as of December 31, 2013 and 2012, respectively (see Note 12).

Estimation of allowance for inventory and impairment losses

The Group estimates the allowance for inventory obsolescence and impairment losses related to inventories based on specifically identified inventory items. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for inventory and impairment losses would increase recorded expenses and decrease current assets.

As of December 31, 2013 and 2012, allowance for inventory losses and obsolescence amounted to ₱5.7 million and ₱5.5 million, respectively. The carrying amount of the inventories, net of valuation allowance, amounted to ₱82.7 million and ₱88.4 million as of December 31, 2013 and 2012, respectively (see Note 10).

Estimation of useful lives of the Group's property and equipment

The Group estimates the useful lives of property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of these assets is based on collective assessment of internal technical evaluation and experience with similar assets. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2013 and 2012, the aggregate net book value of depreciable property and equipment amounted to ₱998.6 million and ₱842.1 million, respectively (see Note 13).

Impairment of non-financial assets

(a) Property and equipment and investment properties

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

As of December 31, 2013 and 2012, the aggregate net book value of property and equipment and investment properties amounted to ₱1,238.0 million and ₱1,091.1 million, respectively (see Notes 13 and 14).

As of December 31, 2013 and 2012, the aggregate impairment loss on property and equipment and investment properties amounted to nil (see Notes 13 and 14).

(b) Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value-in-use" of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Considering the U.S. crisis and the unemployment rate, the Group recognized an impairment provision of ₱100.0 million since December 31, 2009 on its investment in Cirrus.

As of December 31, 2013 and 2012, goodwill recognized for the Group's investments in Cirrus and SSRLI amounted to ₱612.3 million and ₱565.7 million, respectively (see Note 6).

Estimation of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

On December 10, 2010, as part of the purchase price allocation for its acquisition of NT, the Group identified an element of contingent consideration with a fair value of ₱14.6 million which is classified under "Accounts payable and accrued expenses" in the 2010 consolidated balance sheet. In May 2011, Cirrus and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to ₱5.8 million. The Group recognized an impairment loss for goodwill for the same amount.

Recognition of deferred income tax assets

The Group reviews the carrying amounts of the deferred income tax assets at each end of reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. As of December 31, 2013 and 2012, the Group recognized deferred income tax assets amounting to ₱15.6 million and ₱23.4 million, respectively (see Note 24).

Determination of pension and other retirement benefits

The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement plan asset of the Company as of December 31, 2013 and 2012 is ₱53.8 million and ₱38.4 million, respectively. Retirement benefits payable of the subsidiaries as of December 31, 2013 and 2012 is ₱11.0 million and ₱14.8 million, respectively. Further details are provided in Note 23.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country. Further details about the assumptions used are provided in Note 23.

Provisions and contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in the preceding notes and in Note 30.

5. Segment Information

The Company and its subsidiaries' operating businesses are organized and managed separately according to the nature of the products or services offered. Prior to 2008, the Group has no geographical segments (except for IQHPC's operations) as majority of the companies within the Group were incorporated and are operating within the Philippines. The Group has no inter-segment sales and transfers. The amounts disclosed were determined consistent with the measurement basis under PFRS.

Holding company segment pertains to the operations of the Company.

Nurse/Physical Therapist (PT) staffing companies segment pertains to the subsidiaries providing healthcare and allied services operating in the United States.

Resort operations segment pertains to the Company's subsidiary providing hotel and resort accommodation, relaxation and entertainment, among others (see Note 3).

Amounts for the investments in associates comprise the Group's equity in net earnings of the associates.

Other operations include air transportation, hangarage, real estate holding and management, and recruitment services.

The following tables present the financial information of the business segments as of and for the years ended December 31, 2013, 2012 and 2011 (in thousands).

	Before Eliminations							
		Philippines						
	US Nurse/PT Staffing Co.	Holding Co. (Parent)	Resort Operations (Note 6)	Other Operations	Investments in Associates	Total	Eliminations	Consolidated
As of and for the year ended December 31, 2013								
Revenues, excluding interest income	₱ 1,201,024	₱ 696,067	₱ 527,312	₱ 358,496	₱ –	₱ 2,782,899	(₱ 352,422)	₱ 2,430,477
Interest income	227	88,867	3,737	2,761	–	95,592	–	95,592
Investment gains	–	1,000,607	–	(1,559)	–	999,048	–	999,048
Interest expense	1,448	26,526	5,254	1,650	–	34,878	–	34,878
Income tax expense	(4,514)	(4,553)	(20,016)	45,197	–	16,114	–	16,114
Net income (loss)	7,643	1,534,524	(16,439)	(103,776)	228,946	1,650,898	(304,116)	1,346,782
Total assets	3,505,636	16,036,170	1,376,518	1,300,880	–	22,219,204	(4,892,687)	17,326,517
Investments and advances	1,997,775	5,132,931	51,850	347,159	–	7,529,715	(4,451,425)	3,078,290
Property and equipment	6,854	39,628	792,259	68,514	–	907,255	123,905	1,031,160
Total liabilities	3,358,962	2,403,060	582,645	572,304	–	6,916,971	(3,598,359)	3,318,612
Depreciation and amortization	7,001	5,684	87,003	27,874	–	127,562	–	127,562
Other non-cash expenses	–	71,357	–	2,321	–	73,678	–	73,678
Cash flows from (used in):								
Operating activities	34,278	463,909	194,594	551,565	–	1,244,346	(761,036)	483,310
Investing activities	(16,346)	(1,712,414)	(222,407)	54,390	–	(1,896,777)	(75,433)	(1,972,210)
Financing activities	(2,884)	974,853	(104,542)	49,327	–	916,754	458,278	1,375,032

	Before Eliminations							
		Philippines						
	US Nurse/PT Staffing Co.	Holding Co. (Parent)	Resort Operations (Note 6)	Other Operations	Investments in Associates	Total	Eliminations	Consolidated
As of and for the year ended December 31, 2012 (As restated, Notes 2 and 23)								
Revenues, excluding interest income	₱ 1,145,739	₱ 1,381,293	₱ 545,195	₱ 610,414	₱ –	₱ 3,682,641	(₱ 1,299,732)	₱ 2,382,909
Interest income	–	86,708	3,726	3,079	–	93,513	–	93,513
Investment gains	–	1,239,370	–	698	–	1,240,068	–	1,240,068
Interest expense	1,386	8,058	3,449	5,353	–	18,246	–	18,246
Income tax expense	7,379	3,664	16,000	7,943	–	34,986	–	34,986
Net income (loss)	(7,219)	2,360,578	50,141	208,445	155,328	2,767,273	(1,277,630)	1,489,643
Total assets	1,322,602	13,273,011	1,231,103	296,452	–	16,123,168	(2,173,263)	13,949,905
Investments and advances	–	3,093,516	–	–	–	3,093,516	(2,174,233)	919,283
Property and equipment	6,002	36,294	614,062	94,399	–	750,757	123,906	874,663
Total liabilities	1,193,600	793,912	524,018	41,465	–	2,552,995	(1,156,851)	1,396,144
Depreciation and amortization	3,487	5,660	72,697	36,059	–	117,903	–	117,903
Other non-cash expenses	–	65,287	–	5,235	–	70,522	–	70,522
Cash flows from (used in):								
Operating activities	(37,578)	1,683,830	98,417	14,100	–	1,758,769	(1,049,422)	709,347
Investing activities	(10,392)	673,331	(74,859)	(13,769)	–	574,311	47,364	621,675
Financing activities	40,717	(2,027,482)	32,620	(4,319)	–	(1,958,464)	977,886	(980,578)

	Before Eliminations							
		Philippines						
	US Nurse/PT Staffing Co.	Holding Co. (Parent)	Resort Operations (Note 6)	Other Operations	Investments in Associates	Total	Eliminations	Consolidated
As of and for the year ended December 31, 2011 (As restated, Notes 2 and 23)								
Revenues, excluding interest income	₱ 998,257	₱ 647,091	₱ 412,375	₱ 187,547	₱ –	₱ 2,245,270	(₱ 283,854)	₱ 1,961,416
Interest income	–	115,974	427	3,803	–	120,204	–	120,204
Investment gains	–	726,088	–	120	–	726,208	–	726,208
Interest expense	931	1,215	4,534	2,412	–	9,092	–	9,092
Income tax expense	–	19,965	4,738	6,241	–	30,944	(493)	30,451
Net income (loss)	(2,381)	1,307,510	5,050	(137,090)	93,030	1,266,119	(270,992)	995,127
Total assets	1,332,048	11,901,854	1,018,288	316,536	–	14,568,726	(2,018,667)	12,550,059
Investments and advances	–	3,047,439	–	–	–	3,047,439	(2,322,206)	725,233
Property and equipment	6,573	39,870	611,033	125,387	–	782,863	123,905	906,768
Total liabilities	1,186,630	247,813	362,843	292,924	–	2,090,210	(1,154,097)	936,113
Depreciation and amortization	6,173	8,916	58,796	31,345	–	105,230	–	105,230
Other non-cash (income) expenses	–	(34,791)	–	532	–	(34,259)	–	(34,259)
Cash flows from (used in):								
Operating activities	(43,630)	493,380	95,995	(277,358)	–	268,387	(24,530)	243,857
Investing activities	(2,950)	(1,581,330)	(219,257)	278,896	–	(1,524,641)	(37,509)	(1,562,150)
Financing activities	32,380	(654,665)	118,977	9,387	–	(493,921)	177,496	(316,425)

6. Business Combinations

a. On December 10, 2010, Cirrus completed the acquisition of all of the outstanding membership units of NT to complement the operations of Cirrus LLC and Cirrus Allied. As part of the purchase price allocation for its acquisition of NT, the Group identified an element of contingent consideration subject to revenue and earnings targets.

The fair value of the contingent consideration at the acquisition date using the discount rate of 5% amounted to $332,868 or ₱14.6 million. In May 2011, Cirrus and the former members of NT agreed to amend the earn-out provisions resulting to a decrease in contingent liability amounting to ₱5.8 million (included under "Accounts payable and accrued expenses", see Note 17). The Group recognized an impairment loss for goodwill for the same amount in 2011.

The purchase price was initially allocated to assets acquired and liabilities assumed based on a provisional assessment of fair values as of the date of acquisition. In 2011, the fair value of accounts receivable was determined to be ₱0.1 million lower than the previous amount of ₱0.3 million. This increased goodwill by ₱0.1 million.

The fair values of the assets and liabilities of NT at the date of acquisition were:

	Fair Value Recognized on Acquisition (In Millions)
Cash	₱0.2
Receivables - net	0.2
Total assets	0.4
Accounts payable and accrued expenses	(0.4)
Net assets	–
Goodwill arising from the acquisition	38.5
Total consideration	₱38.5

From the date of acquisition, Cirrus LLC, Cirrus Allied and NT have contributed losses amounting to ₱5.7 million, ₱4.1 million and ₱5.7 million to the Group's consolidated income for 2013, 2012 and 2011, respectively (excluding expenses of Cirrus).

The goodwill of ₱577.9 million, before exchange differences amounting to ₱5.7 million and ₱33.2 million as of December 31, 2013 and 2012 and valuation allowance amounting to ₱105.8 million as of December 31, 2013 and 2012, comprises the value of the acquired companies' customer and staff base and existing market share in the healthcare staffing industry. There are no specific values assigned to the customer and staff base. These are not separate and quantifiable and therefore, do not meet the criteria for recognition as an intangible asset under PAS 38, *Intangible Assets*. The goodwill from Cirrus was increased by ₱46.6 million in 2013 and decreased by ₱38.9 million in 2012 due to foreign exchange differences. The carrying value of goodwill from Cirrus amounted to ₱513.0 million and ₱466.4 million as of December 31, 2013 and 2012, respectively.

b. On February 28, 2011, the Company acquired additional 15.51% shares in SSRLI which increased the Company's ownership from 46.79% to 62.30%.

The purchase price was allocated to assets acquired and liabilities assumed based on a provisional assessment of fair values since valuation of the intangible assets acquired has not yet been determined as of the date of the acquisition. Adjustments to the provisional amounts were determined within one year from the date of acquisition.

The fair values of the assets and liabilities of SSRLI at the date of acquisition were:

	Fair Value Recognized on Acquisition (In Millions)
Cash	₱96.2
Receivables - net	76.6
Property and equipment	470.9
Other assets	46.8
Total assets	690.5
Accounts payable and accrued expenses	(93.4)
Other liabilities	(137.8)
Net assets	459.3
Goodwill arising from the acquisition	99.3
Total consideration	₱558.6

The total cost of the combination was ₱558.6 million broken down as follows (in millions):

Cash consideration	₱255.9
Fair value of 46.79% investment	302.7
Total consideration	₱558.6

In 2011, the Group recognized goodwill amounting to ₱99.3 million arising from the acquisition of additional shares in SSRLI.

The Group recognized noncontrolling interests in SSRLI amounting to ₱277.9 million at the acquisition date. The Group elected to measure the noncontrolling interests in SSRLI at the proportionate share of its interest in the acquiree's identifiable net assets.

Impairment Testing of Goodwill

a. The recoverable amount of the investments in Cirrus has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a ten year period. The pre-tax discount rate applied to cash flow projections is 12% and 8% in 2013 and 2012. In 2013, there is no assumed increase in the cash flows beyond the five-year period. In 2012, the cash flows beyond the five-year period are extrapolated using a growth rate that is consistent with the expected average growth rate for the industry.

   Key assumptions used in value-in-use calculations
   The consolidated value-in-use of both companies is most sensitive to the following assumptions:

   Cash flow projection
   Cash flow projections are based on Cirrus' contracts, which are long term in nature that renew in perpetuity.

   Discount rate
   Discount rate is consistent with the risk-free industry interest rate.

   Growth rate
   Growth rate assumptions for the five year cash flow projections are supported by the different initiatives of Cirrus which started in 2011. The Company assumed 10% growth in annual revenue in its cash flow projections.

Sensitivity to changes in assumptions
Management accepts that changes in key assumptions would cause the carrying value of the unit to exceed its recoverable amount. The estimated recoverable amount of investments in subsidiaries exceeds the cost of investment by about ₱4.4 million. The implications of the key assumptions to the recoverable amount are discussed below:

- Growth rate assumptions
  Management has used the average industry growth rate for the forecast. Although the current economic downturn is impacting the temporary healthcare staffing industry, the long-term growth of the healthcare staffing industry is underpinned by the increasing shortage of qualified healthcare professionals, notably registered nurses, and the growing demand fueled by an aging population.

- Terminal value
  Management has used the most recent healthcare staffing transaction price earnings multiple in determining the terminal value.

b. Goodwill from the Company's investment in Cirrus Global Inc., through Sutton, amounting to ₱37.0 million, was fully impaired as of December 31, 2013 and 2012. The Company, through Sutton, assessed that there will be delays in the recovery of the investment cost in Cirrus Global Inc. because Cirrus Global Inc.'s operations has been restricted due to the delayed processing of EB-3 immigrant visas for nurses due for employment in the U.S.

c. The recoverable amount of the investments in SSRLI has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a ten year period. The pre-tax discount rate applied to cash flow projections is 10% in 2013 and 2012. In 2013, the cash flows beyond the ten-year period are extrapolated using a growth rate that is consistent with the expected average growth rate for the industry.

Key assumptions used in value-in-use calculations
The consolidated value-in-use of SSRLI is most sensitive to the following assumptions:

Discount rate
Discount rate is consistent with the risk-free industry interest rate.

