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R	I	E	S																										

(Company's Full Name)

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A	Y	A	L	A		A	V	E	N	U	E	,		M	A	K	A	T	I		C	I	T	Y					

(Business Address: No. Street City / Town / Province)

Victoria D. Frejas

Contact Person

908-3429

Company Telephone Number

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Month Day
Fiscal Year

1	7	-	Q	
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Month Day
Annual Meeting

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Secondary License Type, if Applicable

C	F	D
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Amended Articles Number/Section

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Total No. Of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SEC No. 34218

File No. _____

AYALA CORPORATION

(Company's Full Name)

**34/F Tower One, Ayala Triangle
Ayala Avenue, Makati City**

(Company's Address)

908-3000

(Telephone Number)

June 30, 2014

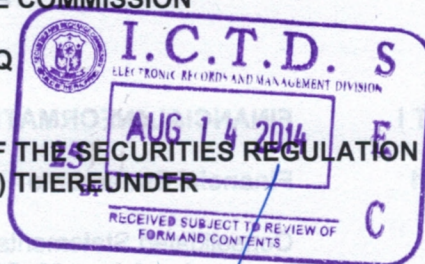
(Quarter Ending)
(Month & Day)

SEC Form 17- Q Quarterly Report

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q



QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE (SRC) AND SRC RULE 17(2)(b) THEREUNDER

1. For the semi-annual period ended: **June 30, 2014**
2. SEC Identification No.: **34218**
3. BIR Tax Identification No. **000-153-610-000**
4. Exact name of the registrant as specified in its charter: **AYALA CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization: **Makati City, Philippines**
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of principal office: **34th Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City** Postal Code: **1226**
8. Registrant's telephone number: **(632) 908-3000**
9. Former name, former address, former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA:

Title of each class	Number of shares issued & outstanding As of June 30, 2014
Preferred A	0*
Preferred B	20,000,000**
Voting Preferred	200,000,000
Common	600,470,791

* Net of 12,000,000 treasury shares

** Net of 38,000,000 treasury shares

Amount of debt outstanding as of June 30, 2014: **P257.6 billion**

11. Are any or all of these securities listed in the Philippine Stock Exchange? Yes ☒ No ☐

A total of 596,156,217 Common shares, and 20,000,000 Preferred "B" shares are listed with the Philippine Stock Exchange as of June 30, 2014.

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes ☒ No ☐

(b) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

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

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	81,732,275	65,655,049
Short-term investments (Note 5)	8,364,557	119,345
Accounts and notes receivable (Note 6)	78,796,235	56,341,044
Inventories (Note 7)	50,635,622	50,178,486
Other current assets (Note 8)	32,600,081	39,194,020
Total Current Assets	252,128,770	211,487,944
Noncurrent asset held for sale	-	3,328,712
	252,128,770	214,816,656
Noncurrent Assets		
Noncurrent accounts and notes receivable (Note 6)	14,225,615	18,282,941
Investment in bonds and other securities (Note 11)	3,062,528	2,784,807
Land and improvements (Note 9)	68,417,035	62,474,802
Investments in associates and joint ventures (Note 10)	145,400,816	119,804,086
Investment properties (Note 12)	68,802,507	63,157,223
Property, plant and equipment	26,250,694	25,883,469
Service concession assets (Note 13)	74,380,985	73,754,407
Intangible assets	4,275,376	4,175,846
Deferred tax assets - net	7,164,765	6,513,585
Pension and other noncurrent assets (Note 8)	15,211,434	8,016,478
Total Noncurrent Assets	427,191,755	384,847,644
Total Assets	679,320,525	599,664,300
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	123,813,506	103,604,247
Short-term debt (Note 16)	11,680,443	15,811,285
Income tax payable	1,198,670	1,667,543
Current portion of:		
Long-term debt (Note 16)	11,836,113	11,842,519
Service concession obligation	1,303,061	1,290,406
Other current liabilities (Note 15)	5,235,373	10,991,693
Total Current Liabilities	155,067,166	145,207,693
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	234,094,053	178,027,343
Service concession obligation - net of current portion	7,857,168	7,868,295
Deferred tax liabilities - net	5,755,289	6,347,400
Pension liabilities - net	1,874,509	1,915,040
Other noncurrent liabilities (Note 15)	23,726,901	24,827,938
Total Noncurrent Liabilities	273,307,920	218,986,016
Total Liabilities	428,375,086	364,193,709
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 17)	50,368,693	50,166,129
Share-based payments	416,150	485,187
Remeasurement gains/(losses) on defined benefit plans	(1,317,954)	(1,317,954)
Net unrealized gain (loss) on available-for-sale financial assets	(227,015)	277,848
Cumulative translation adjustments	(938,033)	(1,256,831)
Equity reserve	7,615,505	7,482,121
Equity - conversion option (Note 16)	1,113,806	-
Retained earnings (Note 17)	100,997,738	92,639,781
Treasury stock	(5,000,000)	(5,000,000)
	153,028,890	143,476,281
Non-controlling interests	97,916,549	91,994,310
Total Equity	250,945,439	235,470,591
Total Liabilities and Equity	679,320,525	599,664,300

See accompanying Notes to Unaudited Consolidated Financial Statements.

XX AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousand Pesos, except earnings per share)

	2014		2013	
	April to June	Jan. to June	April to June	Jan. to June
	(Unaudited)		(Unaudited)	
INCOME				
Sale of goods	27,278,533	51,484,923	20,631,273	41,874,636
Rendering of services	12,491,035	25,418,025	11,690,120	22,335,993
Share of profit of associates and joint ventures	3,682,786	6,828,500	1,744,158	5,657,407
Interest income	1,258,761	2,658,093	608,361	1,415,813
Other income	1,774,978	4,771,679	1,858,944	3,314,296
	46,486,093	91,161,220	36,532,856	74,598,145
COSTS AND EXPENSES				
Costs of sales	22,270,084	40,920,494	15,256,647	31,831,020
Costs of rendering services	5,969,284	14,276,195	7,292,461	13,513,316
General and administrative	4,348,791	8,112,105	3,270,895	6,379,754
Interest and other financing charges	3,278,295	6,157,750	2,189,878	4,634,726
Other charges	964,441	1,580,360	1,120,950	2,203,862
	36,830,895	71,046,904	29,130,831	58,562,678
INCOME BEFORE INCOME TAX	9,655,198	20,114,316	7,402,025	16,035,467
PROVISION FOR INCOME TAX				
Current	2,132,743	4,108,307	2,141,942	3,870,789
Deferred	(292,619)	(481,699)	(425,304)	(446,214)
	1,840,124	3,626,608	1,716,638	3,424,575
NET INCOME	7,815,074	16,487,708	5,685,387	12,610,892
Net Income Attributable to:				
Owners of the parent	4,327,277	9,798,711	2,796,721	7,303,536
Non-controlling interests	3,487,797	6,688,997	2,888,666	5,307,356
	7,815,074	16,487,708	5,685,387	12,610,892
EARNINGS PER SHARE (Note 18)				
Basic		15.89		11.80
Diluted		15.80		11.72

See accompanying Notes to Unaudited Consolidated Financial Statements.

XX AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousand Pesos)

	2014		2013	
	April to June	Jan. to June	April to June	Jan. to June
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET INCOME	7,815,074	16,487,708	5,685,387	12,610,892
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>				
Exchange differences arising from translations of foreign investments	(858,220)	307,761	837,886	430,278
Changes in fair values of available-for-sale financial assets	60,319	119,869	(126,367)	(303,137)
	(797,901)	427,630	711,519	127,141
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES				
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>				
Exchange differences arising from translations of foreign investments	(15,495)	(2,689)	114,636	87,201
Changes in fair values of available-for-sale financial assets	177,234	(624,228)	(2,164,241)	(1,751,170)
	161,739	(626,917)	(2,049,605)	(1,663,969)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(636,162)	(199,287)	(1,338,086)	(1,536,828)
TOTAL COMPREHENSIVE INCOME	7,178,912	16,288,421	4,347,301	11,074,064
Total Comprehensive Income Attributable to:				
Owners of the parent	3,873,216	9,612,646	1,218,972	5,578,928
Non-controlling interests	3,305,696	6,675,775	3,128,329	5,495,136
	7,178,912	16,288,421	4,347,301	11,074,064

See accompanying Notes to Unaudited Consolidated Financial Statements.

Note: Actuarial valuation on retirement fund is done annually and impact is reflected in the audited year-end financial statements of the AC Group.


XYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousand Pesos)

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											
	Other Comprehensive Income							Parent Company Preferred Shares Held by Subsidiaries	Treasury Stock	Non-controlling Interests	Total Equity	
	Paid-in Capital	Share-based Payments	Remeasurement gains/(losses) on defined benefit plans	Net Unrealized gain (loss) on Available-for-Sale Financial Assets	Cumulative Translation Adjustments	Equity Reserve	Equity - Conversion Option					
At January 1, 2014	50,166,129	485,187	(1,317,954)	277,848	(1,256,831)	7,482,121	-	92,639,781	-	(5,000,000)	91,994,310	235,470,591
Net Income	-	-	-	-	-	-	-	9,798,711	-	-	6,688,997	16,487,708
Other comprehensive income (loss)	-	-	-	(504,863)	318,798	-	-	-	-	-	(13,222)	(199,287)
Total comprehensive income (loss)	-	-	-	(504,863)	318,798	-	-	9,798,711	-	-	6,675,775	16,288,421
Issuance of shares	202,564	-	-	-	-	-	-	-	-	-	-	202,564
Cost of share-based payments	-	(69,037)	-	-	-	-	-	-	-	-	-	(69,037)
Change in non-controlling interests	-	-	-	-	-	133,384	-	-	-	-	(753,536)	(620,152)
Cash Dividends	-	-	-	-	-	-	-	(1,440,754)	-	-	-	(1,440,754)
Equity-conversion option	-	-	-	-	-	-	1,113,806	-	-	-	-	1,113,806
At June 30, 2014 (Unaudited)	50,368,693	416,150	(1,317,954)	(227,015)	(938,033)	7,615,505	1,113,806	100,997,738	-	(5,000,000)	97,916,549	250,945,439

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
	Paid-in Capital	Share- based Payments	Other Comprehensive Income					Retained Earnings	Parent Company Preferred Shares		Treasury Stock	Non-controlling Interests	Total Equity
			Remeasurement gains/(losses) on defined benefit plans	Net Unrealized gain (loss) on Available-for-Sale Financial Assets	Cumulative Translation Adjustments	Equity Reserve	Equity - Conversion Option		Held by Subsidiaries				
At January 1, 2013, as previously reported	45,119,932	460,771	-	2,055,500	(3,238,400)	5,379,074	-	83,572,053	(250,000)	(7,497,344)	77,893,853	203,495,439	
Effect of adoption of new and revised accounting standards	-	-	(943,361)	(256,536)	-	-	-	(303,976)	-	-	4,448,783	2,944,910	
At January 1, 2013, as restated	45,119,932	460,771	(943,361)	1,798,964	(3,238,400)	5,379,074	-	83,268,077	(250,000)	(7,497,344)	82,342,636	206,440,349	
Net Income	-	-	-	-	-	-	-	7,303,536	-	-	5,307,356	12,610,892	
Other comprehensive income (loss)	-	-	-	(1,049,697)	331,587	-	-	-	-	-	187,780	(530,330)	
Total comprehensive income (loss)	-	-	-	(1,049,697)	331,587	-	-	7,303,536	-	-	5,495,136	12,080,562	
Issuance of shares	1,786,606	-	-	-	-	-	-	-	-	1,697,344	-	3,483,950	
Cost of share-based payments	-	3,310	-	-	-	-	-	-	-	-	-	3,310	
Cash Dividends	-	-	-	-	-	-	-	(1,330,186)	-	-	-	(1,330,186)	
Change in non-controlling interests	-	-	-	-	-	3,054,307	-	-	-	-	3,457,690	6,511,997	
At June 30, 2013 (Unaudited)	46,906,538	464,081	(943,361)	749,267	(2,906,813)	8,433,381	-	89,241,427	(250,000)	(5,800,000)	91,295,462	227,189,982	

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
	Paid-in Capital	Share-based Payments	Other Comprehensive Income					Retained Earnings	Parent Company Preferred Shares		Treasury Stock	Non-controlling Interests	Total Equity
			Remeasurement gains/(losses) on defined benefit plans	Net Unrealized gain (loss) on Available-for-Sale Financial Assets	Cumulative Translation Adjustments	Equity Reserve	Equity - Conversion Option		Held by Subsidiaries				
At January 1, 2013, as previously reported	45,119,932	460,771	-	2,055,500	(3,238,400)	5,379,074	-	83,572,053	(250,000)	(7,497,344)	77,893,853	203,495,439	
Effect of adoption of new and revised accounting standards	-	-	(943,361)	(256,536)	-	-	-	(303,976)	-	-	4,448,783	2,944,910	
As of January 1, 2013, as restated	45,119,932	460,771	(943,361)	1,798,964	(3,238,400)	5,379,074	-	83,268,077	(250,000)	(7,497,344)	82,342,636	206,440,349	
Net Income	-	-	-	-	-	-	-	12,777,932	-	-	11,346,766	24,124,698	
Other comprehensive income (loss)	-	-	(374,593)	(1,521,116)	1,981,569	-	-	-	-	-	226,319	312,179	
Total comprehensive income (loss)	-	-	(374,593)	(1,521,116)	1,981,569	-	-	12,777,932	-	-	11,573,085	24,436,877	
Exercise of ESOP/ESOWN	287,338	(90,083)	-	-	-	-	-	-	-	-	197,255	-	
Cost of share-based payments	-	114,499	-	-	-	-	-	-	-	-	-	114,499	
Sale of treasury stocks	9,558,859	-	-	-	-	-	-	-	-	3,697,344	-	13,256,203	
Redemption of preferred shares	(4,800,000)	-	-	-	-	-	-	-	250,000	(1,200,000)	-	(5,750,000)	
Cash Dividends	-	-	-	-	-	-	-	(3,406,228)	-	-	(3,529,114)	(6,935,342)	
Change in non-controlling interests	-	-	-	-	-	2,103,047	-	-	-	-	1,607,703	3,710,750	
At December 31, 2013 (Audited)	50,166,129	485,187	(1,317,954)	277,848	(1,256,831)	7,482,121	-	92,639,781	-	(5,000,000)	91,994,310	235,470,591	

See accompanying Notes to Unaudited Consolidated Financial Statements.

