108142015000345

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000034218
Company Name	AYALA CORP.
Industry Classification	
Company Type	Stock Corporation

Document Information

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Remarks	

COVER SHEET

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AYALA CORPORATION AND SUBSIDIARIES

(Company's Full Name)

32F TO 35F, TOWER ONE AND EXCHANGE PLAZA, AYALA TRIANGLE, AYALA AVENUE, MAKATI CITY

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

Josephine G. De Asis	908-3000
Contact Person	Company Telephone Number

0 6	3 0	17-Q		
Month	*Day*		*Month*	*Day*
Fiscal Year			Annual Meeting	

Secondary License Type, if Applicable

CFD	
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

5781	P 40 B. bonds	
Total No. Of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

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SEC No. 34218
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)

June 30, 2015

(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 quarterly period ended: **June 30, 2015**

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 / 908-3357**

9. Former name, former address, former fiscal year: **Not applicable**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA:

Title of each class	Number of shares issued & outstanding As of June 30, 2015
Preferred B Series 1	20,000,000*
Preferred B Series 2	27,000,000**
Voting Preferred	200,000,000
Common	619,600,845

** Net of 8,000,000 treasury shares*
*** Net of 3,000,000 treasury shares*

Amount of debt outstanding as of June 30, 2015: **P40 billion in bonds*****

****amount represents only debt of Ayala Corporation registered with Philippine 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 [**x**] No [ ]

A total of 597,319,534 Common shares, 20,000,000* Preferred B Series 1 shares and 27,000,000* Preferred B Series 2 shares are listed with the Philippine Stock Exchange as of June 30, 2015.

**Net of treasury shares as stated in Item 10 above.*

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 [**x**] No [ ]

(b) has been subject to such filing requirements for the past 90 days: Yes [**x**] No [ ]

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

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

	June 2015 (Unaudited)	December 2014 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**66,581,862**	90,769,525
Short-term investments (Note 5)	**12,237,093**	1,102,703
Accounts and notes receivable (Note 6)	**87,743,250**	72,710,512
Inventories (Note 7)	**60,613,576**	54,962,164
Other current assets (Note 8)	**31,802,294**	35,156,558
Total Current Assets	**258,978,075**	254,701,462
Noncurrent Assets		
Noncurrent accounts and notes receivable (Note 6)	**36,001,730**	32,006,450
Investment in bonds and other securities (Note 11)	**3,272,049**	3,432,215
Land and improvements (Note 9)	**86,312,410**	79,959,887
Investments in associates and joint ventures (Note 10)	**158,563,999**	152,764,854
Investment properties (Note 12)	**78,783,131**	71,324,245
Property, plant and equipment	**28,985,002**	27,953,145
Service concession assets (Note 13)	**75,875,260**	74,836,633
Intangible assets (Note 11)	**4,238,397**	4,183,464
Deferred tax assets - net (Note 11)	**8,299,897**	8,055,020
Pension and other noncurrent assets (Note 8)	**19,030,896**	16,830,401
Total Noncurrent Assets	**499,362,771**	471,346,314
Total Assets	**758,340,846**	726,047,776
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	**140,519,877**	126,101,836
Short-term debt (Note 16)	**13,092,067**	21,084,269
Income tax payable	**1,711,499**	1,340,269
Current portion of:		
Long-term debt (Note 16)	**23,403,637**	10,761,443
Service concession obligation	**1,159,511**	1,019,515
Other current liabilities (Note 15)	**6,263,559**	9,452,281
Total Current Liabilities	**186,150,150**	169,759,613
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	**212,343,933**	226,999,015
Service concession obligation - net of current portion	**7,861,683**	7,859,153
Deferred tax liabilities - net	**7,010,790**	6,742,633
Pension liabilities - net	**1,992,394**	2,179,966
Other noncurrent liabilities (Note 15)	**26,365,112**	25,640,911
Total Noncurrent Liabilities	**255,573,912**	269,421,678
Total Liabilities	**441,724,062**	439,181,291
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 17)	**73,860,335**	73,571,505
Share-based payments	**325,855**	377,376
Remeasurement gains/(losses) on defined benefit plans	**(1,005,572)**	(1,005,572)
Net unrealized gain (loss) on available-for-sale financial assets	**(64,246)**	(7,211)
Cumulative translation adjustments	**(708,085)**	(603,765)
Equity reserve	**13,139,252**	7,478,259
Equity - conversion option (Note 16)	**1,113,745**	1,113,745
Retained earnings (Note 17)	**115,655,918**	107,039,814
Treasury stock	**(2,300,000)**	(2,300,000)
	200,017,202	185,664,151
Non-controlling interests	**116,599,582**	101,202,334
Total Equity	**316,616,784**	286,866,485
Total Liabilities and Equity	**758,340,846**	726,047,776

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	2015		2014	
	April to June	**Jan. to June**	April to June	Jan. to June
	(Unaudited)		(Unaudited)	
INCOME				
Sale of goods	**28,973,041**	**56,986,624**	27,278,533	51,484,923
Rendering of services	**13,348,686**	**26,386,463**	13,071,460	25,418,025
Share of profit of associates and joint ventures	**3,810,806**	**7,524,701**	3,682,786	6,828,500
Interest income	**1,918,875**	**3,567,562**	1,206,192	2,437,827
Other income	**1,799,531**	**3,223,472**	1,827,547	4,991,945
	49,850,939	**97,688,822**	47,066,518	91,161,220
COSTS AND EXPENSES				
Costs of sales	**22,925,632**	**44,695,559**	22,270,084	40,920,494
Costs of rendering services	**7,458,435**	**14,891,249**	6,549,709	14,276,195
General and administrative	**3,921,452**	**7,863,122**	4,348,791	8,112,105
Interest and other financing charges	**3,178,920**	**6,279,939**	3,278,295	6,157,750
Other charges	**877,007**	**1,546,600**	964,441	1,580,360
	38,361,446	**75,276,469**	37,411,320	71,046,904
INCOME BEFORE INCOME TAX	**11,489,493**	**22,412,353**	9,655,198	20,114,316
PROVISION FOR INCOME TAX				
Current	**2,708,198**	**4,684,421**	2,132,743	4,108,307
Deferred	**(524,731)**	**(381,880)**	(292,619)	(481,699)
	2,183,467	**4,302,541**	1,840,124	3,626,608
NET INCOME	**9,306,026**	**18,109,812**	7,815,074	16,487,708
Net Income Attributable to:				
Owners of the parent	**5,356,828**	**10,400,554**	4,327,277	9,798,711
Non-controlling interests	**3,949,198**	**7,709,258**	3,487,797	6,688,997
	9,306,026	**18,109,812**	7,815,074	16,487,708
EARNINGS PER SHARE (Note 18)				
Basic	**8.12**	**15.75**	6.99	15.89
Diluted	**8.00**	**15.51**	6.94	15.80

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	2015		2014	
	April to June	**Jan. to June**	April to June	Jan. to June
	(Unaudited)		(Unaudited)	
NET INCOME	**9,306,026**	**18,109,812**	7,815,074	16,487,708
OTHER COMPREHENSIVE INCOME (LOSS)				
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Exchange differences arising from translations of foreign investments	**474,220**	**(144,942)**	(858,220)	307,761
Changes in fair values of available-for-sale financial assets	**(121,960)**	**43,856**	60,319	119,869
	352,260	**(101,086)**	(797,901)	427,630
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES				
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Exchange differences arising from translations of foreign investments	**58,052**	**20,582**	(15,495)	(2,689)
Changes in fair values of available-for-sale financial assets	**(229,264)**	**(141,630)**	177,234	(624,228)
	(171,212)	**(121,048)**	161,739	(626,917)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**181,048**	**(222,134)**	(636,162)	(199,287)
TOTAL COMPREHENSIVE INCOME	**9,487,074**	**17,887,678**	7,178,912	16,288,421
Total Comprehensive Income Attributable to:				
Owners of the parent	**5,362,989**	**10,239,199**	3,873,216	9,612,646
Non-controlling interests	**4,124,085**	**7,648,479**	3,305,696	6,675,775
	9,487,074	**17,887,678**	7,178,912	16,288,421

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									
	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**	**Retained Earnings**	**Treasury Stock (Preferred Stock - B)**	**Total**	**Non-controlling Interests**	**Total Equity**
At January 1, 2015	**73,571,505**	**377,376**	**(1,005,572)**	**(7,211)**	**(603,765)**	**7,478,259**	**1,113,745**	**107,039,814**	**(2,300,000)**	**185,664,151**	**101,202,334**	**286,866,485**
Net Income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,400,554**	**-**	**10,400,554**	**7,709,258**	**18,109,812**
Other comprehensive income (loss)	**-**	**-**	**-**	**(57,035)**	**(104,320)**	**-**	**-**	**-**	**-**	**(161,355)**	**(60,779)**	**(222,134)**
Total comprehensive income (loss)	**-**	**-**	**-**	**(57,035)**	**(104,320)**	**-**	**-**	**10,400,554**	**-**	**10,239,199**	**7,648,479**	**17,887,678**
Exercise of ESOP/ESOWN	**288,830**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**288,830**	**-**	**288,830**
Cost of share-based payments	**-**	**(51,521)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(51,521)**	**-**	**(51,521)**
Cash Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,784,450)**	**-**	**(1,784,450)**	**(2,519,352)**	**(4,303,802)**
Change in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**5,660,993**	**-**	**-**	**-**	**5,660,993**	**10,268,121**	**15,929,114**
At June 30, 2015 (Unaudited)	**73,860,335**	**325,855**	**(1,005,572)**	**(64,246)**	**(708,085)**	**13,139,252**	**1,113,745**	**115,655,918**	**(2,300,000)**	**200,017,202**	**116,599,582**	**316,616,784**

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											
			Other Comprehensive Income									
	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	Retained Earnings	Treasury Stock (Preferred Stock - B)	Total	Non-controlling Interests	Total Equity
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)	143,476,281	91,994,310	235,470,591
Net Income	-	-	-	-	-	-	-	9,798,711	-	9,798,711	6,688,997	16,487,708
Other comprehensive income (loss)	-	-	-	(504,863)	318,798	-	-	-	-	(186,065)	(13,222)	(199,287)
Total comprehensive income (loss)	-	-	-	(504,863)	318,798	-	-	9,798,711	-	9,612,646	6,675,775	16,288,421
Issuance of shares	202,564	-	-	-	-	-	-	-	-	202,564	-	202,564
Cost of share-based payments	-	(69,037)	-	-	-	-	-	-	-	(69,037)	-	(69,037)
Equity-conversion option	-	-	-	-	-	-	1,113,806	-	-	1,113,806	-	1,113,806
Cash Dividends	-	-	-	-	-	-	-	(1,440,754)	-	(1,440,754)	-	(1,440,754)
Change in non-controlling interests	-	-	-	-	-	133,384	-	-	-	133,384	(753,536)	(620,152)
At June 30, 2014 (Unaudited)	50,368,693	416,150	(1,317,954)	(227,015)	(938,033)	7,615,505	1,113,806	100,997,738	(5,000,000)	153,028,890	97,916,549	250,945,439

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											
			Other Comprehensive Income									
	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	Retained Earnings	Treasury Stock (Preferred Stock - B)	Total	Non-controlling Interests	Total Equity
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)	143,476,281	91,994,310	235,470,591
Net Income	-	-	-	-	-	-	-	18,609,229	-	18,609,229	13,665,374	32,274,603
Other comprehensive income (loss)	-	-	312,382	(285,059)	653,066	-	-	-	-	680,389	(101,833)	578,556
Total comprehensive income (loss)	-	-	312,382	(285,059)	653,066	-	-	18,609,229	-	19,289,618	13,563,541	32,853,159
Exercise of ESOP/ESOWN	444,044	(181,961)	-	-	-	-	-	-	-	262,083	-	262,083
Cost of share-based payments	-	74,150	-	-	-	-	-	-	-	74,150	-	74,150
Sale of treasury stocks	10,724,121	-	-	-	-	-	-	-	2,700,000	13,424,121	-	13,424,121
Issuance of shares	12,237,211	-	-	-	-	-	-	-	-	12,237,211	-	12,237,211
Cash Dividends	-	-	-	-	-	-	-	(4,209,196)	-	(4,209,196)	(4,522,813)	(8,732,009)
Equity-conversion option	-	-	-	-	-	-	1,113,745	-	-	1,113,745	-	1,113,745
Change in non-controlling interests	-	-	-	-	-	(3,862)	-	-	-	(3,862)	167,296	163,434
At December 31, 2014 (Audited)	73,571,505	377,376	(1,005,572)	(7,211)	(603,765)	7,478,259	1,113,745	107,039,814	(2,300,000)	185,664,151	101,202,334	286,866,485

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	June 2015 Unaudited	June 2014 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**22,412,353**	20,114,317
Adjustments for:		
Interest and other financing charges - net of amount capitalized	**6,279,939**	6,157,750
Depreciation and amortization	**4,817,997**	4,452,192
Cost of share-based payments	**237,309**	(69,037)
Provision for impairment losses	**156,049**	69,710
Loss (gain) on sale of:		
Investments	**(69,715)**	(1,922,473)
Other assets	**(7,517)**	(57,475)
Other investment income	**(126,698)**	(69,184)
Interest income	**(3,567,562)**	(2,658,094)
Share of profit of associates and joint ventures	**(7,524,701)**	(6,828,500)
Operating income before changes in working capital	**22,607,454**	19,189,206
Decrease (increase) in:		
Accounts and notes receivable - trade	**(13,125,635)**	(17,350,854)
Inventories	**(4,275,471)**	(457,136)
Service concession asset	**(1,757,275)**	(712,580)
Other current assets	**(1,457,044)**	2,342,626
Increase (decrease) in:		
Accounts payable and accrued expenses	**18,677,859**	25,042,206
Net pension liabilities	**(168,508)**	(35,116)
Other current liabilities	**(3,188,722)**	(402,200)
Net cash generated from operations	**17,312,658**	27,616,152
Interest received	**3,624,332**	2,529,237
Interest paid	**(6,322,829)**	(6,126,850)
Income tax paid	**(3,653,904)**	(5,052,764)
Net cash provided by operating activities	**10,960,257**	18,965,775
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale/maturities of available-for-sale financial assets	**201,784**	-
Sale/maturities of financial assets at fair value through profit or loss	**3,878,000**	3,800,786
Sale/redemptions of investments in associates and joint ventures	**1,018,174**	6,302,335
Disposals of:		
Property, plant and equipment	**144,330**	69,461
Investment properties	**168,996**	-
Maturities (placement) of short-term investments	**(11,134,390)**	48,288
Deductions (additions) to:		
Service concession asset	**17,445**	(86,233)
Investments in associates and joint ventures	**(2,622,987)**	(29,527,447)
Property, plant and equipment	**(2,050,641)**	(2,932,867)
Investment properties	**(10,004,286)**	(6,787,513)
Land and improvements	**(6,352,522)**	(5,942,233)
Accounts and notes receivable - non-trade	**(6,078,130)**	(1,246,975)
Investment in bonds, securities and other noncurrent assets	**15,929**	(239,961)
Dividends received from associates and joint ventures and available-for-sale financial assets	**2,923,916**	2,943,017
Increase in long-term money market placements	**-**	(8,293,500)
Increase in other noncurrent assets	**(2,975,054)**	(7,521,924)
Net cash used in investing activities	**(32,849,436)**	(49,414,766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term and long-term debt	**12,319,816**	61,082,129
Payment of short-term and long-term debt	**(22,356,923)**	(9,492,778)
Dividends paid	**(4,395,765)**	(3,744,460)
Service concession obligation paid	**(647,666)**	(233,595)
Collections of subscription receivable	**-**	(310,016)
Issuance of common and preferred shares	**-**	512,580
Increase (decrease) in:		
Other noncurrent liabilities	**(849,399)**	(1,101,037)
Non-controlling interest in consolidated subsidiaries	**13,631,453**	(186,606)
Net cash provided by financing activities	**(2,298,484)**	46,526,217
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(24,187,663)**	16,077,226
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**90,769,525**	65,655,049
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**66,581,862**	81,732,275

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, 2014 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, 2014.

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 June 30, 2015 include other financial and operating data with respect to Ayala's subsidiaries (Ayala Land, Inc., Integrated Micro-Electronics, Inc., and Manila Water Company, Inc.), associate (Bank of the Philippine Islands) and joint venture (Globe Telecom, Inc.). This SEC 17Q should be read in conjunction with the financial and operating highlights of these subsidiaries, associate and joint venture as contained in their respective SEC17Q as of June 30, 2015.

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

On August 12, 2015, 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

<u>Changes in Accounting Policies</u>
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, 2015. The nature and the impact of each new standards and amendments is described below:

New and amended standards and interpretations

Effective January 1, 2015

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 2, *Share-based Payment – Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

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

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

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

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (*or PFRS 9, as applicable*).

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

Effective January 1, 2016

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope

exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any significant impact to the Group.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

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

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits – regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of 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 derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 may have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group will continue to monitor developments in this reporting standard and assess its impact on or need for adoption by the Group.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 may have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption may also have an effect on the Group's application of hedge accounting. The Group will continue to monitor developments in this reporting standard and assess its impact on or need for adoption.

The following new standard issued by the International Accounting Standards Board (IASB) has not yet been adopted by the FRSC

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of the revenue standard, IFRS 15 Revenue from Contracts with Customers, to January 1, 2018. The IASB voted to confirm the one-year deferral, following a public consultation. With this, the Group will continue to monitor developments on this standard and finalize assessment of the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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:

		Effective Percentages of Economic Ownership	
Subsidiaries	**Nature of Business**	**June 2015 (Unaudited)**	December 2014 (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	**47.2**	48.9
AYC Finance Ltd. (AYCFL)*	Investment Holding	**100.0**	100.0
Azalea International Venture Partners, Limited (AIVPL)**	BPO	**100.0**	100.0
Ayala Healthcare Holdings, Inc. (AHHI) *[formerly Azalea Technology Investments, Inc. (Azalea Technology)]*	Healthcare	**100.0**	100.0
Bestfull Holdings Limited (BHL)***	Investment Holding - International	**100.0**	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	**100.0**	100.0
Integrated Microelectronics, Inc. (IMI)	Electronics Manufacturing	**50.9**	50.9
Ayala Education, Inc. (AEI) *[formerly LiveIt Global Services Management Institute, Inc. (LGSMI)]*	Education	**100.0**	100.0
Manila Water Company, Inc. (MWCI)	Water Distribution and Wastewater Services	**48.4**	48.5
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*

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.

The following are highlights of significant transactions of the subsidiaries, part of which affected the Company's investments in its subsidiaries:

ACEHI

a) On various dates between January to June 2015, the Company infused ₱1.6 billion to ACEHI to fund its various investments mainly for GNPower Kauswagan Ltd. Co.

b) On February 9, 2015, ACEHI's guarantee in connection with Northern Luzon Renewable Energy Corporation ₱3.0 billion loan facility was extended by 2 months or until April 10, 2015.

c) On April 13, 2015, AC Energy wind farms in Bangui and Caparispisan, Ilocos Norte recently received their Feed-in-Tariff Certificate of Compliance or FIT COC from the Energy Regulatory Commission (ERC). This entitled both its 19-MW wind farm expansion in Bangui, under Northwind Power Development Corp. (Northwind), and its 81-MW wind farm in Caparispisan, Pagudpud under North Luzon Renewables to a feed-in-tariff (FIT) of Php 8.53 per kilowatt hour for a period of 20 years. The FIT rate covers the period October 10, 2014 to October 9, 2034 for Northwind's 19MW Phase III wind farm and November 11, 2014 to November 10, 2034 for North Luzon Renewables' 81MW. In 2014, the Department of Energy issued a Certificate of Endorsement for FIT for both wind farm projects after these were commissioned and started commercial operations.

d) On April 24, 2015, South Luzon Thermal Energy Corp. (SLTEC), has achieved Commercial Operations Date (COD) for the first unit of its 2 X 135-MW Circulating Fluidized Bed (CFB) Power Plant in Calaca, Batangas. SLTEC is a joint venture of AC Energy and Trans-Asia Oil and Energy Development Corp. Upon COD, Trans-Asia will purchase all of the generated output of SLTEC through a 15-year power purchase agreement.

e) On June 8, 2015, the Company confirmed the news article that SLTEC is on track with the construction of the second unit of its coal-fired power plant Calaca, Batangas, which would add another 135 megawats to the Luzon grid when completed.

AC Infra

a) On various dates between January to June 2015, the Company infused ₱280.4 million to AC Infra to fund its various investments mainly for AF Payments, Inc. and Light Rail Manila Holdings, Inc. (please see discussions below).

b) On January 27, 2015, together with Metro Pacific Light Rail Corporation, AC Infra submitted its prequalification bid for the operation and maintenance of LRT Line 2 under Light Rail Manila Holdings 2, Inc. (LRMH2I). On February 16, 2015, the Department of Transportation and Communications (DