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**SECURITIES AND EXCHANGE COMMISSION**

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Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Type Stock Corporation

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(Company's Full Name)

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(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

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Month Day
Annual Meeting

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Secondary License Type, if Applicable

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Amended Articles Number/Section

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Total No. Of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

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File No. _____

AYALA CORPORATION

(Company's Full Name)

**32F to 35F, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City**

(Company's Address)

908-3000

(Telephone Number)

September 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 third quarter period ended: **September 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: **32F to 35F, Tower One and Exchange Plaza, 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 September 30, 2014
Preferred A	0*
Preferred B	20,000,000**
Voting Preferred	200,000,000
Common	600,628,410

* Net of 12,000,000 treasury shares

** Net of 38,000,000 treasury shares

Amount of debt outstanding as of September 30, 2014: **P40 billion in bonds*****

***amount represents only debt of Ayala Corporation registered with SEC. The debt of subsidiaries registered with SEC are reported in their respective SEC17Q report.

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

A total of 596,194,295 Common shares, and 20,000,000 Preferred "B" shares are listed with the Philippine Stock Exchange as of September 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

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

	September 30, 2014 (Unaudited)	December 1, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	73,521,209	65,655,049
Short-term investments (Note 5)	465,882	119,345
Accounts and notes receivable (Note 6)	75,001,420	56,341,044
Inventories (Note 7)	52,486,143	50,178,486
Other current assets (Note 8)	33,188,987	39,194,020
Total Current Assets	234,663,641	211,487,944
Noncurrent asset held for sale	-	3,328,712
	234,663,641	214,816,656
Noncurrent Assets		
Noncurrent accounts and notes receivable (Note 6)	19,005,484	18,282,941
Investment in bonds and other securities (Note 11)	2,877,242	2,784,807
Land and improvements (Note 9)	72,572,038	62,474,802
Investments in associates and joint ventures (Note 10)	148,047,428	119,804,086
Investment properties (Note 12)	70,811,204	63,157,223
Property, plant and equipment	26,609,980	25,883,469
Service concession assets (Note 13)	74,298,770	73,754,407
Intangible assets	4,405,553	4,175,846
Deferred tax assets - net	7,396,989	6,513,585
Pension and other noncurrent assets (Note 8)	21,636,250	8,016,478
Total Noncurrent Assets	447,660,938	384,847,644
Total Assets	682,324,579	599,664,300
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	115,279,289	103,604,247
Short-term debt (Note 16)	14,040,248	15,811,285
Income tax payable	1,129,290	1,667,543
Current portion of:		
Long-term debt (Note 16)	8,089,373	11,842,519
Service concession obligation	997,314	1,290,406
Other current liabilities (Note 15)	7,254,283	10,991,693
Total Current Liabilities	146,789,797	145,207,693
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	233,952,066	178,027,343
Service concession obligation - net of current portion	8,273,675	7,868,295
Deferred tax liabilities - net	5,600,577	6,347,400
Pension liabilities - net	1,742,572	1,915,040
Other noncurrent liabilities (Note 15)	27,498,532	24,827,938
Total Noncurrent Liabilities	277,067,422	218,986,016
Total Liabilities	423,857,219	364,193,709
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 17)	50,513,734	50,166,129
Share-based payments	370,602	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	65,356	277,848
Cumulative translation adjustments	(456,062)	(1,256,831)
Equity reserve	7,633,651	7,482,121
Equity - conversion option (Note 16)	1,113,745	-
Retained earnings (Note 17)	105,252,024	92,639,781
Treasury stock	(5,000,000)	(5,000,000)
	158,175,096	143,476,281
Non-controlling interests	100,292,264	91,994,310
Total Equity	258,467,360	235,470,591
Total Liabilities and Equity	682,324,579	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	
	July to Sep.	Jan. to Sep.	July to Sep.	Jan. to Sep.
	(Unaudited)		(Unaudited)	
INCOME				
Sale of goods	25,743,918	77,228,841	24,444,781	66,319,417
Rendering of services	11,811,462	37,229,487	11,177,107	33,513,100
Share of profit of associates and joint ventures	3,445,822	10,274,322	2,487,313	8,144,720
Interest income	1,518,737	4,176,830	693,456	2,109,269
Other income	775,906	5,547,585	1,976,471	5,290,767
	43,295,845	134,457,065	40,779,128	115,377,273
COSTS AND EXPENSES				
Costs of sales	19,705,216	60,625,710	19,649,205	51,480,226
Costs of rendering services	6,733,889	21,010,084	6,064,050	19,577,366
General and administrative	3,259,505	11,371,610	3,629,229	10,008,982
Interest and other financing charges	2,839,646	8,997,396	2,593,383	7,228,109
Other charges	772,526	2,352,886	1,106,926	3,310,788
	33,310,782	104,357,686	33,042,793	91,605,471
INCOME BEFORE INCOME TAX	9,985,063	30,099,379	7,736,335	23,771,802
PROVISION FOR INCOME TAX				
Current	2,111,925	6,220,232	1,981,369	5,852,158
Deferred	63,547	(418,152)	(429,603)	(875,817)
	2,175,472	5,802,080	1,551,766	4,976,341
NET INCOME	7,809,591	24,297,299	6,184,569	18,795,461
Net Income Attributable to:				
Owners of the parent	4,254,287	14,052,998	3,128,673	10,432,209
Non-controlling interests	3,555,304	10,244,301	3,055,896	8,363,252
	7,809,591	24,297,299	6,184,569	18,795,461
EARNINGS PER SHARE (Note 18)				
Basic		22.76		16.80
Diluted		22.62		16.68

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	2014		2013	
	July to Sep.	Jan. to Sep.	July to Sep.	Jan. to Sep.
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET INCOME	7,809,591	24,297,299	6,184,569	18,795,461
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	606,888	914,649	901,588	1,331,866
Changes in fair values of available-for-sale financial assets	162,042	281,911	(7,304)	(310,441)
	768,930	1,196,560	894,284	1,021,425
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	9,195	6,506	18,924	106,125
Changes in fair values of available-for-sale financial assets	164,265	(459,963)	(23,286)	(1,774,456)
	173,460	(453,457)	(4,362)	(1,668,331)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	942,390	743,103	889,922	(646,906)
TOTAL COMPREHENSIVE INCOME	8,751,981	25,040,402	7,074,491	18,148,555
Total Comprehensive Income Attributable to:				
Owners of the parent	5,028,629	14,641,275	3,955,111	9,534,039
Non-controlling interests	3,723,352	10,399,127	3,119,380	8,614,516
	8,751,981	25,040,402	7,074,491	18,148,555

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.

AYALA 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 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	-	-	-	-	-	-	-	14,052,998	-	-	10,244,301	24,297,299
Other comprehensive income (loss)	-	-	-	(212,492)	800,769	-	-	-	-	-	154,826	743,103
Total comprehensive income (loss)	-	-	-	(212,492)	800,769	-	-	14,052,998	-	-	10,399,127	25,040,402
Issuance of shares	347,605	-	-	-	-	-	-	-	-	-	-	347,605
Cost of share-based payments	-	(114,585)	-	-	-	-	-	-	-	-	-	(114,585)
Change in non-controlling interests	-	-	-	-	-	151,530	-	-	-	-	(2,101,173)	(1,949,643)
Cash Dividends	-	-	-	-	-	-	-	(1,440,755)	-	-	-	(1,440,755)
Equity-conversion option	-	-	-	-	-	-	1,113,745	-	-	-	-	1,113,745
At September 30, 2014 (Unaudited)	50,513,734	370,602	(1,317,954)	65,356	(456,062)	7,633,651	1,113,745	105,252,024	-	(5,000,000)	100,292,264	258,467,360

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, 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	-	-	-	-	-	-	-	10,432,209	-	-	8,363,252	18,795,461
Other comprehensive income (loss)	-	-	-	(1,084,384)	1,192,712	-	-	-	-	-	251,266	359,594
Total comprehensive income (loss)	-	-	-	(1,084,384)	1,192,712	-	-	10,432,209	-	-	8,614,518	19,155,055
Issuance of shares	1,834,613	-	-	-	-	-	-	-	-	1,697,344	-	3,531,957
Cost of share-based payments	-	23,488	-	-	-	-	-	-	-	-	-	23,488
Cash Dividends	-	-	-	-	-	-	-	(1,330,317)	-	-	-	(1,330,317)
Change in non-controlling interests	-	-	-	-	-	3,381,665	-	-	-	-	1,636,307	5,017,972
At September 30, 2013 (Unaudited)	46,954,545	484,259	(943,361)	714,580	(2,045,688)	8,760,739	-	92,369,969	(250,000)	(5,800,000)	92,593,461	232,838,504

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, 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.