Growth rate
Growth rate assumptions for the five year cash flow projections are supported by the different initiatives of SSRLI. The Company used 5% growth rate in revenue in its cash flow projections.

Sensitivity to changes in assumptions
Management accepts that changes in key assumptions would cause the carrying value of the unit to exceed its recoverable amount. The estimated recoverable amount of investments in subsidiaries exceeds their carrying amount by about ₱112.0 million.

7. Cash and Cash Equivalents

		2013		2012
Cash on hand and with banks	₱	**516,432,925**	₱	439,948,108
Short-term investments		**227,459,584**		430,604,506
	₱	**743,892,509**	₱	870,552,614

Cash with banks earn interest at the respective bank deposit rates ranging from 0.125% to 0.35% and 0.25% to 0.75% in 2013 and 2012, respectively (see Note 22). Short-term investments with interest rates ranging from 0.30% to 1.45% and 0.75% to 4.00% in 2013 and 2012 are made for varying periods of up to three months depending on the immediate cash requirements of the Group.

8. Fair Value Through Profit or Loss (FVPL) Investments

	2013	2012
Bonds	₱ 410,431,087	₱ 484,143,489
Funds and equities	53,378,702	39,829,506
Others	16,070,000	10,195,800
	₱ 479,879,789	₱ 534,168,795

This account consists of investments that are designated as FVPL and held-for-trading investments. Designated FVPL investments consist of foreign currency-denominated fixed income securities with embedded derivatives (e.g., call and put options) that significantly modify the security's cash flow. These investments are classified under others and bonds. Held-for-trading investments include foreign currency-denominated mutual/ hedge funds, and equity investments that are managed together on a fair value basis. These investments are classified under funds and equities.

FVPL investments in bonds represent foreign currency-denominated bond securities with variable and fixed interest rates. The FVPL coupon interest rate per annum ranges from 4.88% to 13.125% in 2013, 2.50% to 11.50% in 2012 and 3.38% to 12.25% in 2011. Effective interest rates range from 4.99% to 13.94% in 2013, 2.53% to 12.13% in 2012 and 3.43% to 12.96% for foreign currency-denominated FVPL investments.

Net gains (losses) on increase (decrease) in market value of FVPL investments as of December 31 are as follows (in millions):

	Unrealized valuation gains (losses) in market values as of December 31		Gain (loss) on increase (decrease) in market value of FVPL investments in 2013
	2013	2012	
Bonds	(₱ 16.3)	₱ 19.4	(₱ 35.7)
Funds and equities	(2.3)	2.6	(4.9)
Others	1.1	0.2	0.9
Total	(17.5)	22.2	(39.7)
Add realized loss on sale of FVPL investments			(63.1)
Net loss on decrease in market value of FVPL investments			(₱ 102.8)

	Unrealized valuation gains (losses) in market values as of December 31		Gain (loss) on increase (decrease) in market value of FVPL investments in 2012
	2012	2011	
Bonds	₱ 19.4	(₱ 20.8)	₱ 40.2
Funds and equities	2.6	(5.1)	7.7
Others	0.2	1.4	(1.2)
Total	22.2	(24.5)	46.7
Add realized gain on sale of FVPL investments			20.5
Net gain on increase in market value of FVPL investments			₱ 67.2

	Unrealized valuation gains (losses) in market values as of December 31		Gain (loss) on increase (decrease) in market value of FVPL investments in 2011
	2011	2010	
Bonds	(₱ 20.8)	(₱ 13.7)	(₱ 7.1)
Funds and equities	(5.1)	(8.6)	3.5
Others	1.4	3.5	(2.1)
Total	(24.5)	(18.8)	(5.7)
Add realized loss on sale of FVPL investments			(1.5)
Net loss on decrease in market value of FVPL investments			(₱ 7.2)

In 2013, 2012 and 2011, the Group entered into non-deliverable currency forward contracts to manage foreign currency risk. These contracts were all settled during the year and resulted to a realized loss of ₱80.1 million in 2013 and realized gain of ₱22.9 million and ₱10.9 million in 2012 and 2011, respectively. There were no outstanding forward transaction as of December 31, 2013, 2012 and 2011.

9. Receivables

	2013	2012
Trade (Note 29)	₱ 294,275,140	₱ 300,726,374
Receivables from villa owners	5,744,725	5,992,661
Notes receivable	60,803,463	–
Interest receivable	23,878,602	23,099,407
Tax credits/refunds	50,032,391	38,562,813
Advances to officers and employees	5,061,723	2,683,243
Advances to suppliers	16,560,398	49,369
Others	18,644,194	18,404,361
	475,000,636	389,518,228
Less allowance for doubtful accounts	35,961,718	33,555,605
	₱ 439,038,918	₱ 355,962,623

Trade receivables are noninterest-bearing and are normally settled on 30 days' term.

Notes receivables as of December 31, 2013 represents notes receivable of the Company from Tayabas Geothermal Power Corp (Tayabas Power) amounting to ₱20.8 million and from Maybank ATR Kim-Eng amounting to ₱40.0 million. Note Receivables from ATR Kim-Eng is noninterest-bearing and currently due and demandable.

Notes receivable from Tayabas Power are noninterest-bearing and are collectible within 90 days from October 8, 2013 (₱8.8 million) and within 60 days from December 11, 2013 (₱12.0 million). These are guaranteed in full by SKI Mining Corporation, parent company of Tayabas Power and any obligation of guarantor not paid when due will bear interest of 12% per annum. In January 2014, these were collected.

Interest receivable pertains to accrued interest income from cash and cash equivalents, FVPL and AFS investments in debt instruments.

Advances to suppliers include total cost of fuel tanks and pipelines to be recovered from a supplier over the supply contract period agreed upon by the parties.

Other receivables represent accruals of revenue from client hospitals of a subsidiary.

Movement in the allowance for doubtful trade and other receivable accounts are as follows:

						2013
		Trade		**Others**		**Total**
At January 1	₱	**31,722,447**	₱	**1,833,158**	₱	**33,555,605**
Provision for the year (Note 22)		**5,018,782**		**–**		**5,018,782**
Recoveries (Note 22)		**(2,612,669)**		**–**		**(2,612,669)**
At December 31	₱	**34,128,560**	₱	**1,833,158**	₱	**35,961,718**

						2012
		Trade		Others		Total
At January 1	₱	29,494,219	₱	3,745,221	₱	33,239,440
Provision for the year (Note 22)		3,704,583		772,443		4,477,026
Recoveries (Note 22)		(1,476,355)		(2,684,506)		(4,160,861)
At December 31	₱	31,722,447	₱	1,833,158	₱	33,555,605

10. Inventories

		2013		2012
At cost:				
Food and beverage	₱	**15,866,037**	₱	17,209,268
Aircraft parts in transit		**849,822**		1,336,472
		16,715,859		18,545,740
At net realizable value:				
Operating supplies - net of allowance for inventory obsolescence of ₱3.4 million in 2013 and 2012		**41,207,864**		45,647,068
Aircraft spare parts and supplies - net of allowance for inventory losses of ₱1.1 million in 2013 and ₱1.3 million in 2012		**20,930,265**		18,196,278

(Forward)

		2013		2012
Construction-related materials - net of allowance for inventory obsolescence of ₱0.9 million in 2013 and ₱0.5 million in 2012	₱	**3,552,531**	₱	5,692,551
Residential units held for sale - net of allowance for impairment losses of ₱0.3 million in 2013 and 2012		**284,089**		284,089
	₱	**82,690,608**	₱	88,365,726

Provision for inventory losses recognized in 2013 and 2012 amounted to ₱0.5 million and ₱0.4 million, respectively (see Note 22).

Aircraft parts in transit are purchased from suppliers abroad under Freight on Board Shipping Point. These items are in the custody of either the Bureau of Customs or freight forwarder as of December 31, 2013 and 2012.

Operating supplies pertain to inventory items used in providing services such as printing, cleaning and office and guest supplies.

Construction-related materials are excess materials and supplies from Phase 2 Villa Development Project (the Project). These are held for use in other construction projects and villa operations.

11. Available for Sale (AFS) Investments

		2013		2012
Quoted equity shares	₱	**7,915,173,765**	₱	7,395,511,457
Unquoted equity shares (Note 12)		**969,301,199**		702,599,749
Bonds		**843,878,978**		746,773,893
Funds and equities		**442,936,860**		286,502,618
Proprietary shares		**177,238,250**		187,238,250
		10,348,529,052		9,318,625,967
Less current portion of AFS bonds		**48,949,783**		46,578,955
	₱	**10,299,579,269**	₱	9,272,047,012

Quoted equity shares consist of marketable equity securities that are listed and traded on the Philippine Stock Exchange (PSE). The fair market values of these listed shares are based on their quoted market prices as of December 31, 2013 and 2012 which are assessed to be exit prices.

AFS investments in bonds represent foreign currency-denominated bond securities with variable and fixed coupon interest rate per annum ranging from 3.875% to 9.75% in 2013, 3.38% to 13.13% in 2012 and 3.38% to 10.50% in 2011. Maturity dates range from March 15, 2014 to January 13, 2037 in 2013, January 18, 2013 to October 24, 2037 in 2012 and February 1, 2012 to March 1, 2022 in 2011. Effective interest rates range from 3.94% to 10.20%, 3.43% to 13.94% and 5.63% to 11.59% for foreign currency-denominated AFS investments in 2013, 2012 and 2011, respectively.

In 2013, 2012 and 2011, gain on sale of AFS investments amounted to ₱1,101.9 million, ₱1,169.3 million and ₱676.8 million, respectively.

The Group's AFS unquoted equity investments and bonds include the following:

a. Prople, Inc. and Prople Limited

In December 2007, the Company entered into a subscription agreement with Prople, Inc. (Prople; formerly Gralce Holdings, Inc.) for the acquisition of 6,665 shares of stock of the latter (equivalent to 20% of the outstanding shares).

Prople is a domestic corporation that owns Prople BPO, Inc. (formerly, Summersault, Inc.), Prople KPO, Inc. and Prople Content, Inc., jointly called the Prople Group. The Prople Group is into business process outsourcing, specializing in finance and accounting, human resource administration and industry-focused transaction processing services.

In 2011, the Company made additional investment in Prople amounting to ₱4.4 million. The additional investment enabled the Company to maintain its 20% equity share in Prople. As of December 31, 2012, the total cost of the investment in Prople amounted to ₱42.2 million. Investment in Prople is accounted for as AFS because management believes that the Company does not have the ability to exercise significant influence on Prople. Furthermore, the Company does not have any involvement in the operations of Prople. The investment is measured at cost less impairment rather than at fair value as the shares of stock of Prople are not publicly-traded, such that there is no reliable basis of fair value.

In 2013, the Company sold all its investment in Prople to Prople Limited, a corporation incorporated and existing under the laws of Hong Kong. The sales proceeds of ₱24.7 million has been invested by the Company in Prople Limited. In 2013, Prople Limited acquired 100% of the non-audit business of U.S.-based Kellogg and Andelson Accountancy Corporation (K&A). Founded in 1939, K&A is a well-established accounting firm that provides tax, general accounting and consulting services to thousands of small-to-medium sized company in California and the Midwest.

In November 2013, AI invested $4.0 million (₱175.9 million) convertible notes in Prople Limited. These notes are convertible at the option of the holder into common shares of Prople Limited. The interest is 5% for the first 3 years and if not converted on the 3rd anniversary of closing date (i.e., November 18, 2016, the conversion date), the interest will be the prevailing five year US Dollar Republic of the Philippines (ROP) plus 400 basis points or 7%, whichever is higher for the next two years.

b. Enderun Colleges, Inc. (Enderun)

In 2008, the Group entered into a subscription agreement for the acquisition of 16,216,217 new shares of stock equivalent to 20% equity stake in Enderun, a college that offers a full range of bachelor's degree and non-degree courses in the fields of hotel administration, culinary arts and business administration. The total cost of the investment in Enderun amounting to ₱286.2 million approximates its fair value as of December 31, 2013. Investment in Enderun is classified as AFS because the Group does not exercise significant influence and its holding in Enderun is not sufficient to carry major business decisions.

c. Alphion Corporation (Alphion)

In March 2009, the Group invested US$900,000 (₱43.7 million) for 387,297 Series E Preference shares of Alphion convertible into 645,485 shares of common stock. Alphion is a fiber optic network company based in New Jersey, with sales, marketing, procurement and R&D offices in India. Alphion develops, manufactures and markets high-speed fiber optic access and switching systems that enable "triple play" services, or voice, video, and data transmission in a single line. In 2011, the Group invested US$1.0 million (₱42.6 million) for 713,158 Series G preference shares convertible into the same number of common stock and 140,817 Series G warrants convertible into the same number of common stock. As of December 31, 2013 and 2012, the total investment in Alphion amounted to ₱78.0 million which is fully provided with allowance.

d. ATR Holdings, Inc. (ATR Holdings)

On December 14, 2011, the Company sold its 41,936,663 shares in ATR Kim Eng to Maybank at ₱4.38 per share. The resulting gain, net of taxes, from this transaction amounting to ₱66.5 million is recorded under gain on sale of AFS investments.

e. Predictive Edge Technologies, LLC

In October 2011, AI entered into a subscription agreement with Predictive Edge Media Holdings, LLC (PEMH) for the acquisition of 1,000,000 Series A preferred units at US$3 per unit, which constitute 10% of the total Series A preferred units outstanding. In the first quarter of 2012, the Company's holdings in PEMH, first acquired in October 2011, were exchanged for an interest in Predictive Edge Technologies, LLC ("Predictive"), PEMH's parent company. Predictive is a US-based early-staged technology company, which provides products and services that make practical and effective use of its patented behavioral science, based on psychological principles and state-of-the-art mathematics, that allow it to measure and quantify emotions associated with digital content.

f. Leopard Cambodia Investments (BVI) Ltd. (Leopard)

In 2012, AI purchased 525 shares of Leopard. Leopard is a limited company established in the British Virgin Islands (BVI). The objective is to achieve capital appreciation through investments primarily in businesses with significant operations in Cambodia and in real estate located in Cambodia. The total carrying value of the investment in Leopard amounted to ₱24.6 million and ₱22.7 million as of December 31, 2013 and 2012, respectively.

g. KSA Realty Corporation (KSA)

The Group has a 11% stake in KSA, the owner of The Enterprise Center, an office building. The Group received cash dividends from KSA amounting to ₱40.0 million in 2013 and ₱28.6 million in 2012 and 2011.

The Company recognized ₱382 million fair value adjustment in its investment in KSA (See Notes 2 and 28). As of December 31, 2013, the Company's investment in KSA amounted to ₱389 million.

h. ATR KIM ENG Capital Partners, Inc.

On October 21, 2013, the Company entered into a Memorandum of Agreement with Maybank ATR KimEng Capital Partners, Inc. and other parties to incorporate an entity that shall serve as the holding company of the parties for their investments in a stand alone trust company. In 2013, the Company invested ₱18.75 million in 15,000,000 common shares and ₱18.75 million in 18,750,000 cumulative, non-voting, redeemable and noncovertible preferred shares of the new entity. These investments give the Company a total of 12.5% interest in the new entity.