XX AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousand Pesos)

	June 30, 2014 Unaudited	June 30, 2013 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	20,114,317	16,035,467
Adjustments for:		
Interest and other financing charges - net of amount capitalized	6,157,750	4,634,726
Depreciation and amortization	4,452,192	3,934,412
Cost of share-based payments	(69,037)	(33,496)
Provision for impairment losses	69,710	19,646
Loss (gain) on sale of other assets	(57,475)	35,366
Gain on sale of investments	(1,922,473)	(124,571)
Other investment income	(69,184)	(220,286)
Interest income	(2,658,094)	(1,415,813)
Share of profit of associates and joint ventures	(6,828,500)	(5,657,407)
Operating income before changes in working capital	19,189,206	17,208,044
Decrease (increase) in:		
Accounts and notes receivable - trade	(17,350,854)	623,939
Inventories	(457,136)	(1,558,384)
Other current assets	(5,950,874)	(3,246,324)
Service concession asset	(798,813)	(1,631,818)
Increase (decrease) in:		
Accounts payable and accrued expenses	25,042,206	13,355,048
Net pension liabilities	(35,116)	160,120
Other current liabilities	(402,200)	(339,257)
Net cash generated from operations	19,236,419	24,571,368
Interest received	2,529,237	1,226,569
Interest paid	(6,126,850)	(5,745,577)
Income tax paid	(5,052,764)	(4,863,821)
Net cash provided by operating activities	10,586,042	15,188,539
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of financial assets at fair value through profit or loss	3,800,786	-
Proceeds from sale/redemptions of investments in associates and joint ventures	6,302,335	183,557
Disposals of property, plant and equipment	69,461	73,750
Maturities (placement) of short-term investments	(8,245,212)	296,503
Deduction in (additions to):		
Investments in associates and joint ventures	(29,527,447)	(1,277,912)
Investments in bonds and other securities	(239,961)	406,370
Land and improvements	(5,942,233)	(4,734,457)
Accounts and notes receivable - non-trade	(1,246,975)	(3,138,597)
Property, plant and equipment	(2,932,867)	(520,306)
Investment properties	(6,787,513)	(9,383,776)
Dividends received from associates, joint ventures and AFS financial assets	2,943,017	2,431,790
Increase in other noncurrent assets	771,576	(3,503,136)
Net cash used in investing activities	(41,035,033)	(19,166,214)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term and long-term debt	61,082,129	8,031,500
Issuance of common and preferred shares	512,580	25,542
Collections of subscription receivable	(310,016)	141,334
Payment of short-term and long-term debt	(9,492,778)	(8,904,661)
Reissuance of treasury shares	-	3,353,880
Dividends paid	(3,744,460)	(1,464,360)
Service concession obligation paid	(233,595)	-
Increase (decrease) in:		
Other noncurrent liabilities	(1,101,037)	748,404
Non-controlling interest in consolidated subsidiaries	(186,606)	3,602,584
Net cash provided by financing activities	46,526,217	5,534,223
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,077,226	1,556,548
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	65,655,049	81,777,016
CASH AND CASH EQUIVALENTS AT END OF PERIOD	81,732,275	83,333,564

See accompanying Notes to Unaudited Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Financial Statement Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2013 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2013.

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

The unaudited condensed consolidated financial statements include the accounts of Ayala Corporation (herein referred to as "the Company") and its subsidiaries collectively referred to as "Group."

The unaudited condensed consolidated financial statements are presented in Philippine Peso (₱), and all values are rounded to the nearest thousand pesos (₱000) except when otherwise indicated.

The unaudited financial statements and other parts of this entire SEC 17Q as of June 30, 2014 include other financial and operating data with respect to Ayala's subsidiaries (Ayala Land, Inc., Integrated Micro-Electronics, Inc., and Manila Water Company, Inc.), associate (Bank of the Philippine Islands) and joint venture (Globe Telecom, Inc.). This SEC 17Q should be read in conjunction with the financial and operating highlights of these subsidiaries, associate and joint venture as contained in their respective SEC17Q as of June 30, 2014.

Additional information about the Company, including annual and quarterly reports, can be found on the corporate website www.ayala.com.ph.

On August 12, 2014, the Company's Audit and Risk Committee approved and authorized the release of the accompanying unaudited condensed financial statements of Ayala Corporation and Subsidiaries.

2. Significant Accounting Policies

Changes in Accounting Policies

The accounting policies and methods of computations adopted in the preparation of the unaudited condensed financial statements are consistent with those of the previous financial year, except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2014. The nature and the impact of each new standards and amendments is described below:

New and amended standards and interpretations

Effective 2014

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

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. 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.

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. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are not expected to have a significant impact on the Group's financial position or performance.

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

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

Standards and interpretation issued but not yet effective

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

Effective 2015

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

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

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*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

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

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted) The amendment shall be prospectively applied to business combinations for

which the acquisition date is on or after July 1, 2014. The amendment will not have any impact on the Group's financial position or performance.

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

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

PFRS 13, Fair Value Measurement – Short-term Receivables and Payables

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- 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.

PAS 24, Related Party Disclosures – Key Management Personnel

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

PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

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

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

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements

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

PFRS 13, Fair Value Measurement – Portfolio Exception

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

PAS 40, Investment Property

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

*Standard with No Mandatory Effective Date**

PFRS 9, Financial Instruments

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. 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.

Although the International Accounting Standards Board (IASB) has already issued the final version of this Standard (IFRS 9) with effectivity of January 1, 2018, in the Philippines 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, however, will continue to monitor developments in this reporting standard and assess its impact on or need for adoption by the Group.

Interpretation with Deferred Effectivity Date

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

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Related to this, the IASB and the Financial Accounting Standards Board (FASB) have issued their joint revenue recognition standard, IFRS 15 Revenue from Contracts with Customers, with effectivity of January 1, 2017. The Group will implement or adopt once the final interpretation or version of this Standard has been released by the Philippine SEC and the Financial Reporting Standards Council (FRSC).

3. Principles of Consolidation

The unaudited condensed consolidated financial statements included the financial statements of the Company and the following wholly and majority owned domestic and foreign subsidiaries:

Subsidiaries	Nature of Business	Effective Percentages of Ownership	
		June 2014 (Unaudited)	December 2013 (Audited)
AC Energy Holdings, Inc. (ACEHI)	Power	100.0	100.0
AC Infrastructure Holdings Corporation (AC Infra)	Transport Infrastructure	100.0	100.0
AC International Finance Limited (ACIFL)*	Investment Holding	100.0	100.0
AG Counselors Corporation (AGCC)	Legal Services	100.0	100.0
Ayala Automotive Holdings Corporation (AAHC)	Automotive	100.0	100.0
Ayala Aviation Corporation (AAC)	Air Charter	100.0	100.0
Ayala Land, Inc. (ALI)	Real Estate and Hotels	48.9	48.9
AYC Finance Ltd. (AYCFL)*	Investment Holding	100.0	100.0
Azalea International Venture Partners, Limited (AIVPL)**	BPO	100.0	100.0
Azalea Technology Investments, Inc. (Azalea Technology)	Information Technology	100.0	100.0
Bestfull Holdings Limited (BHL)***	International	100.0	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	100.0	100.0
Integrated Microelectronics, Inc. (IMI)	Electronics Manufacturing	58.8	57.8
Livelt Global Services Management Institute, Inc. (LGSMI)	Education	100.0	100.0
	Water Distribution and		
Manila Water Company, Inc. (MWCI)	Wastewater Services	48.5	48.8
Michigan Holdings, Inc. (MHI)	Investment Holding	100.0	100.0
MPM Noodles Corporation (MPM)	Investment Holding	100.0	100.0
Philwater Holdings Company, Inc. (Philwater)	Investment Holding	100.0	100.0
Purefoods International Ltd. (PFIL)**	Investment Holding	100.0	100.0
Technopark Land, Inc. (TLI)	Real Estate	78.8	78.8
Water Capital Works, Inc. (WCW)	Investment Holding	100.0	100.0

*Incorporated in Cayman Islands

**Incorporated in British Virgin Islands

***Incorporated in Hong Kong

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's investments in subsidiaries is the Philippines.

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in subsidiaries are in proportion to its ownership interest.

Bestfull Holdings Limited

- a. Bestfull group acquired an approximately 17 percent ownership interest in GNPowder Mariveles Coal Plant Ltd. Co. (GMCP) under the terms of the Sale and Purchase Agreement that it entered into with an affiliate of a fund advised by Denham Capital. GMCP is the owner of the 600-megawatt coal-fired power plant in Mariveles, Bataan. Total consideration in relation to this transaction amounted to US\$162 million. (Please see related discussion under AC Energy Holdings, Inc.).

Ayala Land, Inc.

- a. On January 24, 2014, ALI entered into a Joint Venture Agreement with Aboitiz Land, Inc. for the development of an approximately 15-hectare property in Mandaue City into a mixed-used city center. ALI subsequently assigned to its subsidiaries, Cebu Holdings, Inc. and Cebu Property Ventures & Development Corporation, the right to subscribe to ten percent (10%) and five percent (5%), respectively, of the authorized capital stock of the joint venture company that will be established. ALI shall retain the remaining thirty five percent (35%) stake in the joint venture company.
- b. The Company owns 93.1% of the total preferred shares of ALI as of June 30, 2014 and December 31, 2013. The voting rights held by the Group in ALI as of June 30, 2014 and December 31, 2013 is equal to 70.1%.

AC Energy Holdings, Inc.

- a. On December 16, 2013, AC Energy signed an Investment Agreement with Sithe Global GNPD BV and Power Partners Ltd. Co. for the development of a proposed 2x600MW coal power plant project in Bataan, or in an alternative project site within the island of Luzon.

- b. On January 29, 2014, the AC Group, through AIHL, closed its acquisition of 17.02% stake in GNPowder Mariveles Coal Plant Ltd. Co. (GMCP), the owner of a 600 MW coal-fired plant in Mariveles, Bataan. The stake was purchased for USD 162.1 Million. See BHL discussion above.
- c. On January 14, 2014, the Securities and Exchange Commission (SEC) approved the increase in the Authorized Capital Stock of North Luzon Renewable Energy Corp. (NLREC), the project company undertaking the construction of the proposed 81 MW wind farm in Caparispisan, Pagudpud, Ilocos Norte (the "Wind Project"), from 10 million to 6.63 billion divided into 100,000 common shares and 28,945 redeemable preferred shares.

NLREC is the joint venture project company that is jointly owned by AC Energy, UPC Philippines Wind Holdco B.V., a wholly owned subsidiary of UPC Renewables Partners, a developer of wind farm projects across the globe, and the Philippine Investment Alliance for Infrastructure (PINAI), the dedicated infrastructure fund managed by Macquarie Infrastructure Management (Asia) Pty Limited Singapore Branch.

On January 29, 2014, the Group, through AIHL, signed an Option Agreement with DGA NLREC B.V. for the sale of equity interest in Luzon Wind Energy Holdings B.V., a Dutch BV (wholly-owned by AIHL) that holds indirect equity interest in NLREC.

On April 14, 2014, Dinginin Power Holding Ltd. Co. (Dinginin Holding), the development holding company of AC Energy and Power Partners, was incorporated.

Dinginin Holding and Dinginin Power GP Corp. (Dinginin GP), which were subsequently incorporated on May 8, 2014, will be the LP and GP, respectively, for the project company – GNPowder Dinginin Ltd. Co. (GNPD). Dinginin Holding and Dinginin GP collectively own a 50% stake in GNPD, while 49.9% and 0.10% will be owned by Sithe Global and Power Partners, respectively.

- d. On April 4, 2014, ACE Mariveles Power Ltd. Co. (ACE Mariveles) was incorporated. ACE Mariveles GP Corp (ACE GP), a wholly owned subsidiary of AC Energy, and AC Energy are the initial GP and LP of ACE Mariveles.

On May 30, 2014, ACE Mariveles as buyer and Arlington Mariveles Netherlands Holding B.V., a wholly owned subsidiary of AIHL and the legal and beneficial owner of 17.02% limited partnership interest and 0.08% general partnership interest in GMCP (collectively, "GMCP Interests") as seller, entered into a Sale and Purchase Agreement (SPA) for the GMCP Interests. Both the seller and buyer are wholly but indirectly owned subsidiaries of AC.

On June 17, 2014, the buyer and the seller closed the acquisition of the GMCP interests and entered into Deeds of Assignment to assign the GMCP Interests to the buyer, subject to fulfillment of certain post-closing conditions as required by the GMCP financing agreements.

- e. On May 21, 2014, AC issued a press statement regarding the AC Energy's GN Power Kauswagan Ltd. Co. (GNPK) signing of EPC contract for 552MW thermal plant in Mindanao.

GNPK, the joint venture company between AC Energy and PPLC, engaged Shanghai Electric Power Construction Co. (SEPCC), a subsidiary of Power Construction Corporation of China, for the engineering, procurement and construction (EPC) of a US\$1 billion-thermal facility in Kauswagan, Lanao Del Norte.

GNPK recently executed the EPC contract for the 4x138 megawatt thermal facility with construction scheduled to begin by the fourth quarter of this year. The plant will be equipped with cutting-edge equipment, including 4 Siemens steam turbines and generators manufactured in Germany. The project is expected to be completed within 3 years with the first unit operational by early 2017. GNPK has already executed well over 300MW of long term power purchase agreements and has secured its Environmental Compliance Certificate from the Department of Environment and Natural Resources.

AC Infrastructure Holdings Corporation

- a. On January 30, 2014, the Department of Transportation and Communications (DOTC) notified the AF Consortium composed of AC Infrastructure Holdings Corporation, BPI Card Finance Corporation, Globe Telecom, Inc., Meralco Financial Services Corporation, Metro Pacific Investments Corporation and Smart Communications Inc., as the winning bidder for

the ₱1.72-billion contactless Automatic Fare Collection System Project (AFCS). The AFCS will upgrade the Light Rail Transit and Metro Rail Transit ticketing system by speeding up payments, reducing queuing time and allowing passengers seamless transfers from one rail line to another.