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

	September 30, 2014 Unaudited	September 30, 2013 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	30,099,379	23,771,802
Adjustments for:		
Interest and other financing charges - net of amount capitalized	8,997,396	7,228,109
Depreciation and amortization	6,656,062	6,109,089
Cost of share-based payments	(114,585)	(13,318)
Provision for impairment losses	174,067	413,307
Loss (gain) on sale of other assets	(68,398)	41,607
Gain on sale of investments	(1,899,259)	(192,943)
Other investment income	(10,691)	(260,337)
Interest income	(4,176,830)	(2,109,269)
Share of profit of associates and joint ventures	(10,274,321)	(8,144,720)
Operating income before changes in working capital	29,382,820	26,843,327
Decrease (increase) in:		
Accounts and notes receivable - trade	(18,925,241)	(2,785,916)
Inventories	(2,385,478)	(3,452,617)
Other current assets	(1,650,572)	(2,560,897)
Service concession asset	(575,484)	(2,287,897)
Increase (decrease) in:		
Accounts payable and accrued expenses	22,947,282	13,614,744
Net pension liabilities	(167,054)	202,529
Other current liabilities	1,617,196	(193,618)
Net cash generated from operations	30,243,469	29,379,655
Interest received	4,270,683	1,907,853
Interest paid	(8,988,446)	(8,279,406)
Income tax paid	(7,638,801)	(6,678,435)
Net cash provided by operating activities	17,886,905	16,329,667
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale/maturities of financial assets at fair value through profit or loss	6,756,000	-
Sale/redemptions of investments in associates and joint ventures	6,302,335	400,082
Sale/redemptions of AFS financial assets	-	864,442
Disposals of property, plant and equipment	96,570	84,218
Maturities (placement) of short-term investments	(346,538)	296,503
Deduction in (additions to):		
Investments in associates and joint ventures	(32,162,772)	(10,181,656)
Investments in bonds and other securities	(54,675)	(13,240,398)
Land and improvements	(10,097,236)	(9,831,965)
Accounts and notes receivable - non-trade	(1,993,509)	(3,618,127)
Property, plant and equipment	(3,179,447)	(1,955,068)
Investment properties	(9,541,858)	(9,324,187)
Dividends received from associates, joint ventures and AFS financial assets	4,920,676	4,573,899
Increase in long-term money market placements	(8,526,250)	-
Increase in other noncurrent assets	(6,718,636)	(2,292,979)
Net cash used in investing activities	(54,545,340)	(44,225,236)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term and long-term debt	64,248,903	32,189,665
Issuance of common and preferred shares	614,279	28,240
Collections of subscription receivable	(266,674)	186,644
Payment of short-term and long-term debt	(14,146,083)	(19,160,160)
Reissuance of treasury shares	-	3,353,880
Dividends paid	(6,938,751)	(3,036,201)
Service concession obligation paid	(467,627)	(266,599)
Increase (decrease) in:		
Other noncurrent liabilities	2,670,595	2,033,561
Non-controlling interest in consolidated subsidiaries	(1,190,047)	8,073,676
Net cash provided by financing activities	44,524,595	23,402,706
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,866,160	(4,492,863)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	65,655,049	81,777,016
CASH AND CASH EQUIVALENTS AT END OF PERIOD	73,521,209	77,284,153

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" or "Ayala") 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 September 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 September 30, 2014.

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

On November 11, 2014, the Company's Audit 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	
		September 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	57.8	57.8
Livelt Global Services Management Institute, Inc. (LGSMI) (re-named as Ayala Education, Inc. (AEI))	Education	100.0	100.0
Manila Water Company, Inc. (MWC)	Water Distribution and Wastewater Services	48.5	48.8
Michigan Holdings, Inc. (MHI)	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

****MPM Noodles Corporation (MPM) was dissolved as of September 30, 2014

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.).
- b. In September 1, 2014, Ayala sold to ACIFL, its wholly owned subsidiary, 6,474,793 redeemable preferred shares in Bestfull for a total consideration of US\$78.8 million.

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 September 30, 2014 and December 31, 2013. The voting rights held by the Group in ALI as of September 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 GNPB 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 GNPB 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 – GNPB 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 (LRMC), in which AC Infrastructure Holdings Corporation has a effective 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%-1 of the shares. LRMHI will hold 70% of the total equity of LRMC, 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.

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 LRMC 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.

On October 27, 2014, Team Orion, the consortium of Aboitiz Land, Inc. and Ayala's AC Infrastructure Holdings, Inc., filed a motion with the Office of the President to urge the President to settle the CALAX stalemate by either accepting the appeal of San Miguel's Optimal Infrastructure Development, Inc. (OIDI) or dismissing it in order to allow the completion of the bid process.

- g. On September 12, 2014, the DOTC officially awarded the 32-year concession for the LRT Line 1 project to the LRMC. Other than LRMHI, LRMC's stockholders include Metro Pacific

Light Rail Corp. (MPLRC) which leads the consortium with a 55% stake, and Macquarie Infrastructure Holdings (Philippines), Inc. (MIHPL) with a 10% stake.

On October 2, 2014, LRMC signed together with the DOTC and the Light Rail Transit Authority (LRTA) the Concession Agreement for the P65-billion Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project. LRMC was formally awarded the project by the DOTC and LRTA after the consortium of MPLRC, AC Infra and MIHPL submitted the lone bid with a premium of P9.35 billion.

- h. On September 22, 2014, the Company confirmed the news article posted in the BusinessWorld Online on September 21, 2014 about the LRMHInc. to procure the bid documents for the LRT 2 Operation and Maintenance Project. However, the Company clarified that no final decision to submit the prequalification documents has been made to date.

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 September 30, 2014 and December 31, 2013, ACIFL, through its wholly-owned subsidiary, AYC Holdings, Ltd., owns 57.8% of IMI. The voting rights held by the Group in IMI as of September 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.
- b. 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 September 30, 2014 and December 31, 2013 is equal to 79.2% 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.

	September 2014 (Unaudited)	December 2013 (Audited)	
Ayala Land, Inc. and Subsidiaries			
<i>(In Million Pesos)</i>			
Current assets	163,639	146,987	
Non-current assets	202,319	178,487	
Current liabilities	112,023	101,623	
Non-current liabilities	132,895	111,753	
Equity			
Attributable to owners of the parent	103,622	98,470	
Attributable to non-controlling interest	17,418	13,628	
Revenue	68,316	57,711	*
Net income			
Attributable to owners of the parent	10,788	8,602	*
Attributable to non-controlling interest	2,343	1,733	*
Other comprehensive income	7	153	*
Manila Water Co. Inc. and Subsidiaries			
<i>(In Million Pesos)</i>			
Current assets	10,881	9,069	
Non-current assets	65,573	63,788	
Current liabilities	7,139	8,073	
Non-current liabilities	34,397	33,730	
Equity			
Attributable to owners of the parent	34,279	30,477	
Attributable to non-controlling interest	639	577	
Revenue	12,207	11,540	*
Net income			
Attributable to owners of the parent	4,549	4,293	*
Attributable to non-controlling interest	62	27	*
Other comprehensive income	165	131	*
Integrated Microelectronics, Inc. and Subsidiaries			
<i>(In Million US\$)</i>			
Current assets	375.0	338.2	
Non-current assets	146.7	150.0	
Current liabilities	244.2	221.3	
Non-current liabilities	70.8	76.9	
Equity			
Attributable to owners of the parent	209.4	192.6	
Attributable to non-controlling interest	(2.7)	(2.6)	
Revenue	650.1	547.1	*
Net income			
Attributable to owners of the parent	21.0	5.3	*
Attributable to non-controlling interest	(0.1)	(1.2)	*
Other comprehensive income	(2.0)	0.3	*

* Based on unaudited September 30, 2013

As of September 30, 2014 (unaudited), the proportion of ownership interest held by material non-controlling interest of ALI, MWC and IMI are 51.1%, 51.5% and 42.2%, respectively.