Below is the rollforward of the unrealized valuation gains (losses) on AFS investments recognized in equity:

		2013		2012
Beginning balance	₱	3,458,799,647	₱	2,495,985,688
Gain recognized directly in equity - net of tax		1,450,648,340		2,141,696,465
Amount removed from equity and recognized in profit and loss - net of tax		(1,233,505,989)		(1,178,882,506)
Ending balance	₱	3,675,941,998	₱	3,458,799,647

In 2013 and 2012, the Group recognized impairment losses, included in the valuation allowances, on its quoted and unquoted AFS equity investments amounting to ₱71.2 million and ₱156.1 million, respectively (see Note 22).

12. Investments and Advances

		2013		2012
Investments at equity - net	₱	3,073,832,835	₱	916,707,909
Advances - net of allowance for doubtful accounts of ₱569.3 million in 2013 and 2012 (Note 26)		4,457,137		2,575,070
	₱	3,078,289,972	₱	919,282,979

Investments at equity consist of:

		2013		2012
Acquisition cost:				
Common shares	₱	314,905,622	₱	314,901,284
Preferred shares		1,997,775,000		–
		2,312,680,622		314,901,284
Accumulated equity in net earnings:				
Balances at beginning of year		629,066,367		518,538,615
Equity in net earnings for the year		228,945,588		155,327,752
Dividends received		(69,600,000)		(44,800,000)
Balances at end of year		788,411,955		629,066,367
Valuation allowance		(27,259,742)		(27,259,742)
	₱	3,073,832,835	₱	916,707,909

Significant details of the balance sheets and statements of income of PDP Energy and PDEIC are enumerated below as of December 31 (in millions):

		2013		2012
Balance Sheets:				
Current assets	₱	2,418	₱	2,506
Noncurrent assets		406		380
Current liabilities		797		869
Statements of Income:				
Net sales		5,726		6,376
Gross profit		823		843
Income from continuing operations, before tax		593		537
Net income		432		389
Other comprehensive income		–		2
Total comprehensive income		432		391

Significant details of the balance sheet as of December 31, 2013 and statement of income for the period from July 1 to December 31, 2013 of AGPI are enumerated below (in millions):

		2013
Balance sheets:		
Current assets	₱	3,901.5
Noncurrent assets		6,841.5
Current liabilities		2,751.7
Statement of income:		
Revenue	₱	3,358.0
Income from continuing operations, before tax		445.2
Net income		376.5
Other comprehensive loss		(7.8)
Total comprehensive income		368.7

Significant details of the balance sheets and statements of income of SSRLI and PRI are enumerated below as of December 31 (in millions):

		2013		2012
Balance sheets:				
Current assets	₱	437.9	₱	305.0
Noncurrent assets		934.1		760.4
Current liabilities		387.9		181.7
Noncurrent liabilities		184.4		176.9
Statements of income:				
Revenue		527.3		545.2
Income from continuing operations, before tax		3.6		66.1
Net income (loss)		(16.4)		50.1
Other comprehensive income (loss)		0.4		(1.1)
Total comprehensive income (loss)		(16.0)		49.0
Allocated profit (loss) to NCI during the year		(6.2)		19.0

In addition to those discussed in Note 6, the significant transactions involving the Group's investments in subsidiaries and associates for 2013 and 2012 follow:

AG&P International Holdings Ltd. - (AGPI)

In December 2011, AI entered into a subscription agreement with AGPI for US$5.0 million Convertible Bridge Notes (the "Notes"), with interest rate of 9% compounded annually. The principal, together with the accrued interest, is payable on the one year anniversary of the issuance of each Note. The Notes are convertible at the option of the holder into: (a) Series B preferred shares at the per share price paid to buy out existing Series A preferred shares (US$0.345/share or the "conversion price"); or (b) the equity security issued by AGPI in its next round of equity financing at the per share price paid in such next round of financing.

AGPI is a British Virgin Islands business company formed in 2010 in connection with the acquisition of equity of Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P). AGPI, through its subsidiary and associates, is focused on providing modular engineering and construction and general engineering design services, including, fabrication, assembly and manpower services, particularly in the oil, gas, petrochemical, power generation and mining industries.

On June 28, 2013, AI converted the US$5.0 million Convertible Bridge Notes to 16.4 million series B, voting preferred shares. On June 29, 2013, AI signed a definitive agreement with AGPI for the subscription to 83.9 million series C, voting preferred shares in AGPI. Series B and Series C preferred shares are convertible at the option of the holder, into class A common shares. The subscription increases AI's holdings to 26.86% giving the Group significant influence over AGPI.

The purchase price was allocated to assets acquired and liabilities assumed based on provisional assessment of fair values as of the date of acquisition. The fair values of assets acquired and liabilities assumed approximate total consideration.

The total cost of the investment in AGPI presented amounted to ₱2.0 billion presented under investment in associate as of December 31, 2013 and ₱205.3 million presented as AFS investment as of December 31, 2012 (see Note 11).

PDIPI and subsidiaries

a. In May 2007, PDP Energy established PDEIC, a PEZA-registered company engaged in manufacturing wires, mainly for export. PDEIC started commercial operations in January 2009.

b. In October 2013, November 2012 and June 2011, PDIPI (parent company of PDP Energy) declared cash dividends to its stockholders. Cash dividends received by the Company amounted to ₱69.6 million at ₱29.5 per share in 2013, ₱44.8 million at ₱19.0 per share in 2012 and ₱45.6 million at ₱19.3 per share in 2011.

SSRLI and PRI

a. On January 9, 2007, SSRLI and the Philippine Economic Zone Authority (PEZA) signed a Registration Agreement declaring SSRLI as an Ecozone Developer/Operator, entitling SSRLI to establish, develop, and construct the villas and to operate the Ecozone. SSRLI is entitled to four-year income tax holiday and tax-free importation on PEZA-covered registered activities under the Registration Agreement.

   On December 18, 2009, SSRLI's resort operations have been registered with PEZA to engage in the renovation and expansion of Amanpulo Resort at the Pamalican Island Tourism Ecozone. SSRLI's resort operations are entitled to 5% gross income tax on revenues generated from foreign clients and regular income tax on non-foreign clients under the Registration Agreement.

b. On February 18, 2011, the BOD of the Company approved the Company's acquisition of additional shares from the minority shareholders of SSRLI. The acquisition increased the present ownership of the Company from 46.79% to 62.30% of the total outstanding common and preferred shares of SSRLI. Total acquisition price for the additional shares is $5.89 million (₱255.9 million) cash consideration plus the fair value of the 46.79% investment amounting to ₱302.7 million. Goodwill recognized from the acquisition amounted to ₱99.3 million.

c. On July 1, 2011, PRI took over the resort operations of SSRLI. On the same date, PEZA approved PRI's application for registration as an Ecozone Tourism Enterprise. SSRLI also transferred in the name of PRI all resort-operation-related contracts entered into with related parties and third parties, including its long-term loans with a bank (see Note 18).

d. On October 3, 2012, PRI entered into an operating lease agreement with SSRLI covering all rights and interests in resort-related assets, which include land, land improvements and buildings for period of 20 years beginning July 1, 2011.

As of December 31, 2013, all contracts with related parties that are related to resort operations were transferred to PRI except for the foreshore lease contract with the Department of Environment and Natural Resources (DENR) which is non-transferrable.

On February 20, 2013, the BOD and stockholders authorized the increase in PRI's authorized capital stock from ₱1.0 million, divided into 10,000 common shares with par value of ₱100 per share, to ₱200.0 million, divided into 1,500,000 preferred shares and 500,000 common shares, both with par value of ₱100 per share. On August 28, 2013, SEC approved the increase in the authorized capital stock. On the same date, SSRLI has subscribed to 850,000 preferred shares.

On October 10, 2013, SSRLI subscribed to additional 150,000 preferred shares of PRI at an issue price of ₱666.67 and assigned its outstanding receivable amounting to ₱100 million as payment for such subscription. The excess of the assigned receivables of ₱85.0 million over the par value of shares subscribed of ₱15.0 million was recorded as additional paid in capital.

In December 2013, the remaining 53,366,400 Class A preferred shares and 35,577,600 Class B preferred shares of SSRLI were subscribed at ₱1.22 per share for a total amount of ₱108.8 million by its existing stockholders via conversion of the SSRLI's shareholders' advances into preferred stock equity based on their proportionate shareholdings in SSRLI. The excess of the consideration received over par value amounting to ₱19.9 million was recorded as additional paid in capital.

e. In 2013, SSRLI entered into a memorandum of agreement with a buyer of villa who made a total deposit of ₱156.9 million presented as "Customer's Deposits for Property Development" in the consolidated balance sheets.

Cirrus

a. In the ordinary course of business, Cirrus obtains cash advances from the Group to finance its working capital requirements. Promissory notes were issued with five year maturities from the date of each respective advance, bearing interest rates comparable with the market rates at the time of issuance compounded annually.

On August 14, 2012, Cirrus issued two promissory notes to the Group totaling ₱34.1 million bearing 5% interest rates which are compounded annually. The promissory notes will mature in two years.

On December 6, 2012, Cirrus entered into a release and settlement agreement with the Group to settle ₱143.0 million of the promissory notes through issuance of Cirrus preferred shares to IQHIL. Under the agreement, Cirrus will issue preferred shares and the promissory notes amounting to ₱143.0 million will be deemed fully and finally settled and all accrued interest thereon shall be forfeited. Accordingly, 357 shares of preferred stock with a total par value of ₱163.86 were issued. The difference between the book value of the promissory notes and the par value of the issued shares as well as the forfeited accrued interest were included in the Investments account in the Company financial statements.

Each preferred share is convertible to common stock at the option of the holder, based on the conversion price as defined in the Amended and Restated Certificate of Incorporation. The preferred shares are redeemable at the option of the Company.

Outstanding balance of the advances amounted to ₱34.1 million as of December 31, 2012, in the consolidated financial statements. Interest receivable on the promissory notes as of December 31, 2013 and 2012 amounted to ₱0.5 million which are presented as part of "Investments and advances" account in the consolidated financial statements. There are no outstanding advances and interest receivable from Cirrus as of December 31, 2013.

In November 2013, NT entered into a service agreement with a third party to provide user interface and development resources as well as project management capabilities to improve and customize the website of NT. The agreement provides for the compensation of the service provider in cash and in class B membership units in NT, determined in milestone achievements. Accordingly, the Limited Liability Agreement of NT was awarded and restated to include provisions for Class B membership units. As of the same date, a Class B Joinder Agreement was executed with the service provider. There were no share-based settlement that vested as of December 31, 2013.

Advances

Net advances consist of receivables from the following associates:

		2013		2012
AFC Agribusiness Corporation	₱	1,500,000	₱	1,500,000
Others (net of allowance for doubtful accounts of ₱569.3 million in 2013 and 2012)		2,957,137		1,075,070
	₱	4,457,137	₱	2,575,070

13. Property and Equipment

	2013					
	Land, Buildings and Improvements	Flight and Ground Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
January 1	₱ 1,122,766,217	₱ 419,540,634	₱ 210,936,205	₱ 131,486,780	₱ 48,800,216	₱ 1,933,530,052
Additions	135,067,901	6,789,639	43,543,011	11,840,729	86,245,390	283,486,670
Reclassification	25,461,594	–	–	–	(25,461,594)	–
Retirement/disposals	(59,096,850)	–	–	(9,512,467)	–	(68,609,317)
Foreign exchange adjustment	150,445	–	1,234,397	–	–	1,384,842
December 31	1,224,349,307	426,330,273	255,713,613	133,815,042	109,584,012	2,149,792,247
Accumulated Depreciation and Amortization						
January 1	534,425,214	260,319,775	171,334,586	92,787,881	–	1,058,867,456
Depreciation and amortization	56,560,316	29,018,051	32,872,492	9,111,003	–	127,561,862
Retirement/disposals	(59,079,961)	–	–	(9,512,463)	–	(68,592,424)
Foreign exchange adjustment	793,934	–	1,188	–	–	795,122
December 31	532,699,503	289,337,826	204,208,266	92,386,421	–	1,118,632,016
Net Book Value	₱ 691,649,804	₱ 136,992,447	₱ 51,505,347	₱ 41,428,621	₱ 109,584,012	₱ 1,031,160,231

	2012					
	Land, Buildings and Improvements	Flight and Ground Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
January 1	₱ 1,123,098,321	₱ 414,061,730	₱ 197,480,881	₱ 123,901,715	₱ 427,699	₱ 1,858,970,346
Additions	671,989	11,806,783	14,837,788	15,102,133	48,372,517	90,791,210
Retirement/disposals	(941,732)	(6,327,879)	(513,290)	(7,517,068)	–	(15,299,969)
Foreign exchange adjustment	(62,361)	–	(869,174)	–	–	(931,535)
December 31	1,122,766,217	419,540,634	210,936,205	131,486,780	48,800,216	1,933,530,052
Accumulated Depreciation and Amortization						
January 1	491,700,451	213,491,571	156,099,240	90,910,810	–	952,202,072
Depreciation and amortization	43,649,606	48,582,112	16,485,864	9,185,697	–	117,903,279
Retirement/disposals	(924,843)	(1,753,908)	(547,670)	(7,308,626)	–	(10,535,047)
Foreign exchange adjustment	–	–	(702,848)	–	–	(702,848)
December 31	534,425,214	260,319,775	171,334,586	92,787,881	–	1,058,867,456
Net Book Value	₱ 588,341,003	₱ 159,220,859	₱ 39,601,619	₱ 38,698,899	₱ 48,800,216	₱ 874,662,596

As of December 31, 2013, land with improvements and structures thereon with carrying and appraised value of ₱584.7 million and ₱2,218.5 million, respectively, were used as collateral for the loan obtained in 2005 by a subsidiary (see Note 18).

Depreciation charged to operations amounted to ₱127.6 million, ₱117.9 million and ₱105.2 million in 2013, 2012 and 2011, respectively.

14. Investment Properties

	2013	2012
January 1	₱ **216,432,223**	₱ 216,432,223
Reclassifications	**(6,377,579)**	–
Disposals	**(3,285,544)**	–
December 31	₱ **206,769,100**	₱ 216,432,223

The Group's investment properties include 883 hectares of land in Palawan and Cebu. Based on the valuation performed by independent appraisers as of April, November and December 2013 and January 2014, the aggregate fair market values of these properties amounted to ₱607.2 million. The fair value was determined using the sales comparison approach which considers the sale of similar or substitute properties, related market data and the assets' highest and best use. The fair value of the investment properties is categorized as Level 3 which used adjusted inputs for valuation that are unobservable as of the date of valuation.

The inputs used were offer prices of similar land. Significant increases or decreases in offer price would result in higher or lower fair value of the asset.

The appraisers determined as the highest and best use of these properties are for residential, agricultural, commercial and recreational utility. For strategic reasons, the properties are not being used in these manner. These properties are currently held by the Group for capital appreciation.

In 2013, SSRLI sold three (3) villa lots with a total cost of ₱19.9 million, which includes ₱16.6 million pertaining to the cost of the property development project, for a net gain amounting to ₱62.2 million. During the year, an allocated cost of ₱2.9 million was reclassified to construction-in-progress, as the development of a 5-casita villa has already commenced. Portion of APHI's land in Palawan amounting to ₱3.5 million was seized by the Philippine Government under the Comprehensive Agrarian Reform Program or Republic Act 6657, and thus was transferred to noncurrent assets.