On February 10, 2014, Automated Fare Collection Services, Inc. ("AFCSI") was incorporated as the project company for the Automated Fare Collection System Project. AC Infrastructure Holdings Corporation owns 10% of the shares.

On March 31, 2014, the Concession Agreement between DOTC and the AF consortium has finally been signed. On the same date, the Accession Agreement between DOTC and AFCSI was executed as well.

- b. On May 28, 2014, Light Rail Manila consortium, in which AC Infrastructure Holdings Corporation has a 35% stake, was the lone bidder for the ₱65B LRT 1 Cavite extension project.

On June 23, 2014, Light Rail Manila Holdings, Inc. ("LRMHI") was incorporated as the holding company for the LRT 1 project. AC Infrastructure Holdings Corporation owns 50% of the shares. LRMHI will hold 70% of the total equity of Light Rail Manila Corporation, the project company.

- c. On June 2, 2014, AC Infra submitted bid documents to Department of Public Works and Highways (DPWH) for the bidding of the Cavite-Laguna Expressway Project. AC Infra is participating under a consortium which includes Aboitiz Land, Inc. (Aboitiz).
- d. On June 13, 2014, as advised by the DPWH, AC Infra and Aboitiz submitted the highest bid of P11.659 billion for the Cavite-Laguna Expressway Project. The consortium has yet to receive the Notice of Award (NOA) from the DPWH and must comply with the post-award requirements as may be stated in the NOA. The participation interest of each of the members of consortium is – AC Infra, 50%+1 share; Aboitiz, 50%-1 share.
- e. On July 10, 2014, AC Infra, a member of the Team Orion Consortium, together with Aboitiz submitted a Motion to Intervene to the Office of the President of the Republic of the Philippines under the Team Orion consortium. Team Orion submitted a complying bid for the Cavite-Laguna Expressway last June 2, 2014. The Motion to Intervene is being sought by the consortium to allow it to participate in any proceedings to be conducted in connection with the stay order imposed by the Office of the President on the disqualification of one of the bidders by the DPWH.
- f. On July 21, 2014, AC Infra and Aboitiz made a public announcement on the filing with the Office of the President a Comment on the Memorandum of Appeal put forward by Optimal Infrastructure Developments, Inc. for the bidding of the Cavite-Laguna Expressway Project. Copy of the Team Orion's Comment on Optimal's Memorandum of Appeal given to SEC, PSE and Phil. Dealing and Exchange Corporation on July 23, 2014.
- g. On July 22, 2014, the Company clarified the news article posted in The Manila Times.net on this day about the Metro Pacific-led consortium being picked for the P65B Cavex project. The Company clarified that the Light Rail Manila Consortium has not yet received the Notice of Award for the Project and that it will make the necessary disclosures with the rules of the Exchange upon receipt of the formal Notice of Award.

AC International Finance Limited

- a. In June 2014, ACIFL repurchased its 39,585,146 shares which were issued and registered in the name of Ayala Corporation, ACIFL's sole shareholder. The repurchase price was at par of US\$1.00 per share for a total amount of US\$39,585,146. ACIFL remained as 100% owned by Ayala Corp.
- b. As of June 30, 2014 and December 31, 2013, ACIFL, through its wholly-owned subsidiary, AYC Holdings, Ltd., owns 58.8% and 57.8% of IMI, respectively. The voting rights held by the Group in IMI as of June 30, 2014 and December 31, 2013 is equal to 68.5% and 70.2%, respectively.

AYC Finance, Ltd.

- a. In January 2014, AYC Finance Ltd. drew on various loans in with foreign banks, with the Company as a guarantor, for a total of USD 345 million at a rate ranging from 0.87% to 1.39% over the 1-, 3 or 6-months LIBOR at AYCFL's option. The loan covenants covering borrowings outstanding as of December 2013 of AYCFL apply to these new loans in 2014. Please see Note 16 Short-term Loans and Long-term Debt.
- b. On May 5, 2014, AYC Finance has completed the issuance of the US\$300 million, 0.5% guaranteed exchangeable bonds due 2019 (the "Bonds") and listing of the Bonds in the Singapore Exchange. The Bonds are exchangeable for common shares of ALI held by AC. It was 100% guaranteed by AC (see Note 16).

Integrated Micro-Electronics, Inc.

- a. On February 17, 2014, the BOD of IMI approved the declaration of the cash dividend on common shares of US\$0.00140 or ₱0.06 per share to stockholders of record as of March 3, 2014.

Azalea International Venture Partners Limited

- a. On January 7, 2014, ARES, PEP and Livelt Investments Ltd. (Livelt), wholly-owned subsidiary of AIVPL and the BPO investment arm of Ayala Corporation, entered into an agreement with Convergys Corporation to sell their 100% combined interest in Stream. Accordingly, the carrying amount of investment in Stream amounting to ₱3.3 billion as of December 31, 2013 is shown as Noncurrent Asset Held for Sale in the consolidated statement of financial position. On March 4, 2014, Livelt achieved financial close in relation to the sale of 100% of its holdings in Stream to Convergys. Livelt realized approximately US\$145 million total net debt and equity proceeds.
- c. In June 2014, AIVPL repurchased its 140,865,770 shares which were issued and registered in the name of Ayala Corporation, AIVPL's sole shareholder. The repurchase price was at par of US\$1.00 per share for a total amount of US\$140,865,770. AIVPL remained as 100% owned by Ayala Corp.

Azalea Technology Investments, Inc.

- a. On June 3, 2014, Globe signed an agreement with Azalea Technology, Inc. and SCS Computer Systems, acquiring the entire ownership stake in Asticom Technology, Inc. (Asticom). Asticom, a systems integrator and information technology services provider to domestic and international markets, is 49% owned by Azalea Technology and 51% owned by SCS Computer Systems, a subsidiary of Singapore Telecom (see Note 10).

Manila Water Company, Inc.

- a. On January 9, 2014, LagunaAAA Water Corporation, a subsidiary of MWCI, signed a Third Omnibus Loan and Security Agreement with the Development Bank of the Philippines through the Philippine Water Revolving Fund amounting to ₱833 million.
- b. On February 20, 2014, the BOD of MWC approved the following:
 - Declaration of cash dividend of ₱0.40 per share on the outstanding common share and ₱ 0.04 per share on the outstanding participating preferred shares to stockholders of record as of March 6, 2014.
 - Commitment to provide up to 85% of the funding requirements of its corporate social responsibility arm, Manila Water Foundation, Inc.
 - Infusion of additional equity investment in its wholly owned Singapore subsidiary, Manila Water Asia Pacific Pte. Ltd. in the amount of US\$45,000 for its operational purposes
- c. The voting rights held by the Group in MWC as of June 30, 2014 and December 31, 2013 is equal to 79.7% and 79.3%, respectively.

Material partly-owned subsidiaries

The summarized financial information of subsidiaries that have material non-controlling interest is provided below. This information is based on amounts before intercompany eliminations.

	June 2014 (Unaudited)	December 2013 (Audited)	
Ayala Land, Inc. and Subsidiaries			
<i>(In Million Pesos)</i>			
Current assets	173,737	146,987	
Non-current assets	194,161	178,487	
Current liabilities	118,886	101,623	
Non-current liabilities	129,753	111,753	
Equity			
Attributable to owners of the parent	102,690	98,470	
Attributable to non-controlling interest	16,569	13,628	
Revenue	46,198	36,634	*
Net income			
Attributable to owners of the parent	7,054	5,623	*
Attributable to non-controlling interest	1,562	992	*
Other comprehensive income	(19)	155	*
Manila Water Co. Inc. and Subsidiaries			
<i>(In Million Pesos)</i>			
Current assets	10,077	9,069	
Non-current assets	64,849	63,788	
Current liabilities	7,800	8,073	
Non-current liabilities	33,777	33,730	
Equity			
Attributable to owners of the parent	32,769	30,477	
Attributable to non-controlling interest	580	577	
Revenue	8,113	7,632	*
Net income			
Attributable to owners of the parent	3,159	2,911	*
Attributable to non-controlling interest	3	13	*
Other comprehensive income	67	119	*
Integrated Microelectronics, Inc. and Subsidiaries			
<i>(In Million US\$)</i>			
Current assets	382.0	338.2	
Non-current assets	149.0	150.0	
Current liabilities	255.0	221.3	
Non-current liabilities	78.2	76.9	
Equity			
Attributable to owners of the parent	200.5	192.6	
Attributable to non-controlling interest	(2.7)	(2.6)	
Revenue	431.0	350.5	*
Net income			
Attributable to owners of the parent	11.3	2.1	*
Attributable to non-controlling interest	(0.1)	(1.0)	*
Other comprehensive income	(1.1)	(0.7)	*

* Based on unaudited June 30, 2013

As of June 30, 2014, the proportion of ownership interest held by material non-controlling interest of ALI, MWC and IMI are 51.1%, 51.5% and 41.2%, respectively.

4. Cash and Cash Equivalents (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Cash on hand and in banks	23,077,657	22,728,761
Cash equivalents	58,654,618	42,926,288
	81,732,275	65,655,049

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

5. Short-term Investments (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Money market placements	8,364,557	119,345

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

As of June 30, 2014 (unaudited), AYC Finance Ltd. has a money market placement with BPI amounting to ₱8.3 billion or US\$190 million earning interest at 1.125% per annum (see Note 21 Related Party Transactions).

6. Accounts and Notes Receivable (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Trade:		
Real estate	51,478,237	39,832,997
Electronics manufacturing	8,666,041	7,286,792
Water distribution and wastewater services	1,882,547	1,645,476
Automotive	1,119,458	985,390
Information technology and BPO	185,353	194,584
International and others	3,572	3,618
Related parties (Note 21)	2,799,199	3,145,472
Dividends Receivable	1,153,466	1,412,577
Receivables from officers and employees (Note 21)	343,483	507,042
Advances to contractors and suppliers	9,230,774	8,837,924
Investment in bonds classified as loans and receivables	1,000,000	1,000,000
Advances and others	16,593,030	11,548,513
	94,455,160	76,400,385
Less allowance for doubtful accounts	1,433,310	1,776,400
	93,021,850	74,623,985
Less noncurrent portion	14,225,615	18,282,941
	78,796,235	56,341,044

The aging of the above receivables are summarized in the following table (in million pesos, unaudited):

	Up to 6 months	Over 6 mos to one year	Over one year	Past due	Total
Trade Receivables	45,365	6,104	8,114	3,752	63,335
Non-Trade Receivables	24,989	2,339	2,229	130	29,687
Total	70,354	8,443	10,343	3,882	93,022

The Group's Advances and Others account include Advances to Other Companies pertaining to ALI's advances to third party joint venture partners for projects as well as accrued interest receivable and other non-trade receivables. As of June 30, 2014, this account increased from year-end 2013 balances mainly driven by ALI's new and existing residential and commercial projects. Provision for Doubtful Accounts amounted to ₱69.7 million and ₱34.6 million (both amounts unaudited) for the periods ended June 30, 2014 and 2013 form part of the Group's General and Administrative Expenses for the period, respectively.

7. Inventories (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
At Cost:		
Condominium, residential and commercial units	25,535,037	26,920,259
Subdivision land for sale	17,960,345	16,854,931
Vehicles	1,351,499	1,171,478
Finished goods	-	354,134
Work-in-process	8,907	432,008
Materials, supplies and others	802,147	1,544,821
	45,657,935	47,277,631
At NRV:		
Subdivision land for sale	524,158	524,158
Finished goods	745,134	316,576
Work-in-process	667,316	176,749
Parts and accessories	105,165	168,451
Materials, supplies and others	2,935,914	1,714,921
	4,977,687	2,900,855
	50,635,622	50,178,486

The Group's provision for impairment losses on inventories for the period ended June 30, 2014 (unaudited) amounting to ₱51.1 million and the net reversal of provision for impairment losses on inventories for the period ended June 30, 2013 (unaudited) amounting to ₱21.1 million, form part of the consolidated General and Administrative Expenses.

8. Other Current Assets and Pension and Other Noncurrent Assets (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Financial assets at FVPL	14,119,695	17,916,513
Prepaid expenses	10,053,182	7,708,414
Input VAT	3,567,760	3,660,057
Deposits in escrow	2,226,450	6,743,298
Creditable withholding tax	1,781,513	2,068,934
Derivative assets	1,427	456,768
Others	850,054	640,036
Other current assets	32,600,081	39,194,020
Pension and other noncurrent assets	15,211,434	8,016,478

Prepaid expenses account increased from December 31, 2013 balances mainly due to expenses paid in full at beginning of the year but will be amortized until year-end. Decrease in Financial assets at FVPL was mainly due ALI's and BHL's distribution from investment in Arch Fund while decline in Deposits in escrow accounts was mainly due to movement in ALI's escrow/deposits accounts. Others include various pre-operating expenses incurred prior to launching of new real estate projects.

Pension and other current assets include P3.7M and P9.1M pension assets as of June 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. This account classification also includes deposits (escrow and security deposits on land leases, electric and water meter

deposits), deferred charges (pertaining to implementation of marketing programs for acquisition and development of real estate projects), leasehold rights (right to use certain assets) and deferred Foreign Currency Differential Adjustment (which pertains to net recoverable amount from customers of MWCI). The increase in balance of the account from December 31, 2013 is largely due to increase in advances and deposits for construction.

9. Land and Improvements

This account consists of properties for future development and improvement eventually for transfer to real estate inventories for sale. This account increased from ₱62,475 million as of December 31, 2013 (audited) to ₱68,417 million as of June 30, 2014 (unaudited) arising from unsubdivided land and certain land acquisitions by the Group, primarily by ALI.