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

	September 2014 (Unaudited)	December 2013 (Audited)
Cash on hand and in banks	20,890,262	22,728,761
Cash equivalents	52,630,947	42,926,288
	73,521,209	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):

	September 2014 (Unaudited)	December 2013 (Audited)
Money market placements	465,882	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.

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

	September 2014 (Unaudited)	December 2013 (Audited)
Trade:		
Real estate	55,249,804	39,832,997
Electronics manufacturing	8,461,438	7,286,792
Water distribution and wastewater services	2,010,770	1,645,476
Automotive	1,339,976	985,390
Information technology and BPO	217,274	194,584
International and others	6,038	3,618
Related parties (Note 21)	2,838,590	3,145,472
Dividends Receivable	10	1,412,577
Receivables from officers and employees (Note 21)	304,370	507,042
Advances to contractors and suppliers	9,076,199	8,837,924
Investment in bonds classified as loans and receivables	800,000	1,000,000
Advances and others	15,207,917	11,548,513
	95,512,386	76,400,385
Less allowance for doubtful accounts	1,505,482	1,776,400
	94,006,904	74,623,985
Less noncurrent portion	19,005,484	18,282,941
	75,001,420	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	48,998	2,096	11,326	4,865	67,285
Non-Trade Receivables	22,378	1,530	2,702	112	26,722
Total	71,376	3,626	14,028	4,977	94,007

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 September 30, 2014, this account increased from year-end 2013 balances driven by ALI's new and existing residential and commercial projects. Provision for Doubtful Accounts amounted to ₱29.4 million and ₱77.9 million (both

amounts unaudited) for the periods ended September 30, 2014 and 2013 form part of the Group's General and Administrative Expenses for the period, respectively.

7. Inventories (in thousand pesos):

	September 2014 (Unaudited)	December 2013 (Audited)
At Cost:		
Condominium, residential and commercial units	31,225,733	26,920,259
Subdivision land for sale	13,942,071	16,854,931
Vehicles	1,568,191	1,171,478
Finished goods	-	354,134
Work-in-process	8,134	432,008
Materials, supplies and others	842,893	1,544,821
	47,587,022	47,277,631
At NRV:		
Subdivision land for sale	524,158	524,158
Finished goods	650,001	316,576
Work-in-process	721,403	176,749
Parts and accessories	108,431	168,451
Materials, supplies and others	2,895,128	1,714,921
	4,899,121	2,900,855
	52,486,143	50,178,486

The Group's provision for impairment losses on inventories for the period ended September 30, 2014 and 2013 (unaudited) amounting to ₱77.8 million and ₱30.1 million, respectively, form part of the consolidated General and Administrative Expenses.

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

	September 2014 (Unaudited)	December 2013 (Audited)
Financial assets at FVPL	10,714,790	17,916,513
Prepaid expenses	9,516,161	7,708,414
Input VAT	6,194,931	3,660,057
Deposits in escrow	4,867,866	6,743,298
Creditable withholding tax	1,740,143	2,068,934
Derivative assets	2,040	456,768
Others	153,056	640,036
Other current assets	33,188,987	39,194,020
Pension and other noncurrent assets	21,636,250	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 maturities of ALI's investments; plus ALI's and BHL's distribution from investment in Arch Fund while decline in Deposits in escrow 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 September 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. This account classification also includes noncurrent 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 AYC's P8.5B noncurrent investment in MMP's (see Note 21 Related Party Transactions) and increase in advances and deposits downpayments 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 ₱72,572 million as of September 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 September 30, 2014 are as follows:

	Percentage of Ownership		Carrying Amounts (in million pesos)	
	September 2014 (Unaudited)	December 2013 (Audited)	September 2014 (Unaudited)	December 2013 (Audited)
Domestic:				
Bank of the Philippine Islands (BPI)	32.6	32.6	P 63,686	P 52,635
Ayala DBS Holdings, Inc. (ADHI)*	73.8	73.8	35,003	29,072
Globe Telecom, Inc. (Globe)*	30.4	30.4	16,356	15,371
GNPower Mariveles Coal Plant Ltd. Co	17.0	-	7,391	-
Philippine Wind Holdings Corporation (PWHC)	75.0	75.0	4,123	2,180
Emerging City Holdings, Inc. (ECHI)*	50.0	50.0	3,887	3,993
South Luzon Thermal Energy Corp. (SLTEC)*	50.0	50.0	3,521	3,070
Berkshire Holdings, Inc. (BHI)*	50.0	50.0	1,899	1,955
Bonifacio Land Corporation (BLC)	10.0	10.0	1,365	1,395
Asiacom Philippines, Inc. (Asiacom)*	60.0	60.0	1,112	1,097
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	2,264	2,200
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	47.4	47.4	2,000	1,863
Integreon, Inc. (Integreon)* (British Virgin Islands Company)	58.7	58.7	1,426	1,449
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	31.5	31.5	676	645
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	49.0	49.0	632	590
Others	Various	Various	2,706	2,289
			148,047	123,133
Reclassification to noncurrent asset held for sale			-	(3,329)
			P 148,047	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.

On the part of BPI, this fund raising activity, raised P25 billion from the offering and issuance of 370,370,370 common shares (ratio of 1:9.602 common shares held or 10.4% of outstanding shares) at ₱67.50 per share. Above shares were listed on February 10, 2014.

- d. The voting rights held by the Group in BPI as of September 30, 2014 and December 31, 2013 is equal to 49.8%.

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 is 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.
- d. The voting rights held by the Group in Globe as of September 30, 2014 and December 31, 2013 is equal to 46.5%.

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

	September 2014 (Unaudited)	December 2013 (Audited)
Total Resources	1,296,305	1,195,364
 Total Liabilities	 1,157,531	 1,089,557
Capital Funds Attributable to the Equity Holders of BPI	137,617	104,535
Capital Funds Attributable to the Noncontrolling Interest	1,157	1,272
 Total Liabilities and Capital Funds	 1,296,305	 1,195,364

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

	September 2014 (Unaudited)	September 2013 (Unaudited)
Interest income	33,704	30,121
Other Income	14,763	17,683
Total revenues	48,467	47,804
Operating expenses	21,453	19,039
Interest expense	8,029	7,734
Impairment losses	2,659	1,926
Provision for income tax	3,533	3,177
Total Expenses	35,674	31,876
Net income for the period	12,793	15,928
Attributable to:		
Equity holders of BPI	12,802	15,762
Noncontrolling interest	(9)	166
	12,793	15,928
EPS:		
Based on 3,929,297,850 and 3,556,356,173 shares as of September 30, 2014 and 2013, respectively.	3.26	4.43

The Company's share in the net identifiable assets of BPI as of September 30, 2014 (unaudited) amounted to ₱45,241 million. Dividends received from BPI for the period ended September 30, 2014 (unaudited) amounted to ₱1,153 million. The fair market value of the Company's investment in BPI as of September 30, 2014 (unaudited) amounted to ₱125,535 million.

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

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

	September 2014 (Unaudited)	December 2013 (Audited)
Current Assets	44,992	35,631
Noncurrent Assets	130,736	123,448
Total Assets	175,728	159,079
Current Liabilities	52,835	54,989
Noncurrent Liabilities	68,047	62,451
Equity Attributable to Equity Holders of the Parent	54,849	41,639
Equity Attributable to Noncontrolling Interest	(3)	-
Total Liabilities and Equity	175,728	159,079

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

	September 2014 (Unaudited)	September 2013 (Unaudited)
Net Operating Revenues	75,662	70,324
Other Income	906	846
Total Revenues	76,568	71,170
Costs and Expenses	61,242	66,304
Provision for Income Tax	4,798	1,337
Total Expenses	66,040	67,641
Net Income	10,528	3,529
Total net income attributable to:		
Equity holders of the Parent	10,530	3,529
Noncontrolling interest	(2)	-
Net Income	10,528	3,529
EPS:		
Basic		
Based on 132,703K and 132,509K common shares as of September 30, 2014 and 2013, respectively.	79.17	26.47
Diluted		
Based on 133,284K and 133,293K common shares as of September 30, 2014 and 2013, respectively.	79.01	26.47

The Company's share in the net identifiable assets of Globe as of September 30, 2014 (unaudited) amounted to ₱16,671 million. Dividends received from Globe for the period ended September 30, 2014 (unaudited) amounted to ₱2,269 million. The fair value of the Company's investment in Globe as of September 30, 2014 (unaudited) amounted to ₱65,479 million.