15. Other Noncurrent Assets and Other Noncurrent Liabilities

Other noncurrent assets include as of December 31, 2013 include:

		2013		2012
Fund for villa operations and capital expenditures	₱	**45,513,171**	₱	51,373,839
Property development in progress		**43,730,447**		11,709,432
Refundable deposits		**16,772,478**		4,086,524
Deferred nurse cost		**11,172,599**		10,467,586
Others		**6,137,544**		6,106,761
	₱	**123,326,239**	₱	83,744,142

Fund for villa operations and capital expenditures is restricted cash fund of PRI held as a source of future maintenance requirements and association dues and for future replacement of power generating units and desalination plant. A liability related to the fund was recognized and is presented as "other noncurrent liabilities" in the balance sheets (see Note 29).

Property development in progress pertains to the development costs incurred on Phase 3 and Phase 4 projects by SSRLI.

Other noncurrent liabilities also include ₱23.4 million fund for future infrastructure and utility development of villas as of December 31, 2013 which is an allocated charge to the villa owners.

16. Notes Payable

Notes payable represent unsecured (unless otherwise stated), short-term, interest-bearing liabilities of the following companies in the Group to various local banks:

		2013		2012
Bank loans availed by:				
Cirrus	₱	**67,381,966**	₱	28,824,721
IAI		**57,713,500**		53,365,000
Anscor		**–**		250,000,000
	₱	**125,095,466**	₱	332,189,721

Cirrus has a $2.5 million and $1.5 million line-of-credit as of December 31, 2013 and 2012 with Branch Banking and Trust Company and Fifth Third Bank, respectively, with interest payable monthly at the bank's prime rate. These banks are domiciled in the United States of America. Cirrus has to abide by certain loan covenants on eligible accounts receivable and minimum net income requirements. Loans payable availed of by Cirrus as of December 31, 2013 and 2012 amounted to $1.5 million (₱67.4 million) and $0.7 million (₱28.8 million), respectively. There is $1.0 million and $0.8 million available on this credit line as at December 31, 2013 and 2012, respectively.

The loans availed of by IAI amounting to $1.0 million (₱43.8 million) in 2010 bears an annual interest rate of 3-month LIBOR + 2% per annum. In June 2011, IAI availed of an additional $0.5 million (₱21.9 million) loan. The note has a maturity of 90 days, with option to extend for another 90 days and was subsequently extended in March, June, September and December 2011. IAI paid US$0.2 million (₱8.2 million) in December 2012. In June 2013, IAI paid $0.2 million (₱8.5 million). In December 2013, IAI availed an additional $0.2 million (₱8.8 million) loan. The maturity of the remaining US$1.3 million (₱57.7 million) was extended and is payable in March 2014.

In 2013 and 2012, the Company availed of loans from a local bank totaling to ₱100.0 million and ₱425.0 million, respectively with terms of 14 to 30 days with 4.0% interest rate in 2013 and terms of 18 to 200 days subject to 4.0%-4.4% interest rate for 2012. As of December 31, 2012, the balance of these short-term loans amounted to ₱250.0 million. As of December 31, 2013, the loan was fully paid. The Company's unavailed loan credit line from banks amounted to ₱800.0 million in 2013 and ₱550.0 million in 2012.

Total interest expense recognized in the consolidated statements of income amounted to ₱11.5 million in 2013 and 2012 and ₱4.3 million in 2011 (see Note 22).

17. Accounts Payable and Accrued Expenses

		2013		2012
Trade payables	₱	**132,208,923**	₱	158,612,904
Accrued expenses		**146,913,058**		127,137,103
Refundable deposits		**53,885,779**		54,440,569
Payable to contractors		**48,501,411**		10,236,424
Advances from customers		**1,724,119**		4,489,970
Other payables (Note 6)		**17,676,893**		18,070,313
	₱	**400,910,183**	₱	372,987,283

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

Accrued expenses include unpaid operating costs of the Group.

Refundable deposits are amounts received from resorts' guests to cover for their future stay in the resort.

Payable to contractors are amount due to suppliers for ongoing construction projects.

18. Long-term Debt

Long-term debt pertains to the following:

		2013		2012
Long-term debt availed by:				
Anscor	₱	**1,997,775,000**	₱	–
PRI		**142,989,251**		145,905,886
		2,140,764,251		145,905,886
Less current portion		**31,337,632**		28,976,456
	₱	**2,109,426,619**	₱	116,929,430

On June 24, 2013, the Company obtained a loan from a local bank amounting US$45.0 million or ₱1,997.8 million to finance the additional investments in shares of stocks of AG&P (see Note 12). The loan is payable quarterly in seven (7) years, inclusive of a 2-year grace period and bears interest equal to outstanding three month LIBOR rate plus 2.0% spread per annum. The loan is secured by pledge to the Company's investments in listed shares with market value amounting to ₱4,680.9 million (Note 11) as of December 31, 2013. This loan provides for certain affirmative and negative covenants, such as the use of the proceeds of the loan, maintenance at all times of the required collateral value of no less than 200% of the outstanding loan balance, not allow the Company's debt-to-equity ratio to exceed 1.75:1 and the Company's current ratio to fall below 1.25:1, among others.

Loans payable of PRI amounting to US$2.0 million (₱108.0 million) and US$1.0 million (₱53.0 million) were obtained from local banks on November 29, 2005 and December 22, 2011. The $2.0 million loan, which was transferred from SSRLI through an execution of Deed of Assumption of Loan and Mortgage dated June 2, 2011, is subject to Mortgage Trust Indenture (MTI), covering the assets of SSRLI which were also transferred to PRI pursuant to the Deed of Transfer dated December 7, 2011 but reverted to SSRLI upon rescission of the Deed of Transfer on October 3, 2012. The mortgage participating certificates or "MTC" issued to creditor bank represents 12% of the appraised value of the properties that were used as collateral, with carrying value of ₱584.7 million and ₱473.9 million as of December 31, 2013 and 2012, respectively (see Notes 13). Both loans have a floating interest rate per quarter equivalent to the average quarterly LIBOR plus 2% spread. The US$2.0 million loan has a maximum term of seven years, including three years grace period while the US$1.0 million loan has a maximum term of five years. Both loans are payable in 17 equal quarterly installments starting October 2012 to 2016. Current portion of loans payable is recognized amounting to ₱31.3 million and ₱29.0 million as at December 31, 2013 and 2012.

On October 3, 2012, PRI obtained a loan from its stockholder amounting to ₱30.0 million. The loan has a grace period of five years and is payable in seven equal annual installments commencing in the year 2018 up to 2024. In lieu of the interest, PRI waives the landing and take-off charges on the said stockholder's use of PRI's runway in Amanpulo. In 2013, PRI obtained an additional loan from the stockholder amounting to ₱19.0 million with the same terms from the previous loan.

Total interest expense recognized in the consolidated statements of income amounted to ₱23.1 million, ₱3.4 million and ₱4.5 million in 2013, 2012 and 2011, respectively (see Note 22).

19. Equity

Equity holdings of the parent

Capital stock consists of the following common shares:

	Number of Shares		Amount
Authorized	3,464,310,958	₱	3,464,310,958
Issued	2,500,000,000		2,500,000,000

Outstanding shares, net of shares held by a subsidiary, as of December 31, 2013 and 2012 totaled 1,261,002,609 and 1,258,202,961, respectively. The Company's number of equity holders as of December 31, 2013 and 2012 is 11,460 and 11,563, respectively.

The SEC authorized the offering/sale to the public of the Company's 10.0 million and 140.0 million common shares with par value of ₱1.00 each on December 29, 1948 and January 17, 1973, respectively. On August 30, 1996, the SEC authorized the licensing of 910,476,302 common shares at the subscription price of ₱2.50 per share.

In 2013, 2012 and 2011, the Company declared the following cash dividends:

	2013	2012	2012	2012
Cash dividends per share	₱0.25	₱0.50	₱0.25	₱0.25
Month of declaration	October	December	October	February
Stockholders of record	October 31	December 21	October 18	March 5
Total cash dividends	₱625 million	₱1,250 million	₱625 million	₱625 million
Share of a subsidiary	₱309.8 million	₱620.9 million	₱310.5 million	₱300.3 million

	2011	2011
Cash dividends per share	₱0.12	₱0.12
Month of declaration	October	February
Stockholders of record	October 26	March 7
Total cash dividends	₱300 million	₱300 million
Share of a subsidiary	₱144.1 million	₱143.8 million

As of December 31, 2013 and 2012, the Company had dividends payable amounting to ₱264.0 million and ₱369.2 million, respectively. Dividends payable represents mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2013 and 2012 due to problematic addresses of some of the Company's stockholders. Dividends payable as of December 31, 2012 also includes dividends declared in 2012 but which remained unpaid.

On December 6, 2011, the BOD approved the appropriation of the Company's unrestricted retained earnings amounting to ₱2.1 billion for expansion projects and investments in 2012 onwards in the areas of tourism, business process outsourcing (BPOs), manpower services, education and manufacturing. On February 21, 2013, the BOD approved the additional appropriation of the Company's unrestricted retained earnings amounting to ₱0.9 billion. The appropriated retained earnings will be used for the Company's investment program within three years on business activities gearing towards service sector, tourism and manufacturing whose operations are based within and outside the Philippines.

The undistributed earnings of subsidiaries and associates amounting to ₱2.0 billion, ₱2.0 billion, and ₱1.6 billion as of December 31, 2013, 2012 and 2011, respectively, which are included in retained earnings, are not available for declaration as dividends until declared by the subsidiaries and associates.

Shares held by a subsidiary

As of December 31, 2013 and 2012, a subsidiary held 1,238,997,391 shares and 1,241,797,039 shares, respectively, of the Company. Cost of shares of the Company purchased by the subsidiary in 2013 and 2012 amounted to ₱21.4 million and ₱183.1 million, respectively.

In March and July 2013, the subsidiary reissued 6,100,000 shares with cost of ₱9.9 million for a total consideration of ₱41.4 million. The excess of consideration over cost of this shares were recognized in additional paid in capital. The total share of the Company purchased by the subsidiary amounted to 3,300,352 and 40,400,00 in 2013 and 2012, respectively. The cost of these shares are ₱21.1 million and ₱183.1 million, respectively.

20. Cost of Services Rendered and Operating Expenses

Cost of services rendered consists of:

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Salaries, wages and employee benefits (Note 21)	₱ 777,847,614	₱ 738,597,992	₱ 642,009,654
Outside services	81,430,086	60,167,009	2,864,724
Recruitment services	71,271,304	61,116,988	50,857,350
Insurance	60,731,220	61,456,431	45,390,310
Fuel cost	53,372,798	59,139,070	47,266,914
Other operating costs - resort	49,928,640	46,561,911	34,323,081
Transportation and travel	40,504,432	50,200,922	10,098,213
Dues and subscriptions	36,372,003	27,128,143	110,224,808
Housing cost	32,904,260	48,352,649	38,078,229
Depreciation and amortization (Note 13)	27,959,509	32,979,188	26,289,569
Repairs and maintenance	26,189,570	23,461,678	27,607,077
Materials and supplies - resort operations	19,512,872	24,430,154	25,073,173
Technical assistance fees (Note 29)	15,370,468	144,642	195,005
Commissions	14,522,250	15,296,158	10,847,108
Variable nurse costs (Note 29)	6,533,706	5,985,349	261,817
Others	15,810,607	33,045,970	37,473,022
	₱1,330,261,339	₱1,288,064,254	₱ 1,108,860,054

Operating expenses consist of:

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Salaries, wages and employee benefits (Note 21)	₱ 256,764,766	₱ 268,383,255	₱ 273,033,227
Depreciation and amortization (Note 13)	99,602,353	84,924,091	78,940,482
Utilities	77,624,748	69,128,581	57,674,335
Professional and directors' fees	57,166,449	49,950,583	56,584,744
Advertising	48,717,931	45,138,276	33,735,871
Taxes and licenses	29,702,051	17,012,666	13,631,787
Repairs and maintenance	24,518,181	27,301,224	22,936,022
Transportation and travel	20,765,317	23,415,490	20,302,781
Security services	16,441,181	16,963,432	13,458,964
Rental (Note 29)	12,185,879	12,108,519	21,741,161
Commissions	22,698,413	22,727,304	24,662,075
Insurance	11,670,093	11,820,313	8,981,640
Entertainment, amusement and recreation	10,304,915	10,351,752	9,622,489
Communications	8,220,006	9,644,724	9,341,625
Association dues	7,600,981	6,472,807	8,148,181
Office supplies	4,932,614	5,223,791	5,083,491
Provisions for contigencies and valuation allowances	4,321,826	3,167,579	1,456,151

(Forward)

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Medical expenses	₱ 3,063,177	₱ –	₱ –
Meetings and conferences	2,884,291	3,406,502	2,858,114
Contract maintenance	2,477,233	–	–
Computer programming	1,258,880	1,487,647	1,241,809
Operating and financial charges-net	1,101,064	797,861	847,205
Shipping and delivery expenses	809,087	924,687	846,468
Others	36,661,757	30,767,662	28,422,541
	₱ 761,493,193	₱ 721,118,746	₱ 693,551,163

In 2013, 2012 and 2011, the Company paid bonus to its non-executive directors amounting to ₱6.6 million, ₱6.8 million and ₱9.9 million, respectively.

21. Personnel Expenses

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Salaries and wages	₱1,005,928,575	₱ 975,278,317	₱ 884,732,736
Pension costs (Note 23)	11,474,829	15,384,331	16,109,144
Social security premiums, meals and other employees' benefits	17,208,976	16,318,599	14,201,001
	₱1,034,612,380	₱1,006,981,247	₱ 915,042,881

In 2013, 2012 and 2011, the Company declared and paid bonuses to its executive officers amounting to ₱23.8 million, ₱33.7 million and ₱45.5 million, respectively.

22. Interest Income, Interest Expense and Valuation Allowances

Interest income consists of:

	2013	2012	2011
Debt instruments (Notes 8 and 11)	₱ 78,681,235	₱ 79,951,188	₱ 91,429,030
Cash and cash equivalents (Note 7)	16,606,664	8,587,147	24,097,379
Others	304,352	4,974,447	4,677,595
	₱ 95,592,251	₱ 93,512,782	₱ 120,204,004

Interest income on debt instruments is net of bond discount amortization amounting to ₱0.6 million in 2013, ₱0.2 million in 2012 and bond premium amortization amounting to ₱0.8 million in 2011.

Interest expense consists of:

	2013	2012	2011
Notes payable (Note 16)	₱ 11,494,158	₱ 11,523,547	₱ 4,343,570
Long-term debt (Note 18)	23,069,785	3,449,465	4,533,750
Others	313,595	3,273,037	214,891
	₱ 34,877,538	₱ 18,246,049	₱ 9,092,211

Valuation allowances (recoveries) consist of:

	2013	2012	2011
Valuation allowances on:			
AFS investments (Note 11)	₱ 71,245,484	₱ 156,131,473	₱ 35,904,485
Receivables (Note 9)	5,018,782	4,477,026	3,399,994
Other current and noncurrent assets (Note 10)	515,316	380,433	–
Recovery of allowances for impairment losses (Notes 9, 10 and 11)	(3,101,226)	(90,467,232)	(73,563,491)
	₱ 73,678,356	₱ 70,521,700	(₱ 34,259,012)

23. Pension and Other Post-employment Benefit Plans

The Group has funded defined benefit pension plans covering substantially all of its officers and employees. The benefits to be received by the officers and employees under the pension plans shall not be less than the minimum mandated retirement benefit plan under Republic Act (RA) No. 7641. The funds are administered by trustee banks under the control and supervision of the Board of Trustees (BOT) of the pension plans, who is composed of the executive officers of the Company.

The Company contributes to the funds as required under accepted actuarial principles to maintain the plan in sound condition and reserves the right to discontinue, suspend or change the rate and amount of its contribution to the funds at any time.

Funding Policy

The Company contributes to the plans amounts (estimated by an actuary on the basis of reasonable actuarial assumptions) which are necessary to provide the defined benefits. No member is required to make any contribution to the plans. Contributions to the plans are determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future in respect of services in the current period. The past service cost (PSC) is the present value of the units of benefits payable in the future in respect of services rendered prior to valuation date.

The Group's management performs an Asset-Liability Matching Study annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. The Group's current strategic investment strategy consists of 40% of equity instruments and 60% of debt instruments.

The Group's plan assets and investments as of December 31, 2013 and 2012 consist of the following:

a. Cash and cash equivalents, which include regular savings and time deposits;
b. Investments in government securities, which include retail treasury bonds and fixed rate treasury notes that bear interest ranging from 4.4531% to 8.75% in 2013 and 4.875% to 8.75% in 2012 and have maturities from September 24, 2016 to October 24, 2037 in 2013 and 2012;
c. Investments in corporate debt instruments, consisting of both short-term and long-term corporate notes and land bonds, which bear interest ranging from 4.375% to 8.461% in 2013 and 5.45% to 8.5% and have maturities from November 10, 2017 to January 30, 2024 in 2013 and February 23, 2013 to November 23, 2019 in 2012; and
d. Investments in equity securities; which consist of unlisted and actively traded securities of holding firms, banks and companies engaged in energy, oil and gas, telecommunications, transportation, real estate, construction, food and beverage, mining and other services among others.

As of December 31, 2013 and 2012, the Company's defined benefit retirement fund has investments in shares of stock of the Company with a cost of ₱30.2 million. All of the fund's investing decisions are made by the BOT of the pension plans. The retirement benefit fund's total gains arising from the changes in market prices amounted to ₱9.8 million and ₱4.6 million in 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the fund's carrying value and fair value amounted to ₱330.8 million and ₱279.7 million, respectively.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets.

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Retirement benefit cost:			
Current service cost	₱ 12,918,528	₱ 13,331,361	₱ 12,744,585
Net interest	(1,730,706)	1,427,364	3,364,559
Past service cost - plan amendment and others	287,007	625,606	–
Net benefit expense	₱ 11,474,829	₱ 15,384,331	₱ 16,109,144
Actual return on plan assets	₱ 35,316,020	₱ 44,206,068	₱ 16,233,346

Changes in net retirement plan asset (retirement benefits payable) are as follows:

Parent	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Net retirement plan asset (retirement benefits payable), beginning	₱ 38,369,388	(₱ 18,128,318)	(₱ 22,100,413)
Current service cost	(9,738,438)	(9,328,437)	(8,672,736)
Net interest	2,442,611	(22,996)	(1,347,328)
	(7,295,827)	(9,351,433)	(10,020,064)
Actuarial changes arising from:			
Remeasurement of plan asset	20,320,127	31,443,541	4,522,962
Experience adjustments	(1,079,240)	1,431,234	–
Changes in financial assumptions	(1,709,165)	2,884,533	4,264,830
Changes in the effect of asset ceiling	(2,482,016)	(5,383,274)	–
	15,049,706	30,376,034	8,787,792
Contributions	7,723,168	35,473,105	5,204,367
Net retirement plan asset (retirement benefits payable), end	₱ 53,846,435	₱ 38,369,388	(₱ 18,128,318)

Subsidiaries	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Retirement benefits payable, beginning	(₱ 14,846,513)	(₱ 21,729,567)	(₱ 22,287,324)
Current service cost	(3,180,090)	(4,002,924)	(4,071,849)
Past service cost	–	(512,202)	–
Net interest	(711,905)	(1,404,368)	(2,017,231)
	(3,891,995)	(5,919,494)	(6,089,080)
Benefits Paid	–	42,158	280,270
Actuarial changes arising from:			
Experience adjustments	(699,009)	1,434,718	3,600,204
Remeasurement of plan asset	667,478	(67,328)	168,842
Changes in financial assumptions	(167,689)	504,113	(528,455)
Changes in demographic assumptions	–	3,452,360	–
	(199,220)	5,366,021	3,520,861
Contributions	7,972,465	7,436,527	3,125,976
Retirement benefits payable, end	(₱ 10,965,263)	(₱ 14,846,513)	(₱ 21,729,567)

Parent Company

Computation of pension asset (liability):

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Defined benefit obligation	(₱ 249,579,338)	(₱ 225,485,109)	(₱ 208,248,266)
Plan asset	311,291,063	269,237,771	190,119,948
Surplus (deficit)	61,711,725	43,752,662	(18,128,318)
Effect of the asset ceiling	7,865,290	5,383,274	–
Pension asset (liability)	₱ 53,846,435	₱ 38,369,388	(₱ 18,128,318)

Changes in the present value of the defined benefit obligations as of December 31 are as follows:

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Opening defined benefit obligation	₱ 225,485,109	₱ 208,248,266	₱ 190,665,382
Interest cost	11,567,386	12,224,173	13,174,978
Current service cost	9,738,438	9,328,437	8,672,736
Remeasurement in other comprehensive income:			
Actuarial loss (gain) - changes in financial assumption	1,709,165	(2,884,533)	(4,264,830)
Actuarial loss (gain) - experience	1,079,240	(1,431,234)	–
Closing defined benefit obligation	₱ 249,579,338	₱ 225,485,109	₱ 208,248,266

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

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Opening fair value of plan assets	₱ 269,237,771	₱ 190,119,948	₱ 168,564,969
Interest income	14,009,997	12,201,177	11,827,650
Contributions	7,723,168	35,473,105	5,204,367
Remeasurement gain (loss) - return on plan assets	20,320,127	31,443,541	4,522,962
Closing fair value of plan assets	₱ 311,291,063	₱ 269,237,771	₱ 190,119,948

The fair value of plan assets as of December 31 are as follows:

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Cash and cash equivalents	₱ 45,945,102	₱ 7,977,947	₱ –
Equity instruments:			
Holding	57,704,686	69,319,915	70,293,823
Energy, oil and gas	18,838,945	22,630,987	–
Financial institutions	8,113,345	9,746,459	–
Real estate	6,755,418	6,951,419	–
Industrial	6,197,707	6,377,567	–
Construction	3,741,288	1,623,722	–
Telecommunications	3,025,910	3,113,704	–
Retail	2,179,250	2,242,479	–
Food and beverage	1,834,236	1,887,454	–
Others	5,510,507	5,458,479	1,281,906
	113,901,292	129,352,185	71,575,729
Debt instruments:			
Government securities	66,340,621	70,024,346	101,790,000
AAA rated debt securities	9,961,820	8,079,299	–
Not rated debt securities	75,142,228	53,803,994	16,754,219
	151,444,669	131,907,639	118,544,219
Fair value of plan assets	₱ 311,291,063	₱ 269,237,771	₱ 190,119,948

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2013	2012	2011
Bonds	49%	49%	62%
Stocks	36%	48%	38%
Cash and cash equivalents	15%	3%	–

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

	Increase (decrease)	Effect on present value of defined benefit obligation
Discount rates	+1.0%	(₱ 1,953,165)
	-1.0%	2,141,311
Future salary increases	+2.0%	3,693,033
	-2.0%	(3,234,702)

Subsidiaries

Computation of pension liability follows:

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Defined benefit obligation	(₱ 30,470,153)	(₱ 25,328,521)	(₱ 28,229,427)
Fair value of plan assets	19,504,890	10,482,008	6,499,860
Retirement benefits payable	(₱ 10,965,263)	(₱ 14,846,513)	(₱ 21,729,567)

Change in the present value of the defined benefit obligations as of December 31 are as follows:

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Changes in the present value of the benefit obligation:			
Opening defined benefit obligation	₱ 25,328,521	₱ 28,229,427	₱ 25,542,848
Interest cost	1,604,956	1,975,729	2,132,984
Current service cost	3,180,090	4,002,924	4,071,849
Past service cost - plan amendment	–	512,202	–
Benefits paid from plan assets	(510,112)	(4,000,570)	(280,270)
Remeasurement in other comprehensive income:			
Actuarial loss (gain) - changes in financial assumptions	167,689	(504,113)	362,220
Actuarial loss (gain) - change in demographic assumptions	–	(3,452,360)	–
Actuarial loss (gain) - experience	699,009	(1,434,718)	(3,600,204)
Closing defined benefit obligation	₱ 30,470,153	₱ 25,328,521	₱ 28,229,427

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

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Opening fair value of plan assets	₱ 10,482,008	₱ 6,499,860	₱ 3,255,524
Contributions	7,972,465	7,436,527	3,125,976
Interest income	893,051	571,361	115,753
Actuarial loss	–	–	(166,235)
Benefits paid from plan assets	(510,112)	(3,958,412)	–
Remeasurement gain (loss)	667,478	(67,328)	168,842
Closing fair value of plan assets	₱ 19,504,890	₱ 10,482,008	₱ 6,499,860

The fair value of plan assets as of December 31 are as follows:

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Cash	₱ 5,921,102	₱ 2,912,968	₱ 1,959,101
Debt Instruments	904,802	881,313	842,611
Government bonds	5,210,093	2,568,613	1,747,821
Corporate bonds			
Not rated debt instruments	3,433,807	2,028,628	1,602,219
Unit investment trust funds	2,554,790	1,435,125	–
Loan receivable	194,536	36,960	32,408
Others	1,285,760	618,401	315,700
Fair Value of Plan Assets	₱ 19,504,890	₱ 10,482,008	₱ 6,499,860

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Cash	30%	28 %	30 %
Debt Instruments			
Government bonds	5%	8%	13 %
Corporate bonds			
Not rated debt instruments	27%	25%	27 %
Unit investment trust funds	18%	19%	25 %
Loan receivable	13%	14 %	–
Others	1%	–	–
Fair Value of Plan Assets	7%	6 %	5 %

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

	Increase (Decrease)	Effect on present value of defined benefit obligation
Discount rates	+1.0% to 2.0%	(₱4,145,125)
	-1.0% to 2.0%	4,830,471
Future salary increase	+1.0% to 2.0%	5,131,953
	-1.0% to 2.0%	(4,547,042)

The Group expects to make contributions amounting to ₱14.8 million to its defined benefit pension plans in 2014 (₱15.6 million in 2013).

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	2013	2012
Discount rate	4%-6%	6%-7%
Future salary increases	4%-5%	5%-10%

The weighted average duration of the defined benefit obligation as of December 31, 2013 is 1.6 years.

24. Income Taxes

The provision for income tax consists of:

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Current	₱ 26,586,615	₱ 24,212,279	₱ 12,313,421
Deferred	(10,472,628)	10,773,887	18,137,711
	₱ 16,113,987	₱ 34,986,166	₱ 30,451,132

The components of the net deferred income tax assets and liabilities are as follows:

Parent Company

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Net deferred income tax liabilities:			
Recognized directly in the consolidated statements of income:			
Deferred income tax assets:			
Unrealized foreign exchange losses	₱ 6,903,595	₱ 16,728,833	₱ 2,849,453
Past service cost	2,316,950	–	–
Market adjustment on FVPL investments	2,614,968	–	–
Pension liability	–	–	4,979,990
	11,835,513	16,728,833	7,829,443
Deferred income tax liabilities:			
Uncollected management fee	(4,978,321)	(10,109,578)	(7,238,709)
Retirement plan asset	(3,125,449)	(3,080,096)	–
Market adjustments on FVPL investments	–	(6,429,949)	–
	(8,103,770)	(19,619,623)	(7,238,709)
Recognized directly in equity:			
Unrealized valuation gains on AFS investments	(44,063,183)	(19,659,181)	(98,244)
Cumulative translation adjustment	(4,197,697)	2,963,925	–
Cumulative actuarial gains	(13,028,482)	(8,430,721)	458,506
	(₱ 57,557,619)	(₱ 28,016,767)	₱ 950,996

Subsidiaries

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Net deferred income tax liabilities:			
Recognized directly in the consolidated statements of income:			
Deferred income tax assets:			
NOLCO	₱ –	₱ –	₱ 14,085,792
Retirement benefits payable	3,535,997	5,398,155	–
Allowance for inventory gains	248,702	738,753	–
Past service cost	–	355,170	–
Allowance for doubtful accounts	–	227,770	–
	3,784,699	6,719,848	14,085,792
Deferred income tax liabilities:			
Goodwill amortization	(15,483,467)	(13,661,903)	(15,731,765)
Unrealized foreign exchange gains	(402,370)	(1,308,988)	–
Others	–	–	(5,650,752)
	(15,885,837)	(14,970,891)	(21,382,517)
	(12,101,138)	(8,251,043)	(7,296,725)
Recognized directly in equity:			
Unrealized valuation gains on AFS investments	(36,055)	(2,027,999)	828,575
Cumulative actuarial gains	(2,010,329)	(1,860,619)	100,095
	(₱ 14,147,522)	(₱ 12,139,661)	(₱ 6,368,055)

Deferred income tax liability amounting to ₱37.2 million was recognized for the fair value of the land with improvements of an acquired subsidiary (see Note 6).

There are deductible temporary differences for which no deferred income tax assets were recognized as future realizability of these deferred income tax assets is not certain. These deductible temporary differences are as follows:

	2013	2012
Allowances for:		
Doubtful accounts	₱ 853,808,300	₱ 812,045,335
Impairment losses	301,972,133	206,889,785
Inventory losses	4,679,415	1,639,616
NOLCO	281,126,216	249,550,008
MCIT	5,988,085	6,960,367
Accrued pension benefits and others	47,779,261	47,318,314

The Company and other subsidiaries domiciled in the Philippines are subjected to the Philippine statutory tax rate of 30% in 2013, 2012 and 2011 while a foreign subsidiary is subject to U.S. federal tax rate of 34% in 2013, 2012 and 2011.

The reconciliation of provision for income tax computed at the statutory tax rates to provision for income tax is as follows:

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Provision for income tax at statutory tax rates	₱ 408,868,786	₱ 457,388,682	₱ 307,673,496
Additions to (reductions from) income taxes resulting from:			
Movement in unrecognized deferred income tax assets	59,566,099	11,956,422	5,147,323
Nondeductible expenses	481,617	1,677,283	557,075
Nondeductible interest expense	1,512,094	579,192	400,182
Interest income already subjected to final tax	(4,787,788)	(1,582,545)	(2,422,175)
Equity in net earnings of associates not subject to income tax	(68,683,677)	(46,598,326)	(27,908,954)
Dividend income not subject to income tax	(61,258,810)	(67,000,858)	(65,702,350)
Gain on sale of AFS investments, marketable equity securities and other investments subjected to final tax	(336,528,398)	(330,046,783)	(170,723,598)
Others	16,944,064	8,613,099	(16,569,867)
	₱ 16,113,987	₱ 34,986,166	₱ 30,451,132

The Group has available NOLCO and MCIT which can be claimed as deduction from taxable income and as credit against income tax due, respectively, as follows:

NOLCO

The following table summarizes the NOLCO as of December 31, 2013 of the Company and its subsidiaries domiciled in the Philippines:

Period of Recognition	Availment period	Amount	Applied	Expired	Balance
2010	2011-2013	₱ 90,146,105	₱ –	(₱ 90,146,105)	₱ –
2011	2012-2014	93,326,465	–	–	93,326,465
2012	2013-2015	66,077,438	–	–	66,077,438
2013	2014-2016	121,722,313	–	–	121,722,313
		₱ 371,272,321	₱ –	(₱ 90,146,105)	₱ 281,126,216

As of December 31, 2013 and 2012, a foreign subsidiary has NOLCO for federal and income tax purposes of approximately US$7.6 million (₱337.4 miilion) and US$6.5 million (₱288.6 million), respectively. Portion of NOLCO incurred in 2013 and 2012 will begin to expire in the year 2028 and 2027, respectively. No deferred income tax assets were recognized on this NOLCO as its future realizability is not certain.

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Period of Recognition	Availment period	Amount	Applied	Expired	Balance
2010	2011-2013	₱ 3,141,636	₱ –	(₱ 3,141,636)	₱ –
2011	2012-2014	1,671,586	(157,967)	–	1,513,619
2012	2013-2015	2,147,145	–	–	2,147,145
2013	2014-2016	2,327,321	–	–	2,327,321
		₱ 9,287,688	(₱ 157,967)	(₱ 3,141,636)	₱ 5,988,085

25. Earnings Per Share - Basic / Diluted

Earnings per share - basic / diluted were computed as follows:

	2013	2012 (As restated, Notes 2 and 23)	2011 (As restated, Notes 2 and 23)
Net income attributable to equity holdings of the parent	₱ 1,358,036,019	₱ 1,467,919,427	₱ 993,357,832
Weighted average number of shares (Note 19)	1,261,027,565	1,374,250,079	1,350,762,579
Earnings per share	₱ 1.08	₱ 1.07	₱ 0.74

The Company does not have potentially dilutive common stock equivalents.

26. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

In the normal course of business and in addition to those disclosed in Notes 12 and 29, the Group grants/ receives cash advances to/from its associates and affiliates.

The consolidated balance sheets include the following transactions and account balances as of December 31 with related parties:

2013		Amount/ Volume		Outstanding Balance	Terms	Conditions
Associates						
PDP Energy						
Management fees (Notes 9 and 29)	₱	**58,926,242**	₱	**18,585,729**	**Non-interest bearing**	**Unsecured, no impairment**
Advances (Note 12)		**–**		**240,651**		
Vicinetum:						
Advances (Note 12)		**–**		**855,363**	**Non-interest bearing**	**Unsecured, no impairment**
AFC Agribusiness Corporation:						
Advances (Note 12)		**–**		**1,500,000**	**Non-interest bearing**	**Unsecured, no impairment**
Others:						
Advances (Note 12)		**–**		**1,861,123**	**Non-interest bearing**	**Unsecured no impairment**

2012		Amount/ Volume		Outstanding Balance	Terms	Conditions
Associates						
PDP Energy						
Management fees (Notes 9 and 29)	₱	55,776,625	₱	38,602,709	Non-interest bearing	Unsecured, no impairment
Advances (Note 12)		–		169,141		
Vicinetum						
Advances (Note 12)		–		67,606	Non-interest bearing	Unsecured, no impairment
AFC Agribusiness Corporation						
Advances (Note 12)		–		1,500,000	Non-interest bearing	Unsecured, no impairment
Others						
Advances (Note 12)		–		838,323	Non-interest bearing	Unsecured no impairment

2011		Amount/ Volume		Outstanding Balance	Terms	Conditions
Associates						
PDP Energy						
Management fees (Notes 9 and 29)	₱	36,064,697	₱	27,024,513	Non-interest bearing	Unsecured no impairment
Advances		–		120,656		
AFC Agribusiness Corporation						
Advances		–		1,500,000	Non-interest bearing	Unsecured no impairment
Others						
Advances		–		2,432,000	Non-interest bearing	Unsecured no impairment

Compensation of the Group's key management personnel:
(In Millions)

		2013		2012		2011
Short-term employee benefits (Note 21)	₱	**100.1**	₱	108.1	₱	116.4
Post-employment benefits (Note 23)		**6.3**		6.8		7.2
Total compensation of key management personnel	₱	**106.4**	₱	114.9	₱	123.6

27. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, receivables, investments in debt instruments, quoted and unquoted equity securities, investments in mutual and hedge funds, and short-term and long-term bank loans. The Group's other financial instruments include accounts payable and dividends payable and amounts due to affiliates, which arose directly from operations.

The Company's investment objectives consist mainly of:

a) maintaining a bond portfolio that earns adequate cash yields and,
b) maintaining a stable equity portfolio that generates capital gains through a combination of long-term strategic investments and short-term to medium-term hold type investment.

The main risks arising from the use of these financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk, and equity price risk. These risks are monitored by the Company's Investment Committee (the Committee).

The Committee evaluates the performance of all investments and reviews fund allocation to determine the future strategy of the fund. The Committee is formed by the Company's Chairman, Vice Chairman, Chief Finance Officer, and an independent consultant. These meetings occur at least every quarter.

The BOD reviews and approves the Company's risk management policies. The Company's policies for managing each of these risks are summarized below.

Credit risk
The Group is exposed to credit risk primarily because of its investing and operating activities. Credit risk losses may occur as a result of either an individual, counterparty or issuer being unable to or unwilling to honor its contractual obligations. The Group is exposed to credit risk arising from the counterparties (i.e., foreign and local currency denominated debt instruments and receivables) to its financial assets. The Group does not have a counterparty that accounts for more than 10% of the consolidated revenue.

Credit risk management
In managing credit risk on these investments, capital preservation is paramount. The Group transacts only with recognized and creditworthy counterparties. Investments in bonds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield.

Credit risk exposures

The table below shows the gross maximum exposure for each class of financial assets before the effects of collateral, credit enhancements and other credit risk mitigation techniques:

		2013		2012
Cash in banks	₱	516,248,672	₱	439,755,856
Short-term investments		277,459,584		430,604,506
FVPL investments - bonds		410,431,087		484,143,489
AFS investments - bonds		843,878,978		746,773,893
		2,048,018,321		2,101,277,744
Loans and receivables:				
Trade		294,275,140		300,726,374
Receivable from villa owners		5,744,725		5,992,661
Notes receivable		60,803,463		–
Interest receivable		23,878,602		23,099,407
Advances to officers and employees		5,061,723		2,683,243
Others		18,644,194		18,404,361
		408,407,847		350,906,046
Less allowance for doubtful accounts		35,961,718		33,555,605
		372,446,129		317,350,441
	₱	2,420,464,450	₱	2,418,628,185

The Group has no collateral held as security nor credit enhancements as of December 31, 2013 and 2012 except for the notes receivable amounting to ₱20.8 million from in 2013 Tayabas Power guaranteed in full by SKI Mining Corporation, its parent company.

Credit quality per class of financial asset

For the Group's financial assets, credit quality is monitored and managed using internal credit ratings. Internal risk ratings are derived in accordance with the Group's rating policy. The table below shows the credit quality by class of financial asset based on the Group's credit rating system:

	Financial Assets that are Neither Past Due nor Impaired				
2013	**High Grade**	**Standard Grade**	**Substandard Grade**	**Past Due or Impaired**	**Total**
Cash in banks	₱ 516,248,672	₱ –	₱ –	₱ –	₱ 516,248,672
Short-term investments	227,459,584	–	–	–	227,459,584
FVPL investments- Bonds	13,868,554	387,741,246	–	8,821,287	410,431,087
AFS investments - Debt instruments	128,140,305	715,738,673	–	–	843,878,978
Receivables:					
Trade	18,585,729	219,198,845	–	56,490,566	294,275,140
Receivables from villa owners	–	5,744,725	–	–	5,744,725
Notes receivables	20,803,463	40,000,000	–	–	60,803,463
Interest receivable	–	11,953,640	–	11,924,962	23,878,602
Advances to officers and employees	–	5,061,723	–	–	5,061,723
Others	–	1,833,158	–	16,811,036	18,644,194
	₱ 925,106,307	₱1,387,272,010	₱ –	₱ 94,047,851	₱ 2,406,642,168

2012	Financial Assets that are Neither Past Due nor Impaired: High Grade	Standard Grade	Substandard Grade	Past Due or Impaired	Total
Cash in banks	₱ 439,755,856	₱ –	₱ –	₱ –	₱ 439,755,856
Short-term investments	430,604,506	–	–	–	430,604,506
FVPL investments -					
Bonds	25,484,855	458,658,634	–	–	484,143,489
AFS investments -					
Bonds	144,241,730	602,532,163	–	–	746,773,893
Receivables:					
Trade	200,410,997	–	–	100,315,377	300,726,374
Receivable from villa owners	–	–	–	5,992,661	5,992,661
Interest receivable	–	23,099,407	–	–	23,099,407
Advances to officers and employees	–	2,683,243	–	–	2,683,243
Others	608,190	–	–	17,796,171	18,404,361
	₱ 1,241,106,134	₱1,086,973,447	₱ –	₱ 124,104,209	₱ 2,452,183,790

The Group evaluates credit quality on the basis of the credit strength of the security and/or counterparty/ issuer. High grade financial assets reflect the investment grade quality of the investments and/or counterparty; realizability is thus assured. Standard grade assets are considered moderately realizable.

Financial assets that are past due but not impaired

The table below shows the aging analysis of past due but not impaired loans/receivables per class that the Group held. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

December 31, 2013	Financial Assets that are Past Due but Not Impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Trade	₱ 13,517,080	₱ 4,000,730	₱ 2,572,508	₱ 2,271,688	₱ 22,362,006
Interest receivable	5,560,943	6,364,019	–	–	11,924,962
Others	14,363,198	300,796	313,884	–	14,977,878
	₱ 33,441,221	₱ 10,665,545	₱ 2,886,392	₱ 2,271,688	₱ 49,264,846

December 31, 2012	Financial Assets that are Past Due but Not Impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Receivables from villa owners	₱ 5,992,661	₱ –	₱ –	₱ –	₱ 5,992,661
Trade	35,326,073	13,422,670	5,451,781	14,392,406	68,592,930
Others	4,718,309	3,571,808	1,241,167	6,431,729	15,963,013
	₱ 46,037,043	₱ 16,994,478	₱ 6,692,948	₱ 20,824,135	₱ 90,548,604

Liquidity risk

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations as they fall due. Aside from yielding good returns, the Group ensures investments have ample liquidity to finance operations and capital requirements. Short-term bank loans are secured to fill in temporary mismatch of funds for new investments.

Where applicable, long-term debt or equity are used for financing when the business requirement calls for it to ensure adequate liquidity in the subsidiaries and affiliates' operation.

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due. This is done by primarily investing in highly liquid investments.

The tables below summarize the maturity profile of the Group's financial liabilities at December 31 based on undiscounted contractual payments as well as the financial assets used for liquidity management.

December 31, 2013	Within 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Cash in banks	₱ 516,248,672	₱ –	₱ –	₱ –	₱ 516,248,672
Short-term investments	227,459,584	–	–	–	227,459,584
FVPL investments - Bonds	22,689,841	387,741,246	–	–	410,431,087
AFS investments - Bonds	39,831,707	9,118,076	512,142,061	282,787,134	843,878,978
Receivables	181,389,440	227,018,407	–	–	408,407,847
	₱ 987,619,244	₱ 623,877,729	₱ 512,142,061	₱ 282,787,134	₱ 2,406,426,168

December 31, 2013	Within 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Notes payable	₱ 125,095,466	₱ –	₱ –	₱ –	₱ 125,095,466
Accounts payable and accrued expenses*	354,108,924	–	–	–	354,108,924
Long-term debt	–	31,337,632	111,651,619	1,997,775,000	2,140,764,251
Interest payable	23,573,284	25,838,400	277,656,202	5,068,916	332,136,802
Dividends payable	264,014,626	–	–	–	264,014,626
	₱ 766,792,300	₱ 57,176,032	₱ 389,307,821	₱2,002,843,916	₱ 3,216,120,069

**Excluding other payables to government amounting to ₱46.8 million*

December 31, 2012	Within 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Cash in banks	₱ 439,755,856	₱ –	₱ –	₱ –	₱ 439,755,856
Short-term investments	430,604,506	–	–	–	430,604,506
FVPL investments - Bonds	–	484,143,489	–	–	484,143,489
AFS investments - Bonds	32,818,517	13,760,438	326,745,771	373,449,167	746,773,893
Receivables	317,350,441	–	–	33,555,605	350,906,046
	₱ 1,220,529,320	₱ 497,903,927	₱ 326,745,771	₱ 407,004,772	₱ 2,452,183,790

December 31, 2012	Within 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Notes payable	₱ 332,189,721	₱ –	₱ –	₱ –	₱ 332,189,721
Accounts payable and accrued expenses*	290,068,853	–	–	–	290,068,853
Long-term debt	14,488,228	14,488,228	116,929,430	–	145,905,886
Interest payable	8,726,273	5,409,125	17,719,558	–	31,854,956
Dividends payable	369,162,064	–	–	–	369,162,064
	₱ 1,014,635,139	₱ 19,897,353	₱ 134,648,988	₱ –	₱ 1,169,181,480

**Excluding other payables to government agencies amounting to ₱82.9 million.*

The Group's total financial liabilities due to be settled within one year include notes payable that management considers as working capital. Accounts payable and accrued expenses and dividends payable are expected to be settled using cash to be generated from operations and drawing from existing lines of credits or liquidity reserves.

Market risks

Market risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. It is the risk coming from adverse movements in factors that affect the market value of financial instruments of the Group. The Group is exposed primarily to the financial risks of changes in interest rates, foreign currency risk and equity price risks.

Investments exposed to market risk are foreign and local currency denominated quoted debt instruments, foreign and local currency denominated equity instruments and mutual fund/hedge fund investments.

There has been no change to the Group's manner of managing and measuring the risk.

a. Interest rate risks

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following tables demonstrate management's best estimate of the sensitivity to reasonably possible change in interest rates, with all other variables held constant:

2013	**Change in interest rates (in bps*)**		**Effect on income before tax - Increase (decrease)**
Floating debt instrument	**+150**	₱	**32,817,950**
	-150		**(32,817,950)**

2012	**Change in interest rates (in bps*)**		**Effect on income before tax - Increase (decrease)**
Floating debt instrument	+150	₱	2,144,655
	-150		(2,144,655)

**basis points*

The sensitivity analysis shows the effect on the consolidated statements of income of assumed changes in interest rates on the net interest income for one year, based on the floating rate of financial assets held at December 31, 2013 and 2012. There is no other impact on equity other than those affecting profit and loss.

Fair value 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 Group accounts for its quoted debt instruments at fair value. Changes in benchmark interest rate will cause changes in the fair value of quoted debt instruments.

The tables below show the impact on income before income tax and equity of the estimated future bond yields using a duration based sensitivity approach. Items affecting profit and loss are bonds classified as FVPL and items affecting equity account are bonds classified as AFS.

		Increase (Decrease)	
2013	**Change in interest rate (in bps*)**	**Effect on income before tax**	**Effect on equity**
AFS investments	**+100**	₱ **–**	₱ **(19,435,471)**
	-100	**–**	**20,888,538**
FVPL investments	**+100**	**(20,646,172)**	**–**
	-100	**23,777,633**	**–**

		Increase (Decrease)	
2012	**Change in interest rate (in bps*)**	**Effect on income before tax**	**Effect on equity**
AFS investments	+100	₱ –	₱ (35,358,761)
	-100	–	32,335,686
FVPL investments	+100	(33,784,479)	–
	-100	14,249,020	–

** basis points*

b. 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 equity price risk exposure arises from the Group's investment in stocks listed in the PSE index (PSEi).

The sensitivity analysis assumes that e stocks' standard deviation on its historical returns for the past one year provides the basis for the range of reasonably possible changes in prices of the stock investments. In establishing the relative range of the stock investment returns, the Group also assumes a 99% confidence level.

The tables below show the impact on income before income tax and equity of the estimated future return of the stock investments using a Beta-based sensitivity approach.

		Increase (Decrease)	
2013	**Change in PSEi price index**	**Effect on income before tax**	**Effect on equity**
AFS investments	**+55.33%**	₱ **–**	₱ **2,225,907,439**
	-55.33%	**–**	**(2,225,907,439)**

2012	Change in PSEi price index		Increase (Decrease) Effect on income before tax		Effect on equity
AFS investments	+33.61%	₱	–	₱	2,279,048,544
	-33.61%		–		(2,279,048,544)

The annual standard deviation of the PSEi is approximately 23.88% and 14.45% and with 99% confidence level, the possible change in PSEi price index could be +/-55.33% and +/-33.61% in 2013 and 2012, respectively. There are no outstanding stock investments listed in PSE that are classified as FVPL as of December 31, 2013 and 2012.

c. Price risk of mutual funds

The Group is exposed to the risk of changes in the fund's net asset value (NAV) due to its market risk exposures.

The sensitivity analysis demonstrates management's best estimate of the impact of reasonably possible change in NAV, with all other variables held constant.

The tables below show the impact on income before income tax and equity of assumed changes in NAV. A negative amount in the table reflects a potential reduction on income before income tax or equity, while a positive amount reflects a potential increase on income before income tax or equity.

2013	Change in NAV		Increase (Decrease) Effect on income before tax		Effect on equity
Mutual funds	+10%	₱	2,256,159	₱	23,079,108
	-10%		(2,256,159)		(23,079,108)

2012	Change in NAV		Increase (Decrease) Effect on income before tax		Effect on equity
Mutual funds	+10%	₱	3,645,233	₱	19,996,901
	-10%		(3,645,233)		(19,996,901)

d. Foreign exchange risks

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate. The Group's exposure arises primarily from investments in foreign currency denominated debt investments and equity securities.

The Company and a subsidiary's foreign exchange risk arises primarily from investments in foreign currency denominated debt and equity securities. To minimize income volatility due to exchange rate movements, liquid investments are held in a basket of currencies, including Philippine peso and other major currencies such as U.S. dollar and Euro. This also enables the Company and a subsidiary to access investment opportunities in those currencies. The Company occasionally engages in foreign currency forward contracts as a defensive measure against foreign currency volatility.

On borrowings, it is the Company's group-wide policy for its subsidiaries and associates where it has significant influence to minimize any foreign exchange risks. Thus, all borrowings whether short-term or long-term, in general, should be in Philippine peso. Any foreign currency borrowings may be engaged only if matched by the entities' corresponding currency revenue flows or by a foreign currency asset. As such, PRI, SSRLI and CGI can borrow in U.S. dollar as their revenues are dollar-based. It is also the policy of the Group to minimize any foreign exchange exposure in its management of payables. Any substantial exposure is covered by foreign exchange contracts, if necessary.

The analysis discloses management's best estimates of the effect of reasonably possible movement of the currency rate against the Philippine peso. It assumes that all other variables remain constant. A negative amount in the table reflects a potential reduction in income before income tax or equity, while a positive amount reflects a net potential increase in income before income tax or equity.

2013	**Change in currency rate**		**Effect on income before tax Increase (Decrease)**
US dollar	**+5.71%**	₱	**2,729,891**
	-5.71%		**(2,729,891)**
Euro	**+7.26%**		**57,924**
	-7.26%		**(57,924)**

2012	**Change in currency rate**		**Effect on income before tax Increase (Decrease)**
US dollar	+6.23%	₱	5,772,373
	-6.23%		(5,772,373)
Euro	+8.10%		32,093
	-8.10%		(32,093)

Capital Management

Due to the diversity of the operations of each company in the Group, capital risk management processes in place are specific to each company. Below are the capital risk management policies of the Company and its more significant subsidiaries and associate:

a. The primary objective of the Company's capital management is to ensure an adequate return to its shareholders and to maximize its value to its shareholders. In pursuance of this goal, the Company establishes an optimum risk return investment objectives through a sound diversified investment portfolio and in ensuring a fair credit rating, the Company establishes prudent financial policies through appropriate capitalization ratios in its investments and maintain reasonable liquidity.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet.

No changes were made in the objectives, policies or process for the years ended December 31, 2013 and 2012.

b. Cirrus' and CGI's capital management objectives are:

- To ensure its ability to continue as a going concern; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

CGI monitors capital on the basis of the carrying amount of equity as presented on the face of its balance sheet.

CGI sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. It manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying business.

28. Financial Instruments

Categorization of Financial Instruments

December 31, 2013	Loans and Receivables	Financial Assets at FVPL	AFS Investments	Total
Cash and cash equivalents	₱ 743,892,509	₱ –	₱ –	₱ 743,892,509
FVPL investments	–	479,879,789	–	479,879,789
AFS investments	–	–	10,348,529,052	10,348,529,052
Receivables	372,446,129	–	–	372,446,129
	₱ 1,116,338,638	₱ 479,879,789	₱ 10,348,529,052	₱ 11,944,747,479

December 31, 2012	Loans and Receivables	Financial Assets at FVPL	AFS Investments	Total
Cash and cash equivalents	₱ 870,552,614	₱ –	₱ –	₱ 870,552,614
FVPL investments	–	534,168,795	–	534,168,795
AFS investments	–	–	9,318,625,967	9,318,625,967
Receivables	317,350,441	–	–	317,350,441
	₱ 1,187,903,055	₱ 534,168,795	₱ 9,318,625,967	₱ 11,040,697,817

Other Financial Liabilities	2013	2012
Notes payable	₱ 125,095,466	₱ 332,189,721
Accounts payable and accrued expenses*	354,108,924	290,068,853
Long-term debt, including current portion	2,140,764,251	145,905,886
Dividends payable	264,014,626	369,162,064
	₱ 2,883,983,267	₱ 1,137,326,524

* *Excluding other payables to government agencies amounting to ₱46.8 million and ₱82.9 million in 2013 and 2012, respectively.*

Fair Values of Financial Assets and Liabilities

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments:

	December 31			
	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FVPL investments				
Bonds	₱ 410,431,087	₱ 410,431,087	₱ 484,143,489	₱ 484,143,489
Funds and equities	53,378,702	53,378,702	39,829,506	39,829,506
Others	16,070,000	16,070,000	10,195,800	10,195,800
	479,879,789	479,879,789	534,168,795	534,168,795
AFS investments:				
Bonds	843,878,978	843,878,978	746,773,893	746,773,893
Quoted equity shares	7,915,173,765	7,915,173,765	7,395,511,457	7,395,511,457
Funds and equities	442,936,860	442,936,860	286,502,618	286,502,618
Proprietary shares	177,238,250	177,238,250	187,238,250	187,238,250
Unquoted shares	675,137,535	675,137,535	–	–
	10,054,365,388	10,054,365,388	8,616,026,218	8,616,026,218
	₱10,534,245,177	₱10,534,245,177	₱ 9,150,195,013	₱ 9,150,195,013

The carrying amounts of cash and cash equivalents, receivables, notes payable, dividends payable and accounts payable and accrued expenses approximate their fair values due to the short-term maturity of these financial instruments. As of December 31, 2013 and 2012, AFS investments amounting to ₱256.7 million and ₱702.6 million were carried at cost since these are investments in unquoted equity shares and the fair values cannot be measured reliably.

The carrying values of long-term debt, which have floating rates with quarterly repricing, approximate their fair values.

The following methods and assumptions were used to estimate the fair values:

- FVPL investments in bonds, funds and equities and others are derived from quoted market prices in active markets.
- AFS investments in bonds, quoted equity shares and funds and equities and proprietary shares are derived from quoted market prices in active markets.
- AFS investments in unquoted equity shares are based on the discounted cash flow (DCF) model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, and growth rate. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

The following tables provides the Group's fair value measurement hierarchy of its assets as of December 31, 2013.

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
FVPL investments:				
Bonds	₱ 410,431,087	₱ 410,431,087	₱ –	₱ –
Funds and equities	53,378,702	53,378,702	–	–
Others	16,070,000	16,070,000	–	–
	479,879,789	479,879,789	–	–
AFS investments:				
Bonds	843,878,978	843,878,978	–	–
Quoted equity shares	7,915,173,765	7,915,173,765	–	–
Funds and equities	442,936,860	442,936,860	–	–
Proprietary shares	177,238,250	177,238,250	–	–
Unquoted shares	675,137,535	–	–	675,137,535
	10,054,365,388	9,379,227,853	–	675,137,535
	₱10,534,245,177	₱ 9,859,107,642	₱ –	₱ 675,137,535

As of December 31, 2012, the Group's assets measured at fair value are quoted and are classified as Level 1.

FVPL investments:	
Bonds	₱ 484,143,489
Funds and equities	39,829,506
Others	10,195,800
	534,168,795
AFS investments:	
Bonds	746,773,893
Quoted equity shares	7,395,511,457
Funds and equities	286,502,618
Proprietary shares	187,238,250
	8,616,026,218
	₱ 9,150,195,013

Description of significant unobservable inputs to valuation of financial instruments classified under Level 3 (in millions):

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of input to fair value
Enderun	DCF Model	Student growth rate of 10%	5% - 15%	5%: fair value of ₱267 15%: fair value of ₱327
		Tuition fee increase by 2%	0% - 5%	0%: fair value of ₱256 5%: fair value of ₱337
		Other income growth rate of 15%	5% - 20%	5%: fair value of ₱270 20%: fair value of ₱297
		Cost of capital of 11%	8% - 12%	8%: fair value of ₱357 12%: fair value of ₱239
KSA	DCF Model	Dividend payout is ₱40 million	(5%) - 1%	(5%): fair value of ₱375 1%: fair value of ₱392
		Liquidity discount of 20%	10% - 30%	10%: fair value of ₱396 30%: fair value of ₱382
		Cost of capital of 11%	10% - 12%	10%: fair value of ₱419 12%: fair value of ₱362

An increase in the percentage of EBITDA over revenue would increase the fair value of the investment in Enderun.

An increase in the expected lease income of KSA would increase the dividend payout, which would lead to an increase in the fair value of the investment in KSA.

Reconciliation of fair value measurement of AFS assets in unquoted equity shares (in millions):

	Enderun	KSA	Total
As at 1 January 2013	₱ 286	₱ 7	₱ 293
Re-measurement recognized in OCI	–	382	382
Realized gains (losses) in profit or loss	–	–	–
Unrealized gains (losses) in profit or loss	–	–	–
Purchases	–	–	–
Reclassified in discontinued operations	–	–	–
Transfer into/out of Level 3	–	–	–
Sales	–	–	–
As at 31 December 2013	**₱ 286**	**₱ 389**	**₱ 675**

For the years ended December 31, 2013 and 2012, there were no transfers from Level 1, Level 2 and Level 3 fair value measurements.

29. Contracts and Agreements

Company

a. The Company leases out its investment property to a third party. The term of the lease is for two years and 10 months, with the lease term starting on February 1, 2007 and is renewable upon mutual agreement of the parties. The lease is subject to an agreed amount of escalation in the second and third years. The lease agreement was not renewed in 2009 and the related investment property was sold to a third party on March 1, 2011 (see Note 14).

Total rent income recognized in 2011 amounted to ₱0.4 million and are shown as part of "Other income (charges) - net" in the consolidated statements of income.

b. On January 10, 2014, the Company entered into a loan and investment agreement with SKI Construction Group, Inc. (SKI), Red Core Investment Corp. (Red Core), Tayabas Power, Tiaong Geothermal Power, Inc. (Tiaong Power), and San Juan Geothermal Power, Inc. (San Juan Power) to jointly survey and explore the geothermal energy potential in the areas defined by the Tayabas, Tiaong and San Juan Geothermal Renewable Energy Service Contract (GRESC). Under this agreement, the Company committed to fund $4 million (₱172 million) through zero-coupon notes for exploration phase of the three sites. In January 2014, ₱64.9 million was drawn down with maturity on March 16, 2019.

The Company may choose to convert each Note into common shares of the three operating companies: Tayabas Power; Tiaong Power and San Juan Power to achieve 9.1% stake in each of these entities. If the Company will not convert the note with in the agreed time frame, these notes will be changed into a medium term note with a coupon to be repaid as soon as possible.

Sutton

a. On February 26, 2009, CGI's BOD ratified the new Service Agreement with IQHPC with a revised fee equivalent to 3% of all billed expenses effective January 1, 2009.

b. In the ordinary course of business, IQHPC enters into Service Agreements with U.S. hospitals and/or staffing agencies to provide services in relation to the placement of qualified Filipino nurses for full time employment in the U.S. The Service Agreement sets forth the rights, responsibilities, terms and conditions governing IQHPC's services, which include among others, training and procedural assistance in obtaining all required licensure examinations, obtaining U.S. permanent residence status and eventual placement of the nurses to the U.S. hospitals and/or agency.

As of December 31, 2013, IQHPC has outstanding Service Agreements with different U.S. hospitals and one with a staffing agency. Service income recognized in 2013, 2012 and 2011 amounted to ₱14.8 million, ₱14.4 million and ₱14.3 million, respectively.

c. CGI entered into a non-cancellable operating lease covering certain offices. The lease has terms ranging up to three years, with renewal options and includes annual escalation rates of 5% to 10%. Upon its maturity on July 31, 2010, the lease was renewed for a two-year term ending July 31, 2012. In 2012, the same was again renewed for a one-year term ending July 31, 2013. In 2013, the same was again renewed for a one year term ending July 31, 2014.

The future minimum rentals payable under the non-cancellable operating lease within one year from the balance sheet date amounted to ₱1.6 million and ₱1.5 million as of December 31, 2013 and 2012, respectively.

Rent expense in 2013, 2012 and 2011 amounted to ₱2.6 million, ₱2.5 million and ₱2.4 million, respectively.

d. In May 2010, CGI entered into a sublease agreement with a third party covering its office space. The sublease has a term of one year ending April 30, 2011, renewable upon mutual agreement of both parties. Upon its maturity on April 30, 2011, the same was renewed for a term ending January 31, 2012 and in 2012 an addendum was made to extend the sublease agreement for another six months ending July 31, 2012. On April 29, 2012, the same was again renewed for a term ending January 31, 2013. The sublease agreement was further extended for another six months ending July 31, 2013. The lessee continues to occupy the office space and is currently negotiating the last contract extension. Rent income from the sublease agreement in 2013 and 2012 amounted ₱0.9 million and ₱0.8 million, respectively.

e. In December 2013 and 2012, advances to CGI amounting to ₱7.6 million and ₱20.2 million were assigned to Sutton in exchange for its 948 common shares and 2,528 common shares, respectively.

Cirrus

a. Cirrus Holdings USA, LLC and Cirrus Allied, LLC have various staffing contracts with their U.S. clients concerning certain rates and conditions, among others. Service income amounted to ₱1,252.7 million, ₱1,145.7 million and ₱998.3 million in 2013, 2012 and 2011, respectively.

Cirrus has entered into a third party non-cancellable operating lease agreements for the rental of office space and equipment. The leases include options to renew, as well as rent escalation clauses and in certain cases, incentives from the landlord for rent-free months and allowances for tenant improvements. The rent escalations and incentives have been reflected in the succeeding table.

As of December 31, 2013 and 2012, future minimum lease payments associated with these agreements with terms of one year or more are as follows:

		2013		2012
Within one year	₱	9,907,321	₱	6,773,031
After one year but not more than five years		22,299,209		17,459,097
	₱	32,206,530	₱	24,232,128

Rent expense in 2013, 2012 and 2011 amounted to ₱11.4 million, ₱7.5 million and ₱9.8 million, respectively.

b. As discussed in Note 6, on December 10, 2010, Cirrus acquired NT, a company maintaining web domains for nurses and physical therapist, and agreed to pay a maximum total consideration amounting to $1.06 million for the net assets of NT as of purchase date. Of the amount, $0.51 million will be paid by Cirrus provided certain revenue and earnings target are met. To facilitate the transaction, the Company made advances to AI in the amount of $840,000 (₱37.09 million).

ASAC

ASAC enters into a lease agreement for ground handling equipment in the conduct of its operations. The lease agreement is in force for a period of not more than one year unless all parties formally extend the said term. Rent expense charged to operations amounted to ₱0.1 million in 2012 (nil in 2013).

IAI

a. On August 23, 2006, IAI entered into a Maintenance Service Plan (MSP) with Honeywell effective for five years for the latter to service IAI's additional aircraft engine acquired in 2007. Under the terms of the programs, IAI agrees to pay a fee computed at a rate of engine's actual operating hours or the minimum operating hours, subject to annual escalation. The engine shall be shipped to the United States to undergo repairs and maintenance as necessary, by a Honeywell authorized service center. The contract was renewed under the same terms in 2011. Deposits for the MSP as of December 31, 2013 and 2012 amounted to ₱52.7 million and ₱40.0 million, respectively, and included as part of "Other current assets" account in the consolidated balance sheets.

b. IAI conducts its operations from leased facilities which include the aircraft hangar, parking lots and the administrative office. The lease agreement is for a period of two years commencing on September 1, 2009 and is subsequently renewed for another two years upon its termination in 2011 and 2013. The renewed lease agreement will terminate in August 2015.

The same shall be renewable upon mutual agreement if either party receives no notice of termination. Rent expense recognized in operations amounted to ₱2.7 million in 2013, ₱2.4 million in 2012 and ₱2.1 million in 2011.

Future minimum annual rentals payable under this lease are as follows:

		2013		2012
Not later than one year	₱	**2,785,714**	₱	1,571,429
Later than one year but not later than 5 years		**1,857,143**		–
	₱	**4,642,857**	₱	1,571,429

SSRLI and PRI

a. Since 1995, the Company charges SSRLI a monthly fee amounting to US$4,000 or its Peso equivalent for the Company's general, administrative, treasury, tax and legal services rendered to SSRLI. In addition, the Company also made advances to SSRLI for the latter's operating expenses. Due from SSRLI, which has been eliminated in the consolidated financial statements, amounted to ₱0.02 million as of December 31, 2013 (see Note 12).

b. PRI executed in the past an Operating and Management Agreement (OMA) with Amanresorts Management, B.V. (AMBV, the Operator of Amanresorts), a company based in Amsterdam, the Netherlands, for a fee of 5% of PRI's gross operating profits, as defined in the OMA. The OMA provides for, among others, the reimbursements by PRI to Amanresorts of all costs and expenses incurred by the latter in connection with the management and operation of resort and a reserve cash funding equivalent to 4% of gross revenues which will be used to cover the cost of replacements, renewals, and additions to furniture, fixtures and equipment. On June 24, 2013, both parties have mutually entered into a new OMA, effective on the same date, in which PRI will pay a basic fee amounting to 4% of gross revenue and an incentive fee of 10% based on the gross operating profit collectively known as management fee. In addition to the management fees discussed, PRI shall also reimburse AMBV for all costs and expenses incurred by AMBV directly in connection with rendering services under the new OMA.

Likewise, marketing services and license contracts with AMBV were entered into by PRI in the past, providing marketing fee of 3% of the resort's annual gross hotel revenues and US$1,000 monthly fee, respectively. On June 24, 2013, both parties mutually entered into a new marketing services agreement of the same terms and conditions except for a lower marketing fee rate of 1% of gross revenue from 3%. The new OMA, marketing and license contracts will expire on the 31st day of December of the 5th full calendar year following their commencement. Further, AMBV has the option to extend the operating term for a period of 5 years from the date of its expiration. Total fees related to these agreements amounted to ₱17.9 million and ₱25.4 million in 2013 and 2012, respectively.

c. SSRLI has an agreement with IAI for the latter to provide regular air service. IAI shall charge SSRLI a fixed round trip rate per passenger, subject to an annual review by both parties, with a guarantee that all of IAI's operating costs will be covered. The original agreement had duration of no less than two years and was renewed in February 2008.

As a result of the transfer of resort operations from SSRLI to PRI (see Note 12), the latest renewal of the air service agreement was made between PRI and IAI covering a three-year period from July 1, 2011 to June 30, 2014. The duration of the contract may be extended upon such terms and conditions as may be mutually agreed by both parties.

d. The renewal of the lease agreement between SSRLI and IAI for the Guest Lounge, Purchasing Office and parking lots covers the two-year period from September 2009 to August 2011. As a result of the transfer of resort operations (see Note 12), the lease agreement was renewed by IAI and PRI on September 2011 for a period of two years. In 2013, PRI and IAI entered into a service agreement for the use of the same properties, which is effective September 1, 2013 to August 30, 2015. The agreement provides that PRI is not allowed to sublease any part of the premises or facilities that it leases.

Rent relating to the lease amounted to ₱1.9 million in 2013, ₱1.9 million in 2012 and ₱1.5 million in 2011.

e. In January 2007, APHI and SSRLI entered into a consultancy agreement whereby APHI will provide project management, general and specific administration and supervision over pre-construction and post-construction stages of SSRLI's Amanpulo Phase 2 and other capital expenditure projects for a certain fee agreed by the two parties. As of December 31, 2011, the consultancy contract is still in effect but at a reduced fee.

On May 31, 2013, APHI and SSRLI entered into a management contract in which APHI will provide technical advice, supervision and management services and general administration for various Phase 3-A villa projects, such as but not limited to other Amanpulo special capital expenditure projects. SSRLI shall pay a fixed monthly fee amounting to ₱615,000 exclusive of VAT, effective June 1, 2013 until the projects have been completed, delivered and accepted by SSRLI.

f. On July 1, 2011, PRI entered into management agreements with the villa owning companies wherein PRI shall provide general maintenance and accounting and administrative services for the villas. PRI shall also be responsible for the marketing and promotion of the villas. In return for these services, PRI shall be entitled to 50% of the net villa rental proceeds. PRI shall also receive reimbursements of costs, with 15% handling fees (except for utilities), incurred in providing services to the villa guests. PRI's share in the net villa rental proceeds amounted to ₱47.3 million in 2013 and ₱50.1 million in 2012 and is presented as part of "Services revenue" in the consolidated statements of income.

As part of the agreement, PRI will also maintain a fund which shall be used for future maintenance requirements of the villas. As of December 31, 2013 and 2012, the restricted fund amounted to ₱40.6 million and ₱47.5 million, respectively, which is included under "Other noncurrent assets" and "Other noncurrent liabilities" in the consolidated balance sheets (see Note 15).

g. In November 2005, the DENR awarded to SSRLI the exclusive use of the foreshore land surrounding the Pamalican Island, where Amanpulo Resort is situated. The award has a duration of 25 years which may be renewed for another full period at the option of SSRLI. Annual rent shall be paid in advance on or before the 16th day of November every year.

On October 3, 2012, PRI entered into a lease agreement with SSRLI covering the land where PRI operates and certain resort-related assets for a period of 20 years. Annual lease rental amounted to ₱53.5 million payable within the first five days at the beginning of each quarter.

Future minimum lease payments under these lease agreements as of December 31 are as follows:

		2013		2012
Within one year	₱	**55,628,692**	₱	55,530,385
After one year but not more than five years		**267,500,000**		268,802,251
More than five years		**615,250,000**		668,750,000
	₱	**938,378,692**	₱	993,082,636

PDIPI and Subsidiaries

a. The Company has a management contract with PDP Energy which provides, among others, for payment of annual management fees amounting to ₱7.2 million (VAT inclusive) plus certain percentages of audited income before tax and management and technical assistance fees (VAT exclusive). Due from PDP Energy amounted to ₱18.6 million and ₱38.6 million as of December 31, 2013 and 2012, respectively (see Notes 9 and 26). Management fees amounted to ₱58.9 million, ₱55.8 million and ₱36.1 million in 2013, 2012 and 2011, respectively.

b. Beginning January 2004, PDP Energy entered into a new technical assistance contract with Phelps Dodge International Corporation which provides an annual payment of technical fees amounting to a certain percentage of audited income before tax (VAT inclusive). Technical fees amounted to ₱58.9 million, ₱55.8 million and ₱34.6 million in 2013, 2012 and 2011, respectively. These are included in "Management fee" in the Group's consolidated statements of income.

30. Other Matters

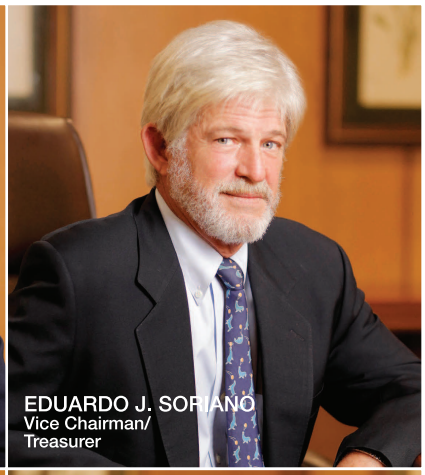
a. ASAC is a founding member of the Federation of Aviation Organizations of the Philippines (FEDAVOR) since 1986. In 2005, FEDAVOR won a Supreme Court case against MIAA involving its imposition of higher rates for rental and other services without a public hearing. ASAC accrued its share in FEDAVOR's legal expenses in 2006. In 2009, MIAA filed and subsequently won their motion for reconsideration with the Court of Appeals ruling that all refunds have to be coursed through the Commission on Audit. As of December 31, 2013, the refund process has remained pending.

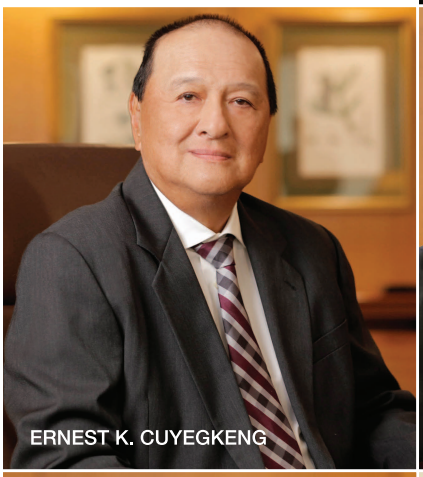
b. ASAC is a defendant in labor lawsuits and claims. As of December 31, 2013 and 2012, management has recognized provisions for losses amounting to ₱3.79 million (see Note 17) that may be incurred from these lawsuits.

c. On November 8, 2013, the Amanpulo Resort sustained property damages brought by Typhoon Yolanda. Because of these damages, its operations was temporarily suspended and resumed only on December 15, 2013. As of February 19, 2014, PRI is processing for insurance claims for property damages, business interruption and cost of debris clearing.

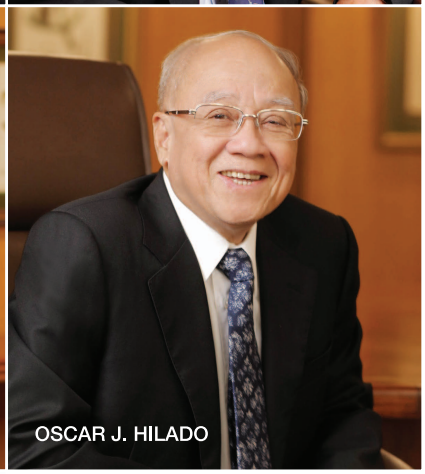
board of directors

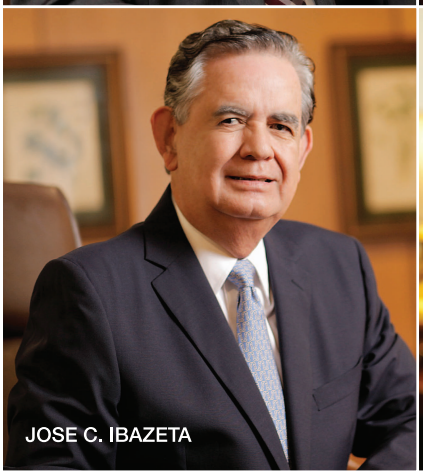

ANDRES SORIANO III
Chairman of the Board/
Chief Executive Officer/President

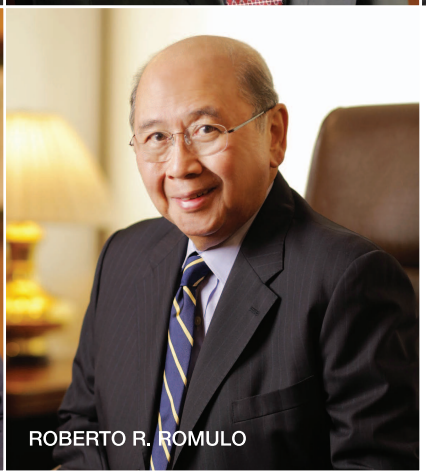

EDUARDO J. SORIANO
Vice Chairman/
Treasurer


ERNEST K. CUYEGKENG


JOHN L. GOKONGWEI, JR.


OSCAR J. HILADO


JOSE C. IBAZETA


ROBERTO R. ROMULO

officers & corporate directory

officers

ERNEST K. CUYEGKENG
Executive Vice President & Chief Financial Officer

WILLIAM H. OTTIGER
Senior Vice President & Business Development Officer

NARCISA M. VILLAFLOR
Vice President & Comptroller

LORENZO D. LASCO
Vice President

JOSHUA L. CASTRO
Assistant Vice President & Assistant Corporate Secretary

LORNA P. KAPUNAN
Corporate Secretary

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Tan Acut Lopez & Pison

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Anscor Property Holdings, Inc.
Cirrus Allied, LLC
Cirrus Global, Inc.
Cirrus Holdings USA, LLC
Cirrus Medical Staffing, Inc.
IQ Healthcare Investments Limited
IQ Healthcare Professional Connection, LLC
Island Aviation, Inc.
NurseTogether, LLC
Pamalican Island Holdings, Inc.
Pamalican Resort, Inc.
Seven Seas Resorts and Leisure, Inc.
Sutton Place Holdings, Inc.

affiliates

AG&P International Holdings Ltd.
Anscor-Casto Travel Corporation
DirectWithHotels, Inc.
Enderun Colleges, Inc.
KSA Realty Corporation
Minuet Realty Corporation
NewCo, Inc.
PD Energy International Corporation
Phelps Dodge International Philippines, Inc.
Phelps Dodge Philippines Energy Products Corporation
Predictive Edge Technologies, LLC
Prople Limited
Vicinetum Holdings, Inc.

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