10. Investments in Associates and Joint Ventures

Investments in associates and joint ventures are accounted for under the equity method of accounting. Major associates and joint ventures and the related percentages of ownership as of June 30, 2014 are as follows:

	Percentage of Ownership		Carrying Amounts (in million pesos)	
	June 2014 (Unaudited)	December 2013 (Audited)	June 2014 (Unaudited)	December 2013 (Audited)
Domestic:				
Bank of the Philippine Islands (BPI)	32.6	32.6	P 62,018	P 52,635
Ayala DBS Holdings, Inc. (ADHI)*	73.8	73.8	34,197	29,072
Globe Telecom, Inc. (Globe)*	30.4	30.4	15,948	15,371
GNPower Mariveles Coal Plant Ltd. Co	17.0	-	7,410	-
Emerging City Holdings, Inc. (ECHI)*	50.0	50.0	4,228	3,993
Philippine Wind Holdings Corporation (PWHC)	75.0	75.0	4,087	2,180
South Luzon Thermal Energy Corp. (SLTEC)*	50.0	50.0	3,536	3,070
Berkshire Holdings, Inc. (BHI)*	50.0	50.0	2,046	1,955
Asiacom Philippines, Inc. (Asiacom)*	60.0	60.0	1,110	1,097
Bonifacio Land Corporation (BLC)	10.0	10.0	1,508	1,395
Foreign:				
Stream Global Services, Inc. (Stream) (U.S. Company)	-	28.9	-	3,329
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	49.0	49.0	2,303	2,200
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	47.4	47.4	1,909	1,863
Integreon, Inc. (Integreon)* (British Virgin Islands Company)	58.7	58.7	1,381	1,449
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	31.5	31.5	655	645
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	49.0	49.0	609	590
Others	Various	Various	2,456	2,289
			145,401	123,133
Reclassification to noncurrent asset held for sale			-	(3,329)
			P 145,401	P 119,804

* Joint ventures

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

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in associates and joint ventures are in proportion to its ownership interest.

Bank of the Philippine Islands

- On November 6, 2013, the BOD of BPI approved the offering for subscription of up to 370.4 million common shares of BPI by way of a stock rights offering to eligible registered holders of common shares as of January 16, 2014 at the entitlement ratio of 1 rights share for every 9.602 existing common shares held by such eligible shareholders. The stock rights offer started on January 20, 2014 and ended on January 30, 2014.
- On November 6, 2013, the BOD of BPI approved the declaration of cash dividend on common shares of ₱0.90 per share to common shareholders of record 15 working days from receipt of

approval of the BSP and distributable on the 15th working day from said record date. The BSP approved the dividend declaration on December 6, 2013 to stockholders of record as of January 3, 2014 and payable on January 24, 2014.

- c) On January 20, 2014, the offer period for the stock rights offering of BPI started at an offer price of ₱67.50 per rights share. The offer period on January 30, 2014 wherein AC, MHI and ADHI participated in the stock rights offering by subscribing to 114.4 million, 7.7 million and 58.9 million common shares, respectively, amounting to ₱7.7 billion, ₱0.5 billion and ₱3.98 billion, respectively.
- d) The voting rights held by the Group in BPI as of June 30, 2014 and December 31, 2013 is equal to 49.9% and 48.3%, respectively.

Globe Telecom Inc.

- a) On February 10, 2014, the BOD of Globe approved the declaration of the first semi-annual cash dividend on common shares of ₱37.50 per share to stockholders of record as of February 26, 2014.
- b) On June 3, 2014, Globe signed an agreement with Azalea Technology, Inc. and SCS Computer Systems, acquiring the entire ownership stake in Asticom Technology, Inc. (Asticom). Asticom, a systems integrator and information technology services provider to domestic and international markets, is 49% owned by Azalea Technology and 51% owned by SCS Computer Systems, a subsidiary of Singapore Telecom.
- c) SEC approved last August 8, 2014 Globe's offering of non-voting perpetual preferred shares with an aggregate issue size of P7.0B with an oversubscription option of up to P3.0B. Dividends on this preferred shares will be at fixed 5.2006% per annum calculated in respect to each preferred share in relation to the offer price of P500 per share, redeemable by Globe on the 7th year. The offer period will run from August 11 - 15, 2014, with Listing Date scheduled on August 22, 2014.
- d) The voting rights held by the Group in Globe as of June 30, 2014 and December 31, 2013 is equal to 46.5%.

BPI's Statements of Condition information (in million pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Total Resources	1,299,651	1,195,364
Total Liabilities	1,166,048	1,089,557
Capital Funds Attributable to the Equity Holders of BPI	132,480	104,535
Noncontrolling Interest	1,123	1,272
Total Liabilities and Capital Funds	1,299,651	1,195,364

BPI's Statements of Income information (in million pesos except EPS Figures):

	June 2014 (Unaudited)	June 2013 (Unaudited)
Interest income	22,070	19,825
Other Income	9,174	13,485
Total revenues	31,244	33,310
Operating expenses	14,062	12,725
Interest expense	5,219	5,184
Impairment losses	1,779	1,274
Provision for income tax	2,150	2,001
Total Expenses	23,210	21,184
Net income for the period	8,034	12,126
Attributable to:		
Equity holders of BPI	8,030	12,024
Noncontrolling interest	4	102
	8,034	12,126
EPS:		
Based on 3,929,297,850 and 3,556,356,173 shares as of June 30, 2014 and 2013, respectively.	2.04	3.38

The Company's share in the net identifiable assets of BPI as of June 30, 2014 (unaudited) amounted to ₱43,555 million. Dividends received from BPI for the period ended June 30, 2014 (unaudited) amounted to ₱1,153 million. The fair market value of the Company's investment in BPI as of June 30, 2014 (unaudited) amounted to ₱116,569 million.

The Company conducts its telecommunications business through its joint venture entity, Globe.

Globe's Statements of Financial Position information (in million pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Current Assets	35,432	35,631
Noncurrent Assets	128,741	123,448
Total Assets	164,173	159,079
Current Liabilities	52,470	54,989
Noncurrent Liabilities	68,125	62,451
Equity	43,578	41,639
Total Liabilities and Equity	164,173	159,079

Globe's Statements of Income information (in million pesos except EPS Figures):

	June 2014 (Unaudited)	June 2013 (Unaudited)
Net Operating Revenues	50,069	46,568
Other Income	647	613
Total Revenues	50,716	47,181
Costs and Expenses	40,795	45,391
Provision for Income Tax	3,086	380
Total Expenses	43,881	45,771
Net Income	6,835	1,410
Total net income attributable to:		
Equity holders of the Parent	6,836	1,410
Noncontrolling interest	(1)	-
Net Income	6,835	1,410
EPS:		
Basic		
Based on 132,679K and 132,486K common shares as of June 30, 2014 and 2013, respectively.	51.39	10.53
Diluted		
Based on 133,288K and 133,283K common shares as of June 30, 2014 and 2013, respectively.	51.29	10.53

The Company's share in the net identifiable assets of Globe as of June 30, 2014 (unaudited) amounted to ₱13,243 million. Dividends received from Globe for the period ended June 30, 2014 (unaudited) amounted to ₱1,512 million. The fair value of the Company's investment in Globe as of June 30, 2014 (unaudited) amounted to ₱64,514 million.

As of June 30, 2014, the Company's direct ownership in ADHI is equal to 73.8%, while ADHI's direct ownership in BPI is equal to 21.3%. The fair value of BPI shares held by ADHI amounted to ₱76,224 million as of June 30, 2014 (unaudited). The Company and Arran Investment Pte. Ltd. (GICSI), an entity managed and controlled by GIC Special Investments Pte. Ltd., as joint venture partners, agreed to vote its BPI shares based on the common position reached jointly by them as shareholders.

11. Investments in Bonds and Other Securities (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Quoted/unquoted equity/debt investments	3,062,528	2,784,807

12. Investment Properties

This comprises completed property and property under construction or re-development that are held to earn rentals, and are not occupied by the companies in the Group. These properties include parcels of land, buildings and other real estate properties. As of June 30, 2014 (unaudited), the account includes Investment in Land-net (₱15,705.8 million) and Investment in Buildings-net (₱53,096.7 million).

13. Service Concession Assets

The Parent Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, POL, TIEZA and CDC. These concession agreements set

forth the rights and obligations of the Parent Company and MWC Group throughout the concession period.

14. Accounts Payable and Accrued Expenses (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Accounts payable	72,384,095	63,198,549
Accrued expenses		
Project costs	18,536,308	11,983,222
Personnel costs	3,941,598	2,694,816
Rental and utilities	3,304,528	2,330,388
Professional and management fees	3,349,688	1,801,971
Advertising and promotions	1,308,448	1,115,532
Repairs and maintenance	2,283,790	1,516,026
Various operating expenses	7,182,103	3,230,745
Dividends payable	1,917,799	2,093,323
Interest payable	2,184,051	2,272,458
Taxes payable	3,962,750	6,067,957
Related parties (Note 21)	2,283,142	4,107,009
Retentions payable	1,175,206	1,192,251
	123,813,506	103,604,247

Accounts payable and accrued expenses are non-interest bearing and are normally settled on 15- to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

As of June 30, 2014 (unaudited) and December 31, 2013 (audited), accounts payable includes non-interest bearing liability of the Company to DBS Ltd. in relation to the acquisition of BPI common shares and ADHI Class B common shares amounting to ₱6.6 billion and ₱14.2 billion, respectively.

Accrued expenses consist mainly of expenses already incurred but not yet billed for project costs, personnel, rental and utilities, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, subcontractual costs, security, insurance, and representation.

Incurred expenses which are not classified in the specific accrued expense accounts and which are individually immaterial are booked under various operating expenses. The increase from December 31, 2013 balance mainly pertains to higher accrued expenses of ALI and IMI as a results of expansion in its operations.

Project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials. Increase in accrued project costs from December 31, 2013 balance to ₱18.5B in June 2014 (unaudited) pertains mainly to the costs for new and existing projects of ALI's residential and construction segments.

Increase in balances of accounts payable and accrued expenses items from December 31, 2013 to June 30, 2014 was coming from the expanded operations of ALI, IMI and MWCI groups.

Taxes payable consists of net output VAT, withholding taxes, business taxes, and other statutory payables, which are payable within one year. The decline in taxes payable represents payment during the year of Y2013 taxes.

15. Other Current and Noncurrent Liabilities (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Other current liabilities	5,235,373	10,991,693
Other noncurrent liabilities	23,726,901	24,827,938

Other current liabilities include the following:

- a. Customers' deposits consist of tenants' deposits and construction bonds to be refunded by the Group through the application of the amount thereof against the rent and service due.
- b. Nontrade payables such as non-interest bearing real estate-related payables to contractors, tenants' deposits, construction bonds and various non-trade suppliers which are due within one year. This account also includes finance lease payable and miscellaneous non-interest bearing non-trade accounts of the Group due within one year.

Other noncurrent liabilities include the following:

- a. Deposits and deferred credits
Deposits include rental deposits that serve as security for any damages to the leased property and which will be refunded at the end of lease term.

Deposits are initially recorded at fair value, which was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is recorded as deferred credits.

Deferred credits also include prepayments received from customers before the completion of delivery of goods or services.

- b. Retentions payable pertains to amount withheld from the contractors' progress billings which will be later released after the guarantee period, usually one year after the completion of the project. The retention serves as a security from the contractor should there be defects in the project.
- c. Estimated liability on property development which pertains to the estimated future development of the sold portion of the real estate inventories.
- d. Provisions related to pending unresolved claims and assessments. The information usually required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice the outcome of these claims and assessments.
- e. Other nontrade payables which are not classified elsewhere in the financial statements.

Decrease in other current and non-current liabilities from December 31, 2013 balances was primarily due to ALI group's lower payable to various contractors, deposits from residential assets and retention payable from projects.

16. Short-term Debt and Long-term Debt (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Short-term debt:		
Philippine Peso with various interest rates	8,012,021	12,114,451
Foreign Currency with various interest rates	3,668,422	3,696,834
	11,680,443	15,811,285
Long-term debt:		
Company:		
Bank loans with various interest rates	21,153,274	13,193,780
Fixed Rate Corporate Notes (FXCNs)	2,818,207	2,816,443
Bonds, due 2017 to 2027	39,721,112	39,689,874
Syndicated term loan	2,938,393	2,938,575
	66,630,986	58,638,672
Subsidiaries:		
Loans from banks & other financial institutions:		
Foreign currency with various interest rates	45,830,190	32,392,171
Philippine Peso with various interest rates	49,300,800	32,189,740
Bonds, due 2014 to 2033	47,092,500	39,312,675
Exchangeable bonds	11,830,775	-
Floating Rate Corporate Notes (FRCNs)	1,000,000	1,000,000
Fixed Rate Corporate Notes (FXCNs)	24,244,915	26,336,604
	179,299,180	131,231,190
	245,930,166	189,869,862
Less current portion	11,836,113	11,842,519
Non-current portion	234,094,053	178,027,343

As of June 30, 2014 (unaudited), total proceeds from avilment of short-term and long-term debt amounted to ₱61.1 billion which mainly consists of proceeds from loans of AC (₱8.0 billion as also discussed in Note 21 Related Party Transactions), ALI (₱24.0 billion), AYCFL (₱25.8 billion as also discussed in AYC Finance Ltd. in Note 3), AAHC (₱2.1 billion) and MWCI (₱0.8 billion) while payments of short-term and long-term debt amounted to ₱9.5 billion which mainly pertains to loan payment of ALI (₱7.0 billion), AAHC (₱1.2 billion) and MWCI (₱1.0 billion).

The Company aims to maintain for its debt to equity ratio not to exceed 3:1 in compliance with loan covenants of AYC Finance. The loan covenants of the Group should be read in conjunction with the covenants contained in the respective SEC17Q reports as of June 30, 2014 of ALI, IMI, MWCI, BPI and Globe.

The proceeds from Company's fundraising activities namely Preferred B shares issuance in 2013 and November 2012 bond offer were used to partially refinance certain peso denominated debt obligations and fund Power Generation projects.

On May 2, 2014, AYCFL issued at face US\$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options.

The exchange option entitles the bondholders to exchange the Bonds for ALI's common shares at any time on or after June 11, 2014 up to the close of business on the 10th day prior to maturity date, or if such bonds shall have been called for redemption by AYCFL before the maturity date, then up to the close of business on a date no later than 10 days prior to the date fixed for redemption. The exchange price per principal amount to be exchanged, translated into ₱ at the fixed exchange rate of ₱44.31/US\$1.00, is equal to ₱36.48, subject to anti-dilutive adjustments contingent on certain events. The exchange option was assessed to be an equity component of the Bonds at the consolidated financial statements as the Bonds are denominated in the

functional currency of AYCFL and to be settled by the Group through issuance of a fixed number of ALI's common shares.

The put option entitles the bondholders to require AYCFL to redeem, in whole or in part, the Bonds on May 2, 2017 (put option date) at 100% of the principal amount together with accrued and unpaid interest. Moreover, if a change of control event occurs (the change of control put) or in the event that the common shares of ALI are delisted or suspended from trading for a period of more than 20 consecutive trading days (the delisting put), the bondholders may require AYCFL to redeem the Bonds, in whole but not in part, at 100% of the principal amount together with accrued and unpaid interest.

The early redemption option gives the right to AYCFL to redeem the Bonds, in whole but not in part, at any time after May 2, 2017 at 100% of the principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the closing price of the common shares of ALI (translated into US\$ at the prevailing average ₱ to US\$ exchange rate as published by BSP) for any 30 consecutive trading days was at least 130% of the exchange price then in effect (translated into US\$ at the fixed exchange rate of ₱44.31/US\$1.00). In addition, if at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued or if a tax event occurs, AYCFL may redeem the Bonds, in whole but not in part, at 100% of principal amount together with accrued and unpaid interest.

The put and early redemption options were assessed to be embedded derivatives that are clearly and closely related to the host contract, therefore, not required to be bifurcated.

As the Bonds were determined to be a compound instrument at the consolidated level, i.e., it has liability component and an equity component (pertaining to the exchange option), the Group applied split accounting. The value allocated to the equity component at issue date amounted ₱1.114B, being the residual amount after deducting the fair value of the liability component amounting to ₱11.98B from the issue proceeds of the Bonds.

As of June 30, 2014 (unaudited), the unamortized discount of the Bonds amounted to ₱1.264B. Interest expense recognized in the statement of income amounted to ₱50.63M for the period ended June 30, 2014 (unaudited).

In July 2014, the Company made a drawdown from the P10.0B approved credit line with BDO Unibank, Inc. Amount drawn was ₱5.0B, with 2.50% interest per annum and with single payment date upon maturity on October 23, 2014.

17. Equity

Details of the Company's paid-up capital (in thousand pesos):

	Preferred Stock - A	Preferred Stock - B	Voting Preferred Stock	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
At January 1, 2014 (Audited)	1,200,000	5,800,000	200,000	29,821,726	150,176	13,432,506	(438,279)	50,166,129
Exercise/cancellation of ESOP/ESOWN	-	-	-	17,008	34,629	460,942	(310,015)	202,564
Reissuance of treasury stocks	-	-	-	-	-	-	-	-
At June 30, 2014 (Unaudited)	1,200,000	5,800,000	200,000	29,838,734	184,805	13,893,448	(748,294)	50,368,693
At January 1, 2013 (Audited)	1,200,000	5,800,000	200,000	29,783,010	160,652	8,457,871	(481,601)	45,119,932
Exercise/cancellation of ESOP/ESOWN	-	-	-	27,516	724	215,776	43,322	287,338
Reclassification of ESOWN shares	-	-	-	11,200	(11,200)	-	-	-
Reissuance of treasury stocks	-	-	-	-	-	9,558,859	-	9,558,859
Redemption of preferred shares	-	-	-	-	-	(4,800,000)	-	(4,800,000)
At December 31, 2013 (Audited)	1,200,000	5,800,000	200,000	29,821,726	150,176	13,432,506	(438,279)	50,166,129

The Group's reconciliation of Retained Earnings available for dividend declaration shows the following as of June 30, 2014 and December 31, 2013 (in thousand pesos):

	June 2014 (Unaudited)	December 2013 (Audited)
Consolidated retained earnings balance	100,997,738	92,639,781
Accumulated equity in net earnings of subsidiaries, associates and joint ventures	(69,750,600)	(64,307,340)
Treasury shares	(5,000,000)	(5,000,000)
Retained Earnings available for dividends	26,247,138	23,332,441

The following provides details on the dividends declared by the Company as of June 30, 2014 and December 31, 2013:

<i>(in thousand pesos except dividends per share)</i>	June 2014 (Unaudited)	December 2013 (Audited)
Dividends to common shares:		
Cash dividends declared	1,440,755	2,877,477
Cash dividends per share	2.40	P4.80
Dividends to equity preferred shares declared		
Cash dividends to Preferred B shares	-	525,000
Cash dividends to Voting Preferred shares	-	3,750

18. Earnings Per Share

The following table presents information necessary to calculate EPS:

<i>(In thousand pesos except per share amounts)</i>	June 2014 (Unaudited)	June 2013 (Unaudited)
Net Income	9,798,711	7,303,536
Less: Dividends on Preferred Shares	(266,250)	(276,963)
	9,532,461	7,026,573
Less: Dilutive effect of Options issued by subsidiaries, associates and joint ventures	(12,487)	(8,045)
	9,519,974	7,018,528
Weighted average number of common shares	599,789	595,371
Dilutive shares arising from stock options	2,810	3,488
Adjusted weighted average number of common shares for diluted EPS	602,599	598,859
Basic EPS	15.89	11.80
Dilutive EPS	15.80	11.72

19. Segment Information

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. Accordingly, the primary segment reporting format is by business segment.

For management purposes, the Group is organized into the following business units:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income

and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and insurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agribusiness loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.
- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.
- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.
- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.
- Water distribution and wastewater services - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.
- Automotive - manufacture and sale of passenger cars and commercial vehicles.
- International - investments in overseas property companies and projects.
- Others - power and infrastructure, air-charter services, agri-business and others.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

The following tables present revenue and net income information regarding business segments for the periods ended June 30, 2014 and 2013 and total assets and total liabilities for the business segments as of June 30, 2014 and December 31, 2013:

June 2014 (Unaudited)
(in million pesos)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecom munications	Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
INCOME											
Sales to external customers	109	42,703	-	-	7,767	19,243	844	475	5,762		76,903
Intersegment	72	270	-	-	-	1	-	-	83	(426)	-
Share of profit of associates and joint ventures	205	629	3,796	2,099	173	-	(80)	-	5	-	6,828
Interest income	156	2,191	-	-	54	6	31	221	1	(1)	2,658
Other income	182	382	-	-	1,995	104	1,858	59	212	(21)	4,772
Total income	724	46,176	3,796	2,099	9,990	19,353	2,653	755	6,062	(448)	91,161
Operating Expenses	1,311	32,003	-	-	3,977	18,602	1,014	618	6,057	(273)	63,309
Operating profit	(587)	14,173	3,796	2,099	6,013	752	1,639	137	6	(175)	27,852
Interest expense and other financing charges	2,248	3,005	-	-	799	64	11	4	26	(1)	6,158
Other charges	-	-	-	-	1,580	-	-	-	-	-	1,580
Provision for income tax	20	2,634	-	-	771	188	21	(0)	35	(43)	3,627
Net income	(2,856)	8,534	3,796	2,099	2,862	500	1,607	133	(56)	(131)	16,488
OTHER INFORMATION											
Segment Assets	115,078	352,240	-	-	87,062	23,263	2,718	8,788	5,243	(67,638)	526,755
Investments in associates and joint ventures	127,151	9,993	-	-	4,867	-	2,441	609	338	-	145,401
Deferred tax assets	94	6,081	-	-	868	24	26	-	71	-	7,165
Total Assets	242,324	368,314	-	-	92,797	23,287	5,186	9,397	5,653	(67,638)	679,321
Segment liabilities	(101,587)	(247,254)	-	-	(40,440)	(14,398)	(222)	1,119	(2,790)	(17,049)	(422,620)
Deferred tax liabilities	(88)	(855)	-	-	(4,642)	(131)	(2)	(30)	(7)	-	(5,755)
Total Liabilities	(101,675)	(248,108)	-	-	(45,082)	(14,529)	(223)	1,089	(2,798)	(17,049)	(428,375)

June 2013 (Unaudited)
(in million pesos)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecom and munications	Water Distribution and Wastew ater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
INCOME											
Sales to external customers	45	35,655	-	-	7,305	14,406	734	261	5,805	-	64,211
Intersegment	59	(56)	-	-	73	-	1	-	99	(176)	-
Share of profit of associates and joint ventures	(5)	127	5,226	486	119	-	(239)	(85)	28	-	5,657
Interest income	445	768	-	-	95	5	31	90	(1)	(17)	1,416
Other income	294	140	-	-	2,538	103	83	(3)	159	-	3,314
Total income	838	36,634	5,226	486	10,130	14,514	610	263	6,090	(193)	74,598
Operating Expenses	1,032	25,618	-	-	3,767	14,359	790	376	6,016	(234)	51,724
Operating profit	(194)	11,016	5,226	486	6,363	155	(180)	(113)	74	41	22,874
Interest expense and other financing charges	1,878	1,900	-	-	765	63	7	23	16	(17)	4,635
Other charges	-	-	-	-	2,219	(15)	-	-	-	-	2,204
Provision for income tax	115	2,505	-	-	709	61	13	-	15	6	3,424
Net income	(2,187)	6,611	5,226	486	2,670	46	(200)	(136)	43	52	12,611

December 2013 (Audited)
(in million pesos)

Other information											
Segment Assets	112,147	308,789	-	-	85,277	21,240	6,751	9,926	4,512	(75,296)	473,346
Investments in associates and joint ventures	102,349	9,319	-	-	4,708	-	2,504	590	334	-	119,804
Deferred tax assets	94	5,485	-	-	821	29	3	-	82	-	6,514
Total Assets	214,590	323,593	-	-	90,806	21,269	9,258	10,516	4,928	(75,296)	599,664
Segment liabilities	(83,315)	(211,065)	-	-	(40,646)	(12,642)	(120)	2,112	(2,309)	(9,862)	(357,847)
Deferred tax liabilities	(83)	(1,307)	-	-	(4,759)	(138)	(2)	(47)	(11)	-	(6,347)
Total Liabilities	(83,398)	(212,372)	-	-	(45,405)	(12,780)	(122)	2,065	(2,320)	(9,862)	(364,194)

20. Financial Instruments

Fair Value of Financial Instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets at FVPL - Fair values of investment securities are based on quoted prices as of the reporting date. For other investment securities with no reliable measure of fair value, these are carried at its last transaction price.

Derivative instruments - The fair value of the freestanding currency forwards is based on counterparty valuation. The embedded call and put options of IMI were valued using the binomial option pricing model. Valuation inputs such as discount rates were based on credit adjusted interest rates while interest rate volatility was computed based on historical rates or data. (Please see related discussion in Noted 16 Short-term and long term debt).

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments.

AFS quoted equity investments - Fair values are based on the quoted prices published in markets.

AFS unquoted equity investments - Fair value of equity funds are based on the net asset value per share. For other unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost less impairment, if any.

AFS unquoted debt investments - Fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments.

Accounts payable and accrued expenses, customers' deposits, short-term debt and current portion of long-term debt and service concession obligation - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Customers' deposits - non-current - The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi-annual/annual basis and deposits) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

Fair Value Hierarchy

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. As of June 30, 2014, there were no transfers made by the Group.

Financial Risk Management

General

Risk is inherent in our business; thus, the effective management of risk is vital to the strategic and sustained growth of the Company and the Ayala Group.

The Ayala Group adopts a formal risk management process as an essential element of sound corporate governance and an integral part of good management practice. It is designed primarily to have a structured and disciplined approach of aligning strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the uncertainties the Group faces as it creates value for all stakeholders.

Enterprise Risk Management (ERM) policies and programs are in place, in accordance with an internationally recognized standards and framework. These are periodically reviewed and improved to adapt to changes in the business and operating environment, and be responsive to emerging and changing risks. The risk management framework encompasses the identification and assessment of risks drivers; measurement of risks impact; formulation of risk management strategies; assessment of risk management capabilities required to implement risk management strategies; design and implementation of risk management capability-building initiatives; and monitoring and evaluating the effectiveness of risk mitigation strategies and management performance. And as a continuous process, areas and opportunities for improvement in the risk management process are identified. Also included in the continuous improvement program, the Group aims to strengthen its ERM practices and benchmark with industry best practices to ensure they remain relevant, effective, and a key enabler in the achievement of business strategies and objectives.

Our Chief Risk Officer (CRO) is the ultimate champion of enterprise risk management of the Group and oversees the entire risk management function. The Group Risk Management Unit provides support to the CRO and drives the implementation and continuous improvement of the risk management process. The Unit also provides oversight and assistance to the Ayala group of companies' risk management functions.

The Audit and Risk Committee provides oversight to the risk management process in compliance with the Audit and Risk Committee Charter. The CRO and the Group Risk Management Unit submit risk management reports to the committee on a quarterly basis, focusing on the implementation of risk management strategies and action plans for the identified top risks of the Ayala group, any emerging risks, and developments in risk management. The CRO and the Group Risk Management Unit report the same to the Ayala Corp and Ayala Group Mancom at least twice a year.

The Board monitors the effectiveness of risk management through the regular updates on strategic and operational risks facing the Group from management and reports from the Audit and Risk Committee. The company's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala group.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

For additional discussion, please refer to the Annual Corporate Governance Report posted in the Company's official website www.ayala.com.ph.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued

primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk. The Group also enters into derivative transactions, the purpose of which is to manage the currency risks arising from its financial instruments.

The Group's risk management policies are summarized below:

Interest Rate Risk

The Group's exposure to market risk for changes in Interest rates relates primarily to the Company's and its subsidiaries' long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Foreign Exchange Risk

The Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against foreign currencies. The Group may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its foreign currency obligations.

The second and third columns of the table below summarizes the Group's exposure to foreign exchange risk as of June 30, 2014. The fourth and fifth columns of the table demonstrates the sensitivity to a reasonably possible change in the peso exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (in thousands).

Foreign currency	Net asset (liabilities)	PHP equivalent	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax
United States Dollar (USD)	(425,475)	(18,571,966)	1.00 (1.00)	(425,475) 425,475
Japanese Yen (JPY)	(7,897,045)	(3,408,253)	1.00 (1.00)	(7,897,045) 7,897,045
Chinese RMB (RMB)	223,937	1,588,684	1.00 (1.00)	223,937 (223,937)
Euro (EUR)	6,075	362,033	1.00 (1.00)	6,075 (6,075)
Hongkong Dollar (HKD)	52,982	294,726	1.00 (1.00)	52,982 (52,982)
Vietnam dong (VND)	15,518,200	31,949	1.00 (1.00)	15,518,200 (15,518,200)
Czech Koruna (CZK)	(20,222)	(43,896)	1.00 (1.00)	(20,222) 20,222
Malaysian Rupee (MYR)	4,093	55,593	1.00 (1.00)	4,093 (4,093)
BGN	(1,970)	(60,038)	1.00 (1.00)	(1,970) 1,970
Mexican Peso (MXN)	23,495	78,977	1.00 (1.00)	23,495 (23,495)

There is no other impact on the Group's equity other than those already affecting the net income.

Equity price risk

AFS financial assets are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, and domestic inflation rates, these prices change, reflecting how market participants view the developments. The Group's investment policy requires it to manage

such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each sector and market.

Liquidity Risk

Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

Credit Risk

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The Group's Treasury Policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures.

21. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

There has not been any material transaction during the last two years, or proposed transaction, to which Ayala was or is to be a party, in which any of its Directors or Executive Officers, any nominee for election as a Director or any security holder identified in this condensed interim financial information had or is to have a direct or indirect material interest.

The Group, in its regular conduct of business, has entered into transactions with Associates, Joint Ventures and other related parties principally consisting of advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services as well as other income and expense to and from related parties are made at normal market prices and terms.

Highlights of related party transactions follow:

Transactions with BPI

The Group maintains current and savings account, money market placements and other short-term investments with BPI amounting to ₱53.3 billion and ₱38.5 billion, as of June 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. The June 30, 2014 balance (unaudited) includes ₱8.3 billion or US\$190 million placement of AYC Finance with BPI. It also has short-term and long-term debt payable to BPI amounting to ₱31.7 billion and ₱23.2 billion as of June 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. The June 30, 2014 balance includes ₱8.0 billion loans obtained by AC parent company in Q1 2014. The loans have various maturities from 2013 up to 2018 and bear interest at varying prevailing market rates.

Receivables from Related Parties

The Group has ₱2,799.2 million and ₱3,145.5 million receivables from related parties as of June 30, 2014 (unaudited) and December 31, 2013 (audited) respectively. The balances pertain mostly to interest and non-interest bearing advances with various maturities from 30 days to two (2) years. Advances include certain residential development projects which become due as soon as the projects are completed. The receivables also include certain trade receivables arising from automotive and other sales. This account also includes other receivables relating to reimbursement of operating expenses like management fees, among others. The trade and other receivables are unsecured, interest free, will be settled in cash and are due and demandable.

Receivables from Officers and Employees

The Group has ₱343.5 million and ₱507.0 million receivables from officers and employees as of June 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. These pertain to housing, car, salary and other loans granted to the Group's officers and employees, which are collectible through salary deduction, are interest bearing ranging from 6.0% to 13.5% per annum and have various maturity dates ranging from 2014 to 2026.

Payables to Related Parties

The Group has payables to various related parties amounting to ₱2,283.1 million and ₱4,107.0 million as of June 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. These payables include: a) cost of lots for joint development projects; b) purchased parts and accessories and vehicles; and c) advances and reimbursements for operating costs. These are all interest-free, unsecured, will be settled in cash. Maturities of these payables range from 15 days to one year, with some accounts due and demandable.

Income and Expenses

The group realized total income of ₱368.9 million from related parties and incurred total expenses of ₱249.7 million for the period ending June 30, 2014 (unaudited). These amounts represent 0.40% and 0.35% of the Group's total income and expenses, respectively. These consist of, among others, income from real estate, automotive sales, professional services and interest/financing as well as expenses on interest, water utilities, communications and professional fees.

Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Ayala Corporation's attributable consolidated net income rose by 34% in the first semester of 2014 to P9.8 billion from P7.3 billion in the same period in 2013. This was achieved on the back of a 22% increase in consolidated revenues which reached P91.2 billion. Sale of goods and rendering services accounted for 84% of this, and combined amounted to P76.9 billion, nearly 20% higher year-on-year. This was due to a combination of improved sales at Ayala Land, Inc. (Ayala Land) across all its business lines, higher revenues from Manila Water Co. (Manila Water) as a result of improved billed volume and additional water connections, and higher revenues from Integrated Microelectronics, Inc. (IMI) across all its sites given the growth in customer demand.

Real Estate

As the positive momentum in the real estate sector continued, Ayala Land posted a 25% growth in net income to P7.1 billion. Real estate revenues grew by 24% to nearly P43 billion as its residential, commercial leasing, and construction businesses posted strong double-digit growth. Residential revenues grew by 40% to P24.3 billion on new bookings and completion of existing residential projects. Residential sales take-up remained strong, hitting an all-time high of P48.5 billion in the second quarter alone, registering an 11% growth year-on-year. Residential bookings also grew by 7% year-on-year to P31.6 billion. Its Commercial Leasing business grew by 22% as Shopping Center revenues rose by 10% to P5.5 billion, while Office Leasing was up 31% to P2.1 billion. The opening of new gross leasable areas, full year operations of new offices, and higher average rent largely fuelled growth in Commercial Leasing. Ayala Land's growing Hotels and Resorts portfolio also contributed as it registered a 48% revenue expansion. The strong revenues coupled with stable gross margins across nearly all its business lines pushed net earnings higher during the period.

Water

Manila Water also reported solid earnings growth on the back of a 6% growth in consolidated revenues. The strong top-line expansion was driven by a 16% growth in consolidated billed volume. This was mainly due to the East zone, which increased by 3%, while billed volume growth from new businesses also registered strong double-digit growth. Consolidated cost and expenses rose by 11%, mainly as a result of higher power and utility costs. Notwithstanding this, EBITDA grew by 5% to P6 billion and consequently, net income was 8% higher to P3.2 billion by the end of the first half. New businesses continued to contribute, now accounting for 12% of Manila Water's consolidated net income.

Electronics

IMI posted a five-fold improvement in net income in the first half of the year to US\$11.3 million as consolidated revenues rose by 23% to US\$431 million. Increased demand from customers in the telecom, automotive electronics, and storage device markets helped lift revenues and earnings during the first half of the year.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures amounted to P6.8 billion, 21% higher year-on-year. The increase was mainly due to higher equity in net earnings from Globe Telecom (Globe) which mitigated the lower share in net earnings from banking unit, Bank of the Philippine Islands (BPI). BPI reported lower net income in the first semester this year in the absence of significant trading gains compared to the first semester last year.

Banking

BPI's net income declined by 33% to P8 billion in the first half of 2014. This was mainly due to the 32% decline in the bank's non-interest income as a result of the sharp contraction in trading gains during the period. The bank's core banking business, however, remained solid as net interest income in the first half increased by 15% relative to the same period in 2013. Total deposits exceeded P1 trillion for the first time, representing a 30% increase over the prior year. Loan growth remained robust, registering a 23% expansion during the period due to a larger average asset base. Net interest margins also improved quarter-on-quarter to 3.1% in the second quarter of the year versus 3.0% in the first quarter. Non-interest income expectedly declined to P9.2 billion, reflecting the bank's

reduced reliance on securities trading. Operating expenses rose by 10% as the bank continued to invest in its infrastructure and as it positions itself for future growth. Notwithstanding the increase in its loan portfolio, asset quality continued to improve with gross 90-day NPL ratio down to 1.85% from 2.05% a year ago. The bank's performance as of the first half of the year translates to a return-on-equity of 12.9%.

Telecommunications

Globe Telecom continued to sustain momentum as it achieved record-level revenues of P47.7 billion in the first half of the year, 7% higher than the P44.5 billion recorded in the same period last year. The robust revenue expansion was fuelled by the solid growth of all business segments as its mobile and broadband subscriber base expanded. By the end of the first half, Globe's mobile subscriber base reached 42.7 million, a solid 18% growth compared to 36.1 million a year ago. Globe's mobile segment posted revenues of P37.8 billion, 5% higher than last year due to the strong contribution from both postpaid and prepaid segments. Globe postpaid continued to lead as revenues rose by 11%, while prepaid revenues rose by 2%. Globe continued to reinvest its gains in acquiring and retaining high quality subscribers and in the expansion of its data network. This pushed subsidy and operating expenses, including interconnection charges, 12% higher year-on-year, resulting in an EBITDA of P19.1 billion, 1% higher than prior year. Substantially lower depreciation charges, as the accelerated depreciation from the network transformation program tapered, as well as lower replacement cost drove the 385% growth in net income to P6.8 billion in the first half of the year.

Interest Income

Higher investible funds following the fund raising activities of the parent company and Ayala Land resulted in higher interest income during the period which increased by 88% to P2.7 billion.

Other Income

Other income rose to P4.8 billion from P3.3 billion or a 44% jump year-on-year. This was mainly due to Livelt's P1.8 billion net gain from the divestment of one of its investee companies, Stream Global Services, early this year.

Costs and Expenses

Consolidated cost of sales increased from P31.8 billion to P40.9 billion, while cost of rendering services rose from P13.5 billion to P14.3 billion, an increase of 29% and 6%, respectively. The increase in cost of sales is attributable to the increased sales of both Ayala Land and IMI.

General and administrative expenses increased by 27% to P8.1 billion. The increase was mainly on account of higher manpower expenses, taxes, and advertising costs related to Ayala Land, provisions at IMI, and start-up costs at the Auto group.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges increased by 33% to P6.2 billion mainly due to higher loan balances as a result of fund-raising activities in the latter part of 2013 and additional borrowings in 2014. As of end June 2014, total debt increased by 25% from year-end 2013 as a result of new borrowings at the parent level to fund its investments in various power projects and increased investment in BPI through stock rights, as well as Ayala Land and Manila Water for new expansion projects and investments in operational improvements. Total debt as of end June 2014 was at P258 billion. Notwithstanding the higher debt levels, gearing ratios remain comfortable and well within limits. Ayala Corp.'s consolidated debt to equity ratio was at 1.68 times while parent debt to equity ratio was at 0.69 to 1 with net debt to equity at 0.44 to 1.

Balance Sheet Highlights

Consolidated cash and cash equivalents increased by 24% to P81.7 billion from the year-end 2013 level of P65.7 billion. The increase was mainly attributable to Ayala Land's bond offering, AC parent company's exchangeable bond proceeds, as well as loan availments and the proceeds from divestment of Stream. This was partly offset by loan payments, additional shares subscription in BPI, and capital infusion on power projects. Short term investments increased to P 8.4 billion from P119

million as of December 31, 2013 arising from new money market placements made by the Company in 2014.

Accounts and notes receivables (current) increased by 40% to P78.8 billion as a result of higher sales across all of Ayala Land's residential brands. Significant growth in revenues from IMI also pushed up accounts receivables.

Total non-current assets rose by 11% to P427 billion from P385 billion at the beginning of the year. This was primarily due to the increased investment of Ayala Corp in BPI through the stock rights, investments in various power projects, Ayala Land's increased investment in land acquisitions as well as additional investments in real properties.

On the liabilities side, total short term and long-term debt reached P258 billion, 25% higher than year-end 2013 level. This was due to new borrowings made by the parent company through AYC Finance as well as higher borrowings by Manila Water and Ayala Land's subsidiaries to fund its on-going projects.

Total stockholders' equity reached P250.9 billion, P15.5 billion higher than the start of the year mainly as a result of higher earnings during the period and the recognition of a P1.1 billion equity option coming from the exchangeable bond issued in 2Q 2014 .

Consolidated current ratio and debt to equity ratio remained healthy at 1.63x and 1.68x, respectively as of the end of June 2014. Consolidated net debt to equity ratio was at 1.09x while net debt to equity at the parent level was at 0.44 to 1.

Key Performance indicators:

For the balance sheet items, the Company aims to maintain for its debt to equity ratio not to exceed 3:1. The company and its subsidiaries' ratios are considered better than these levels as a result of responsive yet prudent debt management policies. The loan covenants of the Group should be read in conjunction with the covenants contained in the respective SEC17Q reports as of June 30, 2014 of ALI, IMI, MWCI, BPI and Globe.

The key performance indicators (consolidated figures) that the Group monitors are the following:

Ratio	Formula	June 2014 (Unaudited)	December 2013 (Audited)
Liquidity Ratio	$\frac{\text{Cash/ Cash equivalents} + \text{Short-term cash investments}}{\text{Current Liabilities}}$	0.58	0.45
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.63	1.46
Solvency Ratio	$\frac{\text{After-Tax Net Profit} + (\text{Depreciation} + \text{Amortization}) + \text{Provision for Bad Debts}}{\text{Total Liabilities}}$	0.03	0.04 *
Debt-to-Equity Ratio	$\frac{\text{Long-term Loans} + \text{Short Term Loans}}{\text{Equity Attributable to Owners of the Parent}}$	1.68	1.43
Assets- to-Equity Ratio	$\frac{\text{Total Assets}}{\text{Equity Attributable to Owners of the Parent}}$	4.44	4.18
Interest Rate Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense}}$	4.99	5.31 *
Return on Equity	$\frac{\text{Net Income to Owners of the Parent}}{\text{Equity Attributable to Owners of the Parent (Average)}}$	6.6%	5.6% *
Return on Common Equity	$\frac{\text{Net Income to Owners of the Parent}}{\text{Common Equity Attributable to Owners of the Parent (Average)}}$	7.1%	5.9% *
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$	2.4%	2.3% *

* Based on Unaudited June 30, 2013.

- 2.1 Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The following conditions shall be indicated: whether or not the registrant is having or anticipates having within the next twelve (12) months any cash flow or liquidity problems; whether or not the registrant is in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; whether or not a significant amount of the registrant's trade payables have not been paid within the stated trade terms.

The Group does not expect any liquidity problems and is not in default of any financial obligations. The Group complied with the existing loan covenants and restrictions as of June 30, 2014.

- 2.2 Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:

None

- 2.3 Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period:

None

- 2.4 Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.

For 2014, Ayala Corporation earmarked ₱49 billion in capital expenditures at the parent level to continue its investment programs in its core holdings and new businesses. Nearly half of this amount will be used to fund the Company's additional stake in the BPI which it has acquired over the past two years. Thirty percent is allocated to its power investments, while 6% is allotted to its transport infrastructure portfolio. The rest is set aside for other investments, including auto and education.

As of first half of the year, Ayala has spent 67% of the ₱49 billion, a significant portion of which was used to support its investments in BPI and ACEHI. The capital expenditures will be funded through a combination of internally-generated cash and debt.

For the year 2014, ALI's consolidated budget for project and capital expenditures amounted to ₱70.0 billion. This will be financed through a combination of internally-generated funds, borrowings and pre-selling.

ALI spent a total of ₱32.93 billion for project and capital expenditures in the first six months of 2014, 42% more than the ₱23.20 billion spent during the same period in 2013. The bulk of capital expenditures in the first six months of 2014 were spent on project completion (60% of the total) with the remaining balance spent for land acquisition (40%). The ₱32.93 billion spent in the first six months represents 47% of the programmed spending for the year. ALI expects to disburse close to its target capex spend of about ₱70 billion by year-end to finance the continued rollout of its aggressive growth plans.

MWCI targets to spend around ₱5 billion capital expenditures in 2014 for the rehabilitation and construction of facilities to improve water and sewer services in the East Zone Service Area, subject to rate rebasing review and government approvals. Capital Expenditures will be funded from the current cash reserves, internal funds generation and proceeds of available loan facilities.

MWCI's East Zone spent a total of ₱1,853 million (inclusive of concession fee payments) for capital expenditures in the first six months of 2014, 8% less than the ₱2,008 million spent in the same period the previous year. The bulk of capital expenditures was spent on wastewater expansion and network reliability projects, which accounted for 81% of the total. The balance of 19% or ₱346 million was accounted for by concession fees paid to MWSS. Capital expenditures for the balance of 2014 are expected to be limited to on-going and service reliability projects until the business and capital expenditure plan as part of the 2013 Rate Rebasing exercise is approved.

Meanwhile, total capital expenditures of the domestic subsidiaries amounted to ₱341 million, growing by 7% from the first half of 2013. Of the total amount, ₱213 million was used by Laguna Water for its network coverage expansion, while the balance was disbursed by Boracay Island Water and Clark Water.

IMI's capital expenditures for the first quarter of 2014 amounted to US\$10.9 million which comprised mainly of warehouse, building improvements, machineries and facilities equipment to sustain continuous plant expansions. For the full year of 2014, IMI expects to spend \$27M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the IMI's cash from operations and debt. The main components of these expenditures are building extensions and improvements, purchase of equipment for new projects, various machineries restorations and innovation and strategic investments. These will ensure uninterrupted services and meeting demands of the IMI's customers.

- 2.5 Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

The Company's and its subsidiaries' performance will continue to hinge on the overall economic performance of the Philippines and other countries where its subsidiaries operate. Interest rate movements may affect the performance of the real estate, banking and automotive groups, including the Company.

- 2.6 Any significant elements of income or loss that did not arise from the registrant's continuing operations

None

- 2.7 There were no material changes in estimates of amounts reported in prior interim period of the current financial year and interim period of the prior financial year, respectively.

None

- 2.8 Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

Balance Sheet Items

As of June 30, 2014 (Unaudited) vs. December 31, 2013 (Audited)

Cash and cash equivalents – 24% increase from ₱65,655 million to ₱81,732 million

Increase mainly attributable to ALI's bond offering; AYC Finance's exchangeable bond offer; AC, ALI, MWCI and AYC Finance's proceeds from loan availments and Livelt's proceeds from divestment of Stream. These were offset by the Group's loan payments, additional shares subscription in BPI and infusion in investment on power initiatives. This account is at 12% and 11% of the total assets as of June 30, 2014 and December 31, 2013, respectively.

Short-term investments – 70 times higher from ₱119 million to ₱8,365 million

Increase due to new money market placements done during first half of 2014 with 270 days tenor. This account is at 1% and less than 1% of the total assets as of June 30, 2014 and December 31, 2013, respectively.

Accounts and notes receivable (current) – 40% increase from ₱56,341 million to ₱78,796 million

Mainly due to higher sales from across residential brands, new project launches and existing project sales of ALI group and significant growth of revenues from all sites of IMI group. This account is at 12% and 9% of the total assets as of June 30, 2014 and December 31, 2013, respectively.

Other current assets – 17% decrease from ₱39,194 million to ₱32,600 million

Decreased mainly due to ALI's maturities of investment and reduction in escrow/ deposit accounts. This account is at 5% and 7% of the total assets as of June 30, 2014 and December 31, 2013, respectively.

Noncurrent asset held for sale – 100% decrease from ₱3,329 million to zero balance

Due to the Livelt's divestment of Stream in March 2014.

Accounts and notes receivable (noncurrent) – 22% decrease from ₱18,283 million to ₱14,226 million

Mainly due to lower receivables by the ALI group. This account is at 2% and 3% of the total assets as of June 30, 2014 and December 31, 2013, respectively.

Investments in bonds and other securities – 10% increase from ₱2,785 million to ₱3,062 million

Mainly attributable to increase in investments of the Company, BHL and IMI groups. This account is at less than 1% of the total assets as of June 30, 2014 and December 31, 2013.

Land and improvements – 10% increase from ₱62,475 million to ₱68,417 million

Increase due to ALI group's unsubdivided land and certain land acquisitions. This account is at 10% of the total assets as of June 30, 2014 and December 31, 2013.

Investments in associates and joint ventures – 21% increase from ₱119,804 million to ₱145,401 million

Mainly attributable to Group's additional shares subscription in BPI through stock rights offering and infusion in various power investments. This account is at 21% and 20% of the total assets as of June 30, 2014 and December 31, 2013, respectively.

Investment properties – 9% increase from ₱63,157 million to ₱68,802 million

Increase mainly attributable to ALI's additional investment properties. This account is at 10% of the total assets as of June 30, 2014 and December 31, 2013.

Deferred tax asset - 10% increase from ₱6,514 million to ₱7,165 million

Increase mainly attributable to ALI group's higher deferred tax asset. This account is at 1% of the total assets as of June 30, 2014 and December 31, 2013.

Pension and other noncurrent assets - 90% increase from ₱8,016 million to ₱15,211 million

Increase mainly attributable to ALI group's higher pre-operating expenses and down payments pertaining to new projects. The account also includes the Group's pension asset.¹

This account is at 2% and 1% of the total assets as of June 30, 2014 and December 31, 2013, respectively.

Accounts payable and accrued expenses - 20% increase from ₱103,604 million to ₱123,813 million

Increase mainly caused by higher trade payables and accruals of ALI group for its additional and existing projects. Also attributed to the increase was the higher trade payables and accruals by IMI groups pertaining to their expanded operations. This account is at 29% and 28% of the total liabilities as of June 30, 2014 and December 31, 2013, respectively.

Short-term debt – 26% decrease from ₱15,811 million to ₱11,680 million

Mainly due to ALI's decrease of short-term loans. This account is at 3% and 4% of the total liabilities as of June 30, 2014 and December 31, 2013, respectively.

Income tax payable – 28% decrease from ₱1,668 million to ₱1,199 million

Due to lower tax payable by ALI and MWCI groups. As a percentage to total liabilities, this account is at less than 1% as of June 30, 2014 and December 31, 2013.

¹ The Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Company, governed by a board of trustees appointed under a Trust Agreement between the Company and the initial trustees. It holds common and preferred shares of the Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee, all of whom are Managing Directors of the Company, are Delfin C. Gonzalez, Jr. (the Company's Chief Finance Officer), Solomon M. Hermosura (the Company's Group Head of Corporate Governance, General Counsel, Corporate Secretary & Compliance Officer), John Philip S. Orbeta (the Company's Head for Strategic Human Resources), Ma. Cecilia T. Cruzabra (the Company's Treasurer), and Josephine G. de Asis (who is the Company's Comptroller). ACEWRF has not exercised voting rights over any shares of the Company that it owns.

Other current liabilities – 52% decrease from ₱10,992 million to ₱5,235 million

Decrease pertains mainly to ALI group's lower payable to various contractors, deposits from residential assets and retention payable from projects. This account is at 1% and 3% of the total liabilities as of June 30, 2014 and December 31, 2013, respectively.

Long-term debt (noncurrent) – 31% increase from ₱178,027 million to ₱234,094 million

Mainly due to new borrowings made by the Company, through AYC Finance, to fund investments in power; loan availments made by AYC (exchangeable bonds) and ALI groups for expansion projects; MWCI for projects and operating improvements; and directly by the Company to fund additional subscription in BPI. This account is at 55% and 49% of the total liabilities as of June 30, 2014 and December 31, 2013, respectively.

Deferred tax liabilities – 9% decrease from ₱6,347 million to ₱5,755 million

Decrease attributable to MWCI and ALI due to amortization of capitalized DST and other incidental expenses. This account stood at 1% and 2% of the total liabilities as of June 30, 2014 and December 31, 2013, respectively.

Cumulative translation adjustments - 25% decrease (improved) from negative ₱1,257 million to negative ₱938 million

Mainly due to higher foreign denominated net assets held by the international operations group and appreciation of Peso from ₱44.395 in December 2013 to ₱43.65 in June 2014.

Net unrealized gain on available-for-sale financial assets – 182% decrease from positive ₱278 million to negative ₱227 million

Mainly due to movement in the market value of securities held by BPI group.

Equity-conversion option – 100% increase from zero to ₱1,114 million

₱1.1B arising from exchangeable bonds issued by AYC Finance.

Retained earnings – 9% increase from ₱92,640 million to ₱100,998 million

Mainly due to share in YTD 2014 group net income partially offset by ₱1.4B dividends declared.

Non-controlling interests – 6% increase from ₱91,994 million to ₱97,917 million

Mainly due to share in YTD 2014 group net income partially offset by dividends received.

Income Statement items

For the Period Ended June 30, 2014 (Unaudited) vs. June 30, 2013 (Unaudited)

Sale of goods – 23% increase from ₱41,875 million to ₱51,485 million

Mainly on account of new projects and improved sales performance of ALI group and higher revenues across all sites of IMI group. As a percentage to total income, this account is at 56% in June 30, 2014 and 2013.

Rendering of services – 14% increase from ₱22,336 million to ₱25,418 million

Improved sales performance of ALI (malls, office leasing & hotel operations specifically sales generated by its newly acquired subsidiaries), MWCI (increase in billed volume and additional connections) and IMI (growth of customer demand) groups. As a percentage to total income, this account is at 28% and 30% in June 30, 2014 and 2013, respectively.

Share of profit of associates and joint ventures – 21% increase from ₱5,657 million to ₱6,829 million

Increase mainly due to higher equity in net earnings of Globe, ALI and AIVPL partially offset by lower share in net earnings of BPI. As a percentage to total income, this account is at 7% in June 30, 2014 and 2013.

Interest income – 88% increase from ₱1,416 million to ₱2,658 million

Mainly due to ALI's higher cash balance. This account is at 3% and 2% of the total income in June 30, 2014 and 2013, respectively.

Other income – 44% increase from ₱3,314 million to ₱4,772 million

Mainly due to Livelt's ₱1.8B gain from divestment of Stream offset partially by lower rehabilitation works of MWCI group. This account is at 5% and 4% of the total income in June 30, 2014 and 2013, respectively.

Cost of sales – 29% increase from ₱31,831million to ₱40,920million

Increase attributable to higher sales of ALI and IMI groups. As a percentage to total costs and expenses, this account is at 58% and 54% in June 30, 2014 and 2013, respectively.

Cost of rendering services – 6% increase from ₱13,513 million to ₱14,276 million

Increase mainly due to higher sales of rendering services by ALI; and higher revenues from IMI, MWCI and Livelt groups. As a percentage to total costs and expenses, this account is at 20% and 23% in June 30, 2014 and 2013, respectively.

General and administrative expenses – 27% increase from ₱6,380 million to ₱8,112 million

Increase mainly on account of higher manpower expenses, taxes, ads and promo of ALI, inventory and certain provisions for probable losses taken up by IMI and operating cost of a start-up entity of automotive group; and higher expenses due to start-up costs of Energy, Infra and Education units. This expense classification accounts for 11% of the total costs and expenses in June 30, 2014 and 2013.

Interest and other financing charges – 33% increase from ₱4,635 million to ₱6,158 million

Increase mainly due to higher loan balance as a result of fundraising activities in late 2013 and new borrowings in 2014 of the Company (for initiatives for new growth areas like Energy and Transport Infrastructure sectors) and ALI group (for landbanking and expansion of various mixed use projects). This expense classification accounts for 9% and 8% of the total costs and expenses in June 30, 2014 and 2013, respectively.

Other charges – 28% decrease from ₱2,204 million to ₱1,580 million

Decrease mainly due lower rehabilitation costs of MWCI group. This expense classification accounts for 2% and 4% of the total costs and expenses in June 30, 2014 and 2013, respectively.

Provision for income tax (current and deferred) – 6% increase from ₱3,425 million to ₱3,627 million

Primarily due to higher taxable income of the several subsidiaries significant part of which comes from ALI, MWCI and IMI groups on account of better sales and other operating results.

Income attributable to Owners of the parent – 34% increase from P7,304 million to P9,799 million

Mainly due to better operating results of most of the subsidiaries and associates of the Group.

Non-controlling interests – 26% increase from ₱5,307 million to ₱6,689 million

Attributable to the favorable performance of the ALI and IMI groups in Q2 2014.

2.9 Any seasonal aspects that had a material effect on the financial condition or results of operations.

Ayala Corporation being a holding company has no seasonal aspects that will have any material effect on its financial condition or operational results.

ALI's leasing portfolio generates a fairly stable stream of revenues throughout the year, with higher sales experienced in the fourth quarter from shopping centers due to holiday spending.

ALI's development operations do not show any seasonality. Projects are launched anytime of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market conditions and strategy. Development and construction work follow target completion dates committed at the time of project launch.

MWCI group does not have any significant seasonality or cyclicity in the interim operation, except for the usually higher demand during the months of April and May.

BPI, IMI and other subsidiaries of the Group do not have seasonal aspects that will have any material effect to their financials or operations.

3.0 Any material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

None.

3.1 Other material events or transactions during the interim period.

ALI

1. Board and Stockholders' approval of the following:
 - a. Amendment of Article Seventh of the Company's Articles of Incorporation exempting from pre-emptive rights the issuance of one billion common shares for acquisitions and debt payments and the issuance of common shares covered by stock options granted to members of Management Committees of subsidiaries or affiliates.
 - b. Amendment of the stock option plan to include members of Management Committees of subsidiaries or affiliates as eligible grantees of stock options.
2. Appointment of Bernard Vincent O. Dy as new President and CEO of ALI.
3. Board approval of the following:
 - a. Declaration of cash dividends of P0.20711082 per share to all shareholders as of record date March 7, 2014, payable on March 21, 2014.
 - b. Declaration of annual cash dividends of 4.75% per annum or ₱0.0047 per share on the unlisted voting preferred shares to all shareholders of record as of June 16, 2014
 - c. The issuance of bonds of in the amount of up to P15 billion, which are to be registered with the Securities and Exchange Commission and listed in the Philippine Dealing & Exchange Corporation, will carry a tenor of up to 11 years. The first tranche will involve the issuance of P8 billion in bonds with the tenor of 11 years, maturing in 2025, at rate of 5.625% and will be offered to public until April 21, 2014. Proceeds are expected to be used to partially finance ALI's 2014 capital expenditures which include the construction of various leasing projects such as Vertis North Mall, BPO and Hotel; Circuit Mall, Retail Strip and Hotel; and Southpark Mall and BPO.
4. ALI assigns to Cebu Holdings, Inc. and Cebu Property Ventures & Development Corporation rights to subscribe to 10% and 5% of the authorized capital stock of the joint venture company with AboitizLand, Inc.
5. ALI acquires Mitsubishi Corporation's 40% stake in Philippine Integrated Energy Solutions, Inc.
6. On May 12, 2014, ALI signed a Terms of Reference with Sureste Properties, Inc. (SPI), a wholly-owned subsidiary of Bloomberry Resorts Corp. as the leasing and marketing agent for the 5,000 sqm. retail area to be opened in the new Phase 1-A of Solaire Resort and Casino.
7. On May 26, 2014, the Board of Directors approved the issuance of up to Php5 billion of Ayala Homestarter Bonds.
8. On June 4, 2014, AyalaLand Hotels and Resorts Corporation signed a long-term management agreement with the Mandarin Oriental Hotel Group to develop and operate a luxury hotel in Makati City.

PART II – OTHER INFORMATION

1. In January 2014, the Company obtained a 5-year peso loan from BPI amounting to ₱8 billion. The loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of sixty basis points (0.60%) per annum or 95% of the BSP RRP, whichever is higher.
2. On January 3, 2014, the Company paid cash dividends on common shares of ₱2.40 per share to common shareholders of record as of December 19, 2013.
3. On March 10, 2014, the Company's BOD approved the following:
 - a. Amendment of the Third Article of the Articles of Incorporation of the Company to change the principal office address of the Company from Metro Manila, Philippines to 32/F to 35/F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, in compliance with the Securities and Exchange Commission Memorandum Circular No. 6, Series of 2014.
 - b. Amendment of Section 2, Article III of our By-Laws, to allow our Board to hold meeting in a place in Metro Manila other than in our principal office. Our Board approved the amendment pursuant to its power, delegated by our stockholders in May 1989, to amend our By-Laws.
4. On April 10, 2014, the Finance Committee of the Board of Directors of the Company approved the final terms of the US\$300 Million bonds exchangeable for common shares of Ayala Land Inc. (the "Bonds"). The Bonds will be issued by AYC Finance Limited, a wholly-owned subsidiary of AC, and will be fully guaranteed by AC.

Subsequent to the approval of the Finance Committee of the final terms of the Bonds, the offering of the Bonds commenced. The Bonds have been offered outside the United States under Regulation S of the U.S. Securities Act of 1933 and to qualified institutional investors within the Philippines in transactions that do not require registration of the Bonds under the Philippine Securities Regulation Code.

The Bonds will bear interest at a rate of 0.50% per year, payable semiannually. The Bonds will mature on May 2, 2019, unless earlier exchanged, redeemed or repurchased in accordance with the terms of the Bonds. The Bonds will be exchangeable at any time on or after June 11, 2014 up to the close of business on the 10th day prior to the maturity date. The Bonds will initially be exchangeable at P36.48 per Ayala Land share representing a premium of 20% over Ayala Land's closing price on April 10, 2014. On May 2, 2017, the holders of the Bonds will have the right to require the Company to repurchase for cash all or part of their Bonds at a repurchase price equal to 100% of the principal amount of the Bonds. Starting May 2, 2017 the Company is able to call the Bond if the closing price of Ayala Land shares for any 30 consecutive Trading Days is at least 130% of the Exchange Price.

The offering is the first equity-linked international issuance by a Philippine issuer in the past two years. It has also achieved the lowest cost of financing across Asia ex-Japan in 2014.

The Company intends to use the net proceeds from the issue of the Bonds for general corporate purposes.

The issuance of the offering was completed on May 5, 2014. The Bonds have been listed and quoted in the Singapore Exchange effective May 5, 2014.

5. On April 10, 2014, SEC has approved the planned issuance of up to P15-billion fixed rate bonds of ALI. The bonds offer will be implemented in one or more tranches and sold to general public. The first tranche will involve the issuance of P8 billion in bonds with the tenor of 11 years, maturing in 2025, at rate of 5.625% and will be offered to public until April 21, 2014. Proceeds are expected to be used to partially finance ALI's 2014 capital expenditures which include the construction of various leasing projects such as Vertis North Mall, BPO and Hotel; Circuit Mall, Retail Strip and Hotel; and Southpark Mall and BPO.
6. On April 11, 2014, at the annual meeting of the Company's Stockholders, the stockholders approved the following:
 - a. Approval of minutes of the annual stockholders' meeting held on 19 April 2013.

- b. Approval of Corporation's Annual Report, which consists of the Chairman's Message, President's Report, and the audio-visual presentation to the stockholders, and to approve the consolidated financial statements of the Corporation and its subsidiaries as of 31 December 2013, as audited by the Corporation's external auditor SyCip Gorres Velayo & Co.
- c. Ratification of all acts and resolutions of the Board of Directors and Management adopted during the preceding year.
- d. The ratification of the amendments to the Third Article of the Articles of Incorporation to state our specific principal office address in compliance with the SEC Memorandum Circular No. 6, series of 2014 to approve the amendment to the Third Article of the Articles of Incorporation in compliance with Securities and Exchange Commission Memorandum Circular No. 6, series of 2014, so that, as amended, the Third Article shall henceforth read as follows:

THIRD. That the place where the principal office of the Corporation is located is at 32F to 35F, Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, but it may establish branch offices in any part of the Philippines or in such other places outside the Philippines as may be approved by the Board of Directors. (As amended on 11 April 2014).

- e. Election of the following as directors effective immediately and until their successors are elected and qualified:

Jaime Augusto Zobel de Ayala	Delfin L. Lazaro
Fernando Zobel de Ayala	Xavier P. Loinaz
Yoshio Amano	Antonio Jose U. Periquet
Ramon R. del Rosario, Jr.	

Messrs. del Rosario, Loinaz and Periquet were elected as independent directors.

- f. Election of SyCip, Gorres, Velayo & Co. as the external auditors of our Company for the fiscal year 2014.

In the stockholders' meeting, Jaime Augusto Zobel de Ayala, Chairman and CEO, announced that the Ayala group plans to spend P187 billion in capital expenditures in 2014.

At its organizational meeting held immediately after the stockholders' meeting, our Board of Director elected the following:

- a. Board Committees and Memberships:

Executive Committee

Jaime Augusto Zobel de Ayala - Chairman
Fernando Zobel de Ayala - Member
Yoshio Amano - Member

Audit and Risk Committee

Xavier P. Loinaz - Chairman
Yoshio Amano - Member
Ramon R. del Rosario, Jr. - Member

Nomination Committee

Ramon R. del Rosario, Jr. - Chairman
Jaime Augusto Zobel de Ayala - Member
Fernando Zobel de Ayala - Member
Antonio Jose U. Periquet - Member

Personnel and Compensation Committee

Ramon R. del Rosario, Jr. - Chairman
Delfin L. Lazaro - Member
Yoshio Amano - Member

Finance Committee

Delfin L. Lazaro - Chairman
Antonio Jose U. Periquet - Member
Jaime Augusto Zobel de Ayala - Member

Committee of Inspectors of Proxies and Ballots

Solomon M. Hermosura – Chairman
Catherine H. Ang – Member
Josephine G. De Asis – Member

b. Officers:

Jaime Augusto Zobel de Ayala	- Chairman & Chief Executive Officer
Fernando Zobel de Ayala	- Vice Chairman, President & Chief Operating Officer
Gerardo C. Ablaza, Jr	- Senior Managing Director
Cezar P. Consing	- Senior Managing Director
Arthur R. Tan	- Senior Managing Director
Alfredo I. Ayala	- Managing Director
Maria Lourdes Heras-De Leon	- Managing Director
John Eric T. Francia	- Managing Director
Delfin C. Gonzalez, Jr.	- Managing Director & Chief Finance Officer
Solomon M. Hermosura	- Managing Director, General Counsel, Corporate Secretary & Compliance Officer
John Philip S. Orbeta	- Managing Director
Ginaflor C. Oris	- Managing Director
Ma. Cecilia T. Cruzabra	- Treasurer
Josephine G. De Asis	- Comptroller
June Vee M. Navarro	- Assistant Corporate Secretary*

**Replaced Sheila Marie U. Tan*

c. Ayala Group of Companies Management Committee

Jaime Augusto Zobel de Ayala	- Chairman and Chief Executive Officer, Ayala Corporation
Fernando Zobel de Ayala	- President and Chief Operating Officer, Ayala Corporation
Gerardo C. Ablaza, Jr.	- President, Manila Water Company, Inc.
Alfredo I. Ayala	- President, Livelt Investments, Ltd.
Cezar P. Consing	- President, Bank of the Philippine Islands
Ernest Lawrence L. Cu	- President, Globe Telecom, Inc.
Maria Lourdes Heras-De Leon	- President, Ayala Foundation, Inc.
Bernard Vincent O. Dy	- President, Ayala Land, Inc.
John Eric T. Francia	- Group Head, Corporate Strategy and Development, Ayala Corporation
Delfin C. Gonzalez, Jr.	- Chief Finance Officer, Ayala Corporation
Solomon M. Hermosura	- General Counsel and Corporate Secretary, Ayala Corporation and Ayala Land, Inc.; and Compliance Officer, Ayala Corporation
John Philip S. Orbeta	- Group Head, Corporate Resources, Ayala Corporation
Arthur R. Tan	- President, Ayala Automotive Holdings Corporation
	- President, Integrated Micro-Electronics, Inc.

d. Ayala Corporation Management Committee

Jaime Augusto Zobel de Ayala
Fernando Zobel de Ayala
Gerardo C. Ablaza, Jr.
John Eric T. Francia
Delfin C. Gonzalez, Jr.
Solomon M. Hermosura
John Philip S. Orbeta

7. On April 21, 2014, the Company, in compliance with the SEC Memorandum Circular No. 1, Series of 2014 or the Guidelines for Changes and Updates in the Annual Corporate Governance Report (CGR), filed the updates made on the Annual CGR.

8. On April 25, 2014, the Company submitted the certifications of its independent directors, namely, Ramon R. del Rosario, Jr. Xavier P. Loinaz and Antonio Jose U. Periquet.
9. On May 7, 2014, the Company filed the General Information Sheet for the year 2014.
10. The Company's earnings in the first quarter of the year reached ₱5.5 billion, 22% higher than net income in the first quarter of last year.
11. On May 22, 2014, 36 grantees of stock options of the Company under the 2014 Employee Stock Ownership Plan subscribed to 713,284 common shares at P480 per share equivalent to the average closing price, net of 15%, of AC's common shares for 20 consecutive trading days from March 21, 2014, the date when the Personnel and Compensation Committee approved the stock options. In view of this, the number of AC's outstanding common shares as of May 22, 2014 is 600,351,221.
12. On June 26, 2014, the Board of Directors, at its regular meeting, approved the following:
 - a. The creation of a Risk Management Committee and the charter of the Committee.
 - b. The declaration of regular cash dividend of P2.40 per share to all outstanding common shares for the first semester ending June 30, 2014. The record date is July 10, 2014 and payment is July 25, 2014.
 - c. The ratification of the approval by our Finance Committee of the final terms of the US\$300 million 0.50% Bonds due 2019 (the "Bonds"), which Bonds are exchangeable into common shares of ALI. The Bonds were issued by AYC Finance and are fully guaranteed by AC.
13. On July 1, 2014, the Company, in compliance with SEC Memoranda 1 and 12, Series of 2014, advised the changes made in the Annual Corporate Governance Report with the approval by our Board of Directors of the updated board committee charters and company policies on June 26, 2014.
14. On August 4, 2014, the Company clarified the news article posted in the BusinessMirror (Internet Edition) on August 3, 2014 about the submission of bids for P2.5B Integrated Transport System deal which has been moved to September 29 from August 30. The Company clarified that it is still in the process of evaluating the terms and conditions of the said project.

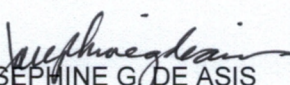
SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant

AYALA CORPORATION

By:


JOSEPHINE G. DE ASIS
Authorized Signatory
Comptroller
Ayala Corporation

Date: August 14, 2014