As of September 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 ₱82,088 million as of September 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):

	September 2014 (Unaudited)	December 2013 (Audited)
Quoted/unquoted equity/debt investments	2,877,242	2,784,807

12. Investment Properties

This comprises completed and under construction properties 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 September 30, 2014 (unaudited), the account includes Investment in Land (₱15,134.8 million) and Investment in Buildings (₱55,676.4 million), net of accumulated depreciation.

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):

	September 2014 (Unaudited)	December 2013 (Audited)
Accounts payable	72,897,188	63,198,549
Accrued expenses		
Project costs	18,314,067	11,983,222
Personnel costs	3,416,119	2,694,816
Rental and utilities	3,343,608	2,330,388
Professional and management fees	2,655,434	1,801,971
Advertising and promotions	726,324	1,115,532
Repairs and maintenance	1,577,063	1,516,026
Various operating expenses	3,495,434	3,230,745
Dividends payable	225,084	2,093,323
Interest payable	3,791,930	2,272,458
Taxes payable	1,552,480	6,067,957
Related parties (Note 21)	2,311,681	4,107,009
Retentions payable	972,877	1,192,251
	115,279,289	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 September 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 ₱3.3 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 slight 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 ₱18.3B in September 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 September 30, 2014 was coming from the expanded operations of ALI and IMI 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):

	September 2014 (Unaudited)	December 2013 (Audited)
Other current liabilities	7,254,283	10,991,693
Other noncurrent liabilities	27,498,532	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.

Overall slight decrease in other current and non-current liabilities, ₱34.8B in September 2014 (unaudited) vs. ₱35.8B in December 31, 2013 (audited), was primarily due to ALI group's decrease in customer's and tenant's deposit.

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

	September 2014 (Unaudited)	December 2013 (Audited)
Short-term debt:		
Philippine Peso with various interest rates	10,007,789	12,114,451
Foreign Currency with various interest rates	4,032,459	3,696,834
	14,040,248	15,811,285
Long-term debt:		
Company:		
Bank loans with various interest rates	21,169,079	13,193,780
Fixed Rate Corporate Notes (FXCNs)	-	2,816,443
Bonds, due 2017 to 2027	39,722,799	39,689,874
Syndicated term loan	2,939,548	2,938,575
	63,831,426	58,638,672
Subsidiaries:		
Loans from banks & other financial institutions:		
Foreign currency with various interest rates	46,646,033	32,392,171
Philippine Peso with various interest rates	39,047,671	32,189,740
Bonds, due 2014 to 2033	51,540,900	39,312,675
Exchangeable bonds	12,225,792	-
Floating Rate Corporate Notes (FRCNs)	1,000,000	1,000,000
Fixed Rate Corporate Notes (FXCNs)	27,749,617	26,336,604
	178,210,013	131,231,190
	242,041,439	189,869,862
Less current portion	8,089,373	11,842,519
Non-current portion	233,952,066	178,027,343

As of September 30, 2014 (unaudited), total proceeds from availment of short-term and long-term debt amounted to ₱64.2 billion which consists of proceeds from loans of AC (₱13.0 billion), ALI (₱18.3 billion), AYCFL (₱28.2 billion as also discussed in AYC Finance Ltd. in Note 3), AAHC (₱2.5 billion), MWCI (₱1.2 billion) and IMI (₱0.8 billion) while payments of short-term and long-term debt amounted to ₱14.1 billion which pertains to loan payment of ALI (₱6.9 billion), AC (₱4.3 billion), AAHC (₱1.2 billion), MWCI (₱1.0 billion) and IMI (₱0.5 billion).

The Group has short-term and long-term debt payable to BPI amounting to ₱41.1 billion and ₱23.2 billion as of September 30, 2014 (unaudited) and December 31, 2013 (audited), respectively (see Note 21 Related Party Transaction). Interest expense incurred from these debts for the period ending September 30, 2014 and 2013 (both unaudited) amounted to ₱306.8 million and ₱113.5 million, respectively (see Note 21 Related Party Transaction).

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 September 30, 2014 of ALI, IMI, MWCI, BPI and Globe.

The proceeds from Company's fundraising activities namely 20M Preferred B Series 1 shares re-issuance in November 2013, the US\$300.0M Exchangeable Bond in May 2014 and the 27M Preferred B Series 2 shares reissued in November 2014 were used to partially refinance certain peso denominated debt obligations and fund Power Generation and Transport Infrastructure 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 September 30, 2014 (unaudited), the unamortized discount of the Bonds amounted to ₱1.237B. Interest expense recognized in the statement of income amounted to ₱130.54M for the period ended September 30, 2014 (unaudited).

In July 2014, the Company made a drawdown from the ₱10.0B 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. On November 7, 2014, the Company subsequently prepaid this ₱5.0B loan.

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	-	-	-	24,889	34,629	554,761	(266,674)	347,605
Reissuance of treasury stocks	-	-	-	-	-	-	-	-
At September 30, 2014 (Unaudited)	1,200,000	5,800,000	200,000	29,846,615	184,805	13,987,267	(704,953)	50,513,734
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 September 30, 2014 and December 31, 2013 (in thousand pesos):

	September 2014 (Unaudited)	December 2013 (Audited)
Consolidated retained earnings balance	105,252,024	92,639,781
Accumulated equity in net earnings of subsidiaries, associates and joint ventures	(72,963,148)	(64,307,340)
Treasury shares	(5,000,000)	(5,000,000)
Retained Earnings available for dividends	27,288,876	23,332,441

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

<i>(in thousand pesos except dividends per share)</i>	(Unaudited)	(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>	September 2014 (Unaudited)	September 2013 (Unaudited)
Net Income	14,052,997	10,432,209
Less: Dividends on Preferred Shares	(397,500)	(410,163)
	13,655,497	10,022,046
Less: Dilutive effect of Options issued by subsidiaries, associates and joint ventures	(18,613)	(14,555)
	13,636,884	10,007,491
Weighted average number of common shares	600,028	596,591
Dilutive shares arising from stock options	2,713	3,448
Adjusted weighted average number of common shares for diluted EPS	602,740	600,039
Basic EPS	22.76	16.80
Dilutive EPS	22.62	16.68

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 agri-business loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.
- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.
- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.
- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing

services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.

- Water 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, sewerage and sanitation including waste and wastewater management in the East Zone Service Area.
- Automotive – manufacture, distribution and sale of passenger cars and commercial vehicles.
- International - investments in overseas property companies and projects.
- Others - power, transport infrastructure, education, air-charter services, agri-business and legal services

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 September 30, 2014 and 2013 and total assets and total liabilities for the business segments as of September 30, 2014 and December 31, 2013. In the tables below, Parent Company includes AC financing subsidiaries (ACFIL and AYC Finance), 100% owned start-up entities (ACEHI, AC Infra, AEI) and other minor holding companies (MHI, PFIL and TLI).

September 2014 (Unaudited)
(in million pesos)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecom munications	Water Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
INCOME											
Sales to external customers	225	63,416	-	-	11,612	28,816	1,284	561	8,544		114,458
Intersegment	194	413	-	-	110	1	-	-	185	(903)	-
Share of profit of associates and joint ventures	(39)	599	6,245	3,220	263	-	(40)	-	27	-	10,274
Interest income	280	3,423	-	-	196	7	39	231	1	(1)	4,177
Other income	(1)	445	-	-	2,817	(1)	1,871	65	365	(13)	5,548
Total income	658	68,297	6,245	3,220	14,999	28,823	3,154	857	9,122	(917)	134,457
Operating Expenses	2,062	46,660	-	-	6,232	27,546	1,494	689	9,059	(735)	93,007
Operating profit	(1,403)	21,636	6,245	3,220	8,767	1,277	1,660	168	63	(182)	41,450
Interest expense and other financing charges	3,418	4,248	-	-	1,172	96	17	6	42	(1)	8,997
Other charges	-	-	-	-	2,286	-	-	67	-	-	2,353
Provision for income tax	27	4,341	-	-	1,135	253	26	0	65	(46)	5,802
Net income	(4,848)	13,047	6,245	3,220	4,174	928	1,617	95	(44)	(136)	24,297
OTHER INFORMATION											
Segment Assets	122,199	351,508	-	-	88,271	23,458	2,506	8,247	5,872	(75,180)	526,880
Investments in associates and joint ventures	130,406	9,234	-	-	4,941	-	2,481	632	354	-	148,047
Deferred tax assets	94	6,237	-	-	905	61	29	-	71	-	7,397
Total Assets	252,699	366,978	-	-	94,116	23,519	5,015	8,879	6,297	(75,180)	682,325
Segment liabilities	(132,349)	(244,097)	-	-	(41,516)	(14,068)	(695)	(892)	(3,613)	18,973	(418,257)
Deferred tax liabilities	(88)	(787)	-	-	(4,618)	(67)	(3)	(31)	(7)	-	(5,601)
Total Liabilities	(132,437)	(244,884)	-	-	(46,134)	(14,135)	(698)	(923)	(3,620)	18,973	(423,857)

September 2013 (Unaudited)
(in million pesos)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecom and munications	Water Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
INCOME											
Sales to external customers	53	55,818	-	-	10,947	23,008	1,168	365	8,473	-	99,832
Intersegment	86	(48)	-	-	106	-	-	-	60	(204)	-
Share of profit of associates and joint ventures	(82)	412	6,872	1,150	207	-	(315)	(136)	37	-	8,145
Interest income	554	1,128	-	-	125	7	50	260	2	(17)	2,109
Other income	502	385	-	-	3,813	83	323	(6)	278	(87)	5,291
Total income	1,113	57,695	6,872	1,150	15,198	23,098	1,226	483	8,850	(308)	115,377
Operating Expenses	1,695	40,561	-	-	5,788	22,687	1,262	481	8,816	(223)	81,067
Operating profit	(582)	17,134	6,872	1,150	9,410	411	(36)	2	34	(85)	34,310
Interest expense and other financing charges	2,849	3,095	-	-	1,149	88	14	23	27	(17)	7,228
Other charges	-	-	-	-	3,256	30	6	19	-	-	3,311
Provision for income tax	131	3,617	-	-	1,065	114	23	-	15	11	4,976
Net income	(3,562)	10,422	6,872	1,150	3,940	179	(79)	(40)	(8)	(79)	18,795

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 September 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 summarize the Group's exposure to foreign exchange risk as of September 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)	(386,278)	(17,334,207)	1.00 (1.00)	(386,278) 386,278
Japanese Yen (JPY)	(8,009,080)	(3,290,708)	1.00 (1.00)	(8,009,080) 8,009,080
Chinese RMB (RMB)	242,524	1,768,918	1.00 (1.00)	242,524 (242,524)
Singapore Dollar (SGD)	(785)	(25,436)	1.00 (1.00)	(785) 785
Euro (EUR)	11,342	645,525	1.00 (1.00)	11,342 (11,342)
Hongkong Dollar (HKD)	26,682	133,314	1.00 (1.00)	26,682 (26,682)
Vietnam dong (VND)	22,236,273	47,708	1.00 (1.00)	22,236,273 (22,236,273)
Czech Koruna (CZK)	(46,027)	(95,238)	1.00 (1.00)	(46,027) 46,027
Malaysian Rupee (MYR)	4,001	55,155	1.00 (1.00)	4,001 (4,001)
Mexican Peso (MXN)	70,105	233,715	1.00 (1.00)	70,105 (70,105)

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 ₱28.7 billion and ₱38.5 billion, as of September 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. The Other Noncurrent Assets account as of September 30, 2014 (unaudited) includes ₱8.5 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 ₱41.1 billion and ₱23.2 billion as of September 30, 2014 (unaudited) and December 31, 2013 (audited), respectively. The September 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 ₱2,839 million and ₱3,145.5 million receivables from related parties as of September 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 ₱304.4 million and ₱507.0 million receivables from officers and employees as of September 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 ₱2,312 million and ₱4,107.0 million as of September 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 ₱625.1 million from related parties and incurred total expenses of ₱415.4 million for the period ending September 30, 2014 (unaudited). These amounts represent 0.46% and 0.40% 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 (see Note 16 Short Term and Long Term Debt).

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

Ayala Corporation's consolidated net income reached P14.1 billion during the first 9 months of the year, which reflects a rise of 35% compared to the previous year. Core businesses, specifically Ayala Land, Inc. (Ayala Land), Globe Telecom and Manila Water Co. (Manila Water), produced solid results. Healthy performance by these core businesses helped compensate lower earnings from the Bank of the Philippine Islands (BPI), which had generated substantial gains from securities trading during the prior year. Without the effect of accelerated depreciation from Globe Telecom's network transformation initiative during the previous year, Ayala's core net income grew 15%.

Consolidated revenues increased by 17% to P134.5 billion. Sale of goods and rendering of services comprised 85% of consolidated revenues, totaling P114.5 billion and expanding by 15% year-on-year. Robust performance across all business segments by Ayala Land, continued improvement in revenues from Manila Water due to higher billed volume, rising revenues from Integrated Microelectronics, Inc. (IMI), and the P1.8 billion net divestment gain from Stream Global Services, Inc. were all significant contributors to the expansion in consolidated revenues.

Real Estate

Ayala Land continued to expand, with net income increasing by 25% to reach P10.8 billion. Revenues were up by 20%, due to robust performance across all business segments.

Healthy growth of the property development, commercial leasing and services businesses helped raise real estate revenues by 21% to approximately P66.6 billion. Residential revenues grew by 40% to P40 billion, primarily due to increased bookings and construction progress for ongoing projects. Residential sales take-up and bookings remain solid, with increases of 18% and 15%, respectively. Gross construction services also expanded at a healthy pace of 25% to close to P20 billion.

Growth in commercial leasing of 17% was achieved due to the contribution of new shopping centers and offices, and improved occupancy of all hotels and resorts. Shopping center revenues rose 9% to P8.3 billion, office revenues grew by 19% to P3.1 billion and hotels and resorts were up by 37% to P4 billion.

Margins improved across most product lines, contributing to a wider overall EBIT margin of 31% from 29% a year ago. Capital expenditures for project completion and land acquisition amounted to P59 billion, which is in line with target.

Water

Manila Water continued to perform well, with consolidated revenues increasing by 6% to P12.2 billion as a result of steady expansion in the East Zone and escalating contribution from subsidiaries. A 4% increase in billed volume boosted East Zone revenues, with the growth of residential customers from the expansion areas of Marikina, Pasig and Rizal, as well as increased business from commercial and industrial customers as key drivers.

Outside of the East Zone, the ramp up of Kanh Dong Water in Vietnam, Laguna Water and growth in domestic concessions also contributed to the growth in billed volume. As a result, earnings contribution from new businesses account for 12% of total net income.

Overall, while consolidated cost of services and operating expenses rose by 15% to P3.8 billion due to higher direct costs and overhead costs, EBITDA improved by 3% from last year to P8.8 billion and yielded a 72% EBITDA margin. Net income also grew by 6% to P4.5 billion.

Electronics

IMI maintained its positive trajectory with revenues increasing by 19% to P28.8 billion for the first 9 months of 2014 and corresponding net income surging four-fold to P930 million. Strong demand in telecommunications infrastructure, automotive electronics and storage devices contributed to IMI's robust performance. Group-wide gross profit margins also increased by 270 basis points to 11.2% as a result of operational savings, direct material procurement and continued shift to high value products.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures amounted to P10.3 billion, which reflects a rise of 26% from the previous year. The increase is attributed principally to the higher equity in net earnings from Globe due to lower depreciation charges, with elevated share in income of ALI and AIVPL from their associates also contributing to improved performance. Such growth helped compensate for lower earnings from BPI, which had generated a substantial gain from securities trading during the same period the prior year.

Banking

BPI reported net income of P12.8 billion or a decline of 19% from net income during the same period last year, which included significant gains from securities trading. Net interest income grew 15% to P25.6 billion due to the bank's strong loan growth and improving deposit mix. Net loans climbed 28% to P702 billion versus the previous year, whereas deposits increased 17% to reach more than P1 trillion. Non-interest income was P14.8 billion, which is 17% lower than that of the previous year largely due to reduction in income related to securities and foreign exchange trading. However, non-interest income excluding securities and foreign exchange trading was up by 7% to P12.7 billion.

Because of the bank's continued investment in technology and headcount expansion, operating expenses increased by 13%. Cost to income ratio as of 2014 Q3 stands at 53%. Asset quality and capitalization ratios remain robust with a 90-day NPL ratio of 1.8%, Basel III Capital Adequacy Ratio (CAR) of 15.7% and CET 1 ratio of 14.9%.

Telecommunications

Globe Telecom grew across all key services for the first nine months of 2014, generating increased gross service revenues of P72.7 billion and representing a rise of 8% from the prior year. Mobile revenues of P57.6 billion, which rose by 6% on the strength of both postpaid and prepaid subscriber growth, remain strong with Globe's mobile subscriber base now totaling 42.9 million. Revenues from postpaid subscribers went up by 11% while growth for prepaid subscribers was 4%.

For the third quarter of 2014, mobile data revenues also expanded by 30% to P4 billion. In spite of the continued expansion in mobile data revenues, core services have remained resilient. Voice revenues rose by 5% to P8.5 billion whereas SMS revenues also grew by 3% to P7.3 billion. Broadband and fixed line data services have also sustained their advancement over the first 9 months of 2014, with both businesses increasing revenues by 16% to P9 billion and P4 billion, respectively.

Likewise, total EBITDA improved by 5% year-on-year to P29.8 billion, with strong revenue growth offsetting the increase in subsidies and operating expenses, and 3Q14 EBITDA margin widening to 43%. Core NIAT was also up by 22% compared to the previous year to P11.6 billion due to higher EBITDA, lower overall depreciation and non-operating expenses, which offset higher provisions for income taxes.

Globe incurred P16 billion in capital expenditures during the first nine months, in accordance with its guidance of P29 billion for the year.

Interest Income

Interest income grew by 98% to P4.2 billion. Ayala Land, AYC Finance Limited (AYCFL) and AC International Finance Limited (ACIFL) contributed significantly to this increase due to their higher cash balances.

Other Income

Other income for the first nine months of the year amounted to P5.5 billion, up 5% from the previous year. Livelt's P1.8 billion gain from its divestment of Stream recognized earlier during the year drove the increase, although it was partially offset by decreased rehabilitation work by Manila Water.

Costs and Expenses

Consolidated cost of sales totaled P60.6 billion, 18% larger than the previous year, while cost of rendering services also rose by 7% to P21 billion. The upswing can be attributed to expanded

revenues from Ayala Land, IMI and Manila Water. Overall cost of sales grew 15% in alignment with the rise in overall revenues.

General and administrative expenses were also greater by 14%, aggregating to P11.4 billion. Higher manpower expenses, taxes, advertising costs for Ayala Land, provisions at IMI and start-up costs for the Auto, Energy, Transport Infrastructure and Education groups contributed to the additional total expense.

Interest Expense and Other Financing Charges

A higher loan balance as a result of fundraising activities in late 2013 and new borrowings by Ayala Corporation, AYCFL and Ayala Land in 2014 prompted a corresponding increase in consolidated interest and other financing charges of 24% to P9 billion.

As of September 2014, total debt exceeded previous year's levels by 25% because of recent loans made by Ayala Corporation and AYCFL to fund investments in power and transport infrastructure and to refinance debt, exchangeable bonds issued by AYCFL plus Ayala Land's new loans to fund expansion projects, new borrowings by Manila Water for various projects and operating requirements, and additional debt incurred directly by the Company to fund the subscription to BPI's stock rights offering. Even as aggregate debt was at P256 billion, gearing ratios continued to be reasonable and within debt covenant limits. The consolidated debt to equity ratio for the company was 1.62 times, with parent debt to equity ratio at 0.69 to 1.

Balance Sheet Highlights

Consolidated cash and cash equivalents expanded by 12% to P73.5 billion compared to P65.8 billion at the end of the previous year. Key factors to the elevated combined cash balance are Ayala Land's bond offering, AYCFL's exchangeable bond offer, proceeds from loan availments of Ayala Land, Manila Water and the parent company, and proceeds from Livelt's divestment of Stream. Cash was used for Group loan payments, subscription to BPI's stock rights, investment in power initiatives and expansion of real estate projects. Short-term investments surged four-fold to P466 million, attributable to Manila Water's short-term investments for the period.

Accounts and notes receivables (current) went up by 33% to P75 billion because of higher sales by Ayala Land across all residential brands from new project launches and existing projects and the significant hike in IMI revenues.

Total non-current assets amounted to P448 billion, 16% more than the beginning year balance. Drivers of the increase include the additional investment of Ayala Corporation in BPI through the stock rights, capital infusion into several energy projects, and Ayala Land's investment in land acquisition and investment properties.

Total stockholders' equity increased by P23 billion to P258 billion, because of higher income during the period and the recognition of a P1.1 billion equity option from the exchangeable bonds issued earlier during the year.

Ayala continues to manage its balance sheet and maintain healthy financial ratios, with a consolidated current ratio of 1.6 as of September 2014. Consolidated net debt to equity ratio was at 1.1 to 1, whilst parent net debt to equity 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 debt management policies which are adapted to the needs of key strategies of the Group balanced with prudence. The loan covenants of the Group should be read in conjunction with the covenants contained in the respective SEC17Q reports as of September 30, 2014 of ALI, IMI, MWCI, BPI and Globe.

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

Ratio	Formula	September 2014 (Unaudited)	December 2013 (Audited)
Liquidity Ratio	$\frac{\text{Cash/ Cash equivalents} + \text{Short-term cash investments}}{\text{Current Liabilities}}$	0.50	0.45
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.60	1.46
Solvency Ratio	$\frac{\text{After-Tax Net Profit} + (\text{Depreciation} + \text{Amortization}) + \text{Provision for Bad Debts}}{\text{Total Liabilities}}$	0.05	0.05 *
Debt-to-Equity Ratio	$\frac{\text{Long-term Loans} + \text{Short Term Loans}}{\text{Equity Attributable to Owners of the Parent}}$	1.62	1.43
Assets- to-Equity Ratio	$\frac{\text{Total Assets}}{\text{Equity Attributable to Owners of the Parent}}$	4.31	4.18
Interest Expense Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense}}$	5.09	5.13 *
Return on Equity	$\frac{\text{Net Income to Owners of the Parent}}{\text{Equity Attributable to Owners of the Parent (Average)}}$	9.3%	7.9% *
Return on Common Equity	$\frac{\text{Net Income to Owners of the Parent Less Dividends on Preferred Shares}}{\text{Common Equity Attributable to Owners of the Parent (Average)}}$	9.7%	7.9% *
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$	3.6%	3.4% *

* Based on Unaudited September 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 September 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 third quarter, Ayala has spent 71% of the ₱49 billion, a significant portion of which was used to support its investments in BPI stock rights and ACEHI. The capital expenditures will be funded through a combination of internally-generated cash, debt and equity issue.

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 P58.98 billion for project and capital expenditures in the first nine months of 2014, 61% more than the P36.65 billion spent during the same period in 2013. The bulk of capital expenditures in the first nine months of 2014 was spent on project completion (65% of the total) with the remaining balance spent for land acquisition (35%). The P58.98 billion spent in the first nine months represents 84% of the programmed spending for the year. ALI expects to disburse close to its target capex spend of about P70 billion by year-end to finance the continued rollout of its aggressive growth plans.

MWCI targets to spend around ₱5.0 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 ₱2,784 million (inclusive of concession fee payments) for capital expenditures in the first nine months of 2014, 10% less than the ₱3,109 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 78% of the total. The balance of 22% or ₱618 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 ₱894 million, growing by 79% from the first three quarters of 2013. Of the total amount, ₱702 million or 79% 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 nine-month period of 2014 amounted to US\$17.7 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 \$22M 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. 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 and foreign exchange movements may affect the performance of the real estate, banking, telecom, utilities, power 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 September 30, 2014 (Unaudited) vs. December 31, 2013 (Audited)

Cash and cash equivalents – 12% increase from ₱65,655 million to ₱73,521 million

Increase primarily attributable to ALI's bond offering; AYC Finance's exchangeable bond offer; 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, stock rights subscription in BPI, infusion in investment on power initiatives and expansion in real estate projects. This account is at 11% of the total assets as of September 30, 2014 and December 31, 2013.

Short-term investments – 3 times higher from ₱119 million to ₱466 million

Increase coming from MWCI's short-term investments for the period. This account is at less than 1% of the total assets as of September 30, 2014 and December 31, 2013.

Accounts and notes receivable (current) – 33% increase from ₱56,341 million to ₱75,001 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 11% and 9% of the total assets as of September 30, 2014 and December 31, 2013, respectively.

Inventories – 5% increase from ₱50,178 million to ₱52,486 million

Resulting from increase in inventories of ALI group. This account is at 8% of the total assets as of September 30, 2014 and December 31, 2013.

Other current assets – 15% decrease from ₱39,194 million to ₱33,189 million

Decrease 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 September 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.

Land and improvements – 16% increase from ₱62,475 million to ₱72,572 million

Increase due to ALI group's unsubdivided land and certain land acquisitions. This account is at 11% and 10% of the total assets as of September 30, 2014 and December 31, 2013, respectively.

Investments in associates and joint ventures – 24% increase from ₱119,804 million to ₱148,047 million

Significantly attributable to Group's stock rights subscription in BPI, capital infusion in various Energy investments and share in earnings offset by dividends from investees. This account is at 22% and 20% of the total assets as of September 30, 2014 and December 31, 2013, respectively.

Investment properties – 12% increase from ₱63,157 million to ₱70,811 million

Increase mainly attributable to ALI's additional investment properties. This account is at 10% and 11% of the total assets as of September 30, 2014 and December 31, 2013.

Intangible assets – 6% increase from ₱4,176 million to ₱4,406 million

Increase caused by increments in intangible assets of Energy group in relation to various power investments and project development. This account is at less than 1% of the total assets as of September 30, 2014 and December 31, 2013.

Deferred tax asset - 14% increase from ₱6,514 million to ₱7,397 million

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

Pension and other noncurrent assets - 170% increase from ₱8,016 million to ₱21,636 million

Increase mainly attributable to ALI group's higher pre-operating expenses and down payments pertaining to new projects as well as to AYC's long-term placement. The account also includes

the Group's pension asset.¹ This account is at 3% and 1% of the total assets as of September 30, 2014 and December 31, 2013, respectively.

Accounts payable and accrued expenses - 11% increase from ₱103,604 million to ₱115,279 million

Increase principally caused by higher trade payables and accruals of ALI group for its additional and existing projects including reclassification of accounts from Other Current Liabilities; higher trade payables and accruals by IMI groups pertaining to their expansion in operations; offset by AC parent or Company's settlement of accounts relating to acquisition of additional BPI and ADHI shares and payment of dividends. This account is at 27% and 28% of the total liabilities as of September 30, 2014 and December 31, 2013, respectively.

Short-term debt – 11% decrease from ₱15,811 million to ₱14,040 million

Mainly due to ALI group's settlement of short-term loans offset by P5.0B new loan of the Company. This account is at 3% and 4% of the total liabilities as of September 30, 2014 and December 31, 2013, respectively.

Income tax payable – 32% decrease from ₱1,668 million to ₱1,129 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 September 30, 2014 and December 31, 2013.

Long-term debt (current) – 32% decrease from ₱11,842 million to ₱8,089 million

Primarily due to lower amount of long-term debt maturing within 1 year (from the Company and AYC). This account is at 2% and 3% of the total liabilities as of September 30, 2014 and December 31, 2013, respectively.

Service concession obligation (current) – 23% decrease from ₱1,290 million to ₱997 million

Decrease was caused by lower computed and actual obligation due within one year. This account is at less than 1% of the total liabilities as of September 30, 2014 and December 31, 2013.

Other current liabilities – 34% decrease from ₱10,992 million to ₱7,254 million

Overall increase in ALI group's payable to various contractors, deposits from residential assets and retention payable from projects offset by reclassification of accounts to trade payables. This account is at 2% and 3% of the total liabilities as of September 30, 2014 and December 31, 2013, respectively.

Long-term debt (noncurrent) – 31% increase from ₱178,027 million to ₱233,952 million

Mainly due to new borrowings made by the Company, through AYC Finance, to fund investments in energy, transport infrastructure and refinance debt; exchangeable bonds issued by AYC plus ALI group's new loans to fund expansion projects; MWCI for projects and operating requirements; and directly by the Company to fund subscription in BPI stock rights offer. This account is at 55% and 49% of the total liabilities as of September 30, 2014 and December 31, 2013, respectively.

Service concession obligation (noncurrent) – 5% increase from ₱7,868 million to ₱8,274 million

Decrease was significantly due to higher computed and actual obligation due beyond one year. This account is at 2% of the total liabilities as of September 30, 2014 and December 31, 2013.

Deferred tax liabilities – 12% decrease from ₱6,347 million to ₱5,601 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 September 30, 2014 and December 31, 2013, respectively.

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, who 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), and Ma. Cecilia T. Cruzabra (the Company's Treasurer), Josephine G. de Asis (the Company's Comptroller) who are both Executive Directors. ACEWRF has not exercised voting rights over any shares of the Company that it owns.

Pension liabilities – 9% decrease from ₱1,915 million to ₱1,743 million

Decrease attributable to the effect of PAS 19- immediate recognition of past service cost and re-measurement of unrealized actuarial gains or losses. This account is at less than 1% of the total liabilities as of September 30, 2014 and December 31, 2013.

Other noncurrent liabilities – 11% increase from ₱24,828 million to ₱27,499 million

Largely on account of increase in customer's and tenant's deposit of ALI group. This account is at 6% and 7% of the total liabilities as of September 30, 2014 and December 31, 2013, respectively.

Cumulative translation adjustments(CTA) - 64% decrease (improved) from negative ₱1,257 million to negative ₱456 million

Principally due to higher foreign denominated net assets held by MWCI and the international operations groups and minimal depreciation of Peso from ₱44.395 in December 2013 to ₱44.875 in September 2014 plus the impact on CTA of the divestment of Stream.

Share-based payments – 24% decrease from ₱485 million to ₱371 million

Mainly due to decrease in share-based payments of the Company.

Net unrealized gain on available-for-sale financial assets – 76% decrease from ₱278 million to ₱65 million

Significantly 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 – 14% increase from ₱92,640 million to ₱105,252 million

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

Non-controlling interests – 9% increase from ₱91,994 million to ₱100,292 million

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

Income Statement items

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

Sale of goods – 16% increase from ₱66,319 million to ₱77,229 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 57% in September 30, 2014 and 2013.

Rendering of services – 11% increase from ₱33,513 million to ₱37,229 million

Improved sales performance of ALI (malls, office leasing, hotel operations and residential groups), MWCI (increase in billed volume and additional connections) and IMI (higher sales volume) groups. As a percentage to total income, this account is at 28% and 29% in September 30, 2014 and 2013, respectively.

Share of profit of associates and joint ventures – 26% increase from ₱8,145 million to ₱10,274 million

Increase principally due to higher equity in net earnings of Globe partially offset by lower share in BPI. The higher share in earnings of ALI and AIVPL from their associates also contributed to this income. As a percentage to total income, this account is at 8% and 7% in September 30, 2014 and 2013, respectively.

Interest income – 98% increase from ₱2,109 million to ₱4,177 million

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

Other income – 5% increase from ₱5,291 million to ₱5,548 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 4% and 5% of the total income in September 30, 2014 and 2013, respectively.

Cost of sales – 18% increase from ₱51,480 million to ₱60,626 million

Increase attributable to higher sales of ALI and IMI groups. As a percentage to total costs and expenses, this account is at 58% and 56% in September 30, 2014 and 2013, respectively.

Cost of rendering services – 7% increase from ₱19,577 million to ₱21,010 million

Increase primarily due to higher revenues from IMI, ALI and MWCI groups. As a percentage to total costs and expenses, this account is at 20% and 21% in September 30, 2014 and 2013, respectively.

General and administrative expenses – 14% increase from ₱10,009 million to ₱11,372 million

Increase on account of higher manpower expenses, taxes, ads & 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, Transport Infrastructure and Education business. This expense classification accounts for 11% of the total costs and expenses in September 30, 2014 and 2013.

Interest and other financing charges – 24% increase from ₱7,228 million to ₱8,997 million

Increase significantly due to higher loan balance as a result of fundraising activities in late 2013 and new borrowings in 2014 of the Company and ALI group. This expense classification accounts for 9% and 8% of the total costs and expenses in September 30, 2014 and 2013, respectively.

Other charges – 29% decrease from ₱3,311 million to ₱2,353 million

Decrease mainly on account of lower rehabilitation costs of MWCI group due to limited capital expenditure caused by ongoing arbitration. This expense classification accounts for 2% and 4% of the total costs and expenses in September 30, 2014 and 2013, respectively.

Provision for income tax (current and deferred) – 17% increase from ₱4,976 million to ₱5,802 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 – 35% increase from P10,432 million to P14,053 million

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

Income attributable to Non-controlling interests – 22% increase from ₱8,363 million to ₱10,244 million

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

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 and in the months of November to December in the case of Globe group.

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.
9. On November 7, 2014, Ayala Land, Inc. (ALI), SM Prime, Holdings, Inc. (SMPH), the Francisco Ortigas Group (FOG) and the Rafael Ortigas Group (ROG), signed an agreement to cause the termination of all cases relating to the ownership and management of OCLP Holdings, Inc. (OHI), which owns Ortigas and Company Limited Partnership (OCLP). The agreement establishes a partnership that will further enhance the properties in the Ortigas area, and create maximum value for their various stakeholders.

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
 Fernando Zobel de Ayala
 Yoshio Amano
 Ramon R. del Rosario, Jr.

Delfin L. Lazaro
 Xavier P. Loinaz
 Antonio Jose U. Periquet

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
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.
15. On August 22, 2014, the Executive Committee of the Company's Board of Directors, in the exercise of its authority set forth in the By-Laws, has approved the reissuance and offering of up to 30,000,000 of a new and separate series of Preferred Class "B" shares for an aggregate amount of up to P15 billion.

This new series of Preferred Class "B" shares will be offered at P500.00 per share with a fixed quarterly dividend rate. The approval has authorized the setting of the benchmark rate prior to the issue date that shall be based on either the 5-year or 7-year PDST-R2 benchmark plus a spread to be determined at such time.
16. On August 22, 2014, SEC approved the: (1) amendment to the Third Article of the Articles of Incorporation stating the specific principal office address in compliance with the SEC Memorandum Circular No. 6, series of 2014; and (2) amendment to Section 2, Article III of the By-Laws allowing the Board of Directors to hold a meeting in a place in Metro Manila other than in the principal office.
17. On September 1, 2014, the Company's Board of Directors, at its regular meeting held today, approved the following:
 - a. The appointment of the members of the Risk Management Committee as follows:
Antonio Jose U. Periquet – Chairman
Yosio Amano – Member
Ramon R. del Rosario, Jr. - Member
 - b. The appointment of (i) Mr. John Eric T. Francia as Head of Energy and Infrastructure Group, and (ii) Mr. Paolo Maximo F. Borromeo as Head of Corporate Strategy and Development Group replacing Ms. Francia.

- c. The ratification of the approval by the Executive Committee of the reissuance and offering of up to 30,000,000 of a new and separate series of our Preferred Class “B” shares for an aggregate amount of up to P15 billion.
18. On October 16, 2014, the Company confirmed the accuracy of the news article titled “Ayala Corp. adding P4 billion to debt-servicing funds” posted in BusinessMirror (Internet Edition) on October 15, 2014. The Company explained that the change in plan was to provide investors more certainty in the use of proceeds. The additional debt that will be refinanced by the preferred shares will help manage the Company’s maturity profile and will allow to fix some of its floating obligations.
19. On October 17, 2014, SEC issued a pre-effective order in connection with the re-issuance and offering of the Company’s new series of up to 30,000,000 Preferred Class “B” shares (the “Shares”) for an aggregate amount of P15 billion. The base offering was for the P10 billion with an oversubscription option of P5 billion (the “Offer”).

The Shares was offered at P500.00 per share with a fixed quarterly dividend rate based on the closing 5-year PDST-R2 benchmark plus a spread based on the book building undertaken by the underwriters for the offer. . The Shares are structured as perpetual equity securities that have preference in the payment of dividends. If the Shares are not redeemed at the end of the 5th year from date of issue, then the dividend yield shall be reset to the higher of either: (a) the original dividend yield; or (b) the closing 5-year PDST-R2 bid yield for each of three consecutive days ending on (and including) the Initial Rate Re-Setting Date plus a spread. If the Shares are not redeemed at the end of the 10th year, the dividend yield shall reset to the higher of either: (a) the adjusted dividend rate; or (b) the closing 10-year PDST-R2 bid yield for each three consecutive days ending on (and including) the Final Rate Re-Setting Date, plus 3.00% p.a.. Dividends on the Shares will be cumulative. The Shares shall be non-convertible and shall have no voting and preemptive rights.

Ayala issued a total of 27 million Shares under Series “2” and was traded on the Philippine Stock Exchange starting November 5, 2014. Proceeds of the issue totalling P13.5B will be utilized by Ayala solely to refinance certain peso denominated debt obligations described in the Prospectus for the Offer. Ayala expects to apply the proceeds toward such pre-payments within 12 months from the Issue Date.

BPI Capital Corporation was the Issue Manager and Lead Underwriter for the Offer. BPI Capital Corporation, BDO Capital Corporation and First Metro Investment Corporation were Joint Lead Underwriters.

20. On October 21, 2014, Ayala has set the dividend rate for offer of the P10 billion of Series 2 of the Ayala’s Class B Non-voting Preferred Shares at 5.575% per annum. The dividend rate was set at the end of trading hours on October 20, 2014 following the customary book-building process and reflecting strong investor demand.
21. On October 22, 2014, the SEC has issued a Certificate of Permit to Offer Securities for Sale in connection with the offer and reissuance of a new series of Ayala’s Preferred Class “B” shares.

Further to this reissuance and offering of 20,000,000 Class “B” Series 2 Preferred Shares with an oversubscription option of up to 10,000,000 Shares and with a dividend rate of 5.575% p.a., the assigned stock trading symbol of the said shares would be “ACPB2” while the stock trading symbol for the 20,000,000 issued and outstanding Preferred Class “B” Shares would be changed from “ACPB” to “ACPB1” effective November 5, 2014.

22. On October 30, 2014, in reference to the public offering and sale by the Company of the Preferred Class “B” Series 2 Shares with an issue price of P500 per share and to be reissued out of the Company’s capital stock, the Company sold 20,000,000 Shares for P10,000,000,000 constituting the base size of the Offer and, as a result of the Company’s exercise of its oversubscription option in order to address the excess demand for the Shares, an additional 7,000,000 Shares for P3,500,000,000.

Hereunder is a breakdown of the total issued and outstanding Preferred “B” Shares of the Company effective November 5, 2014 upon reissuance of ACPB2.

	Outstanding Shares	Treasury Shares	Total
Series 1 (ACPB1)	20,000,000	8,000,000	28,000,000
Series 2 (ACPB2)	27,000,000	3,000,000	30,000,000
Total	47,000,000	11,000,000	58,000,000

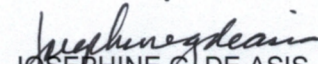
SIGNATURES

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: November 13, 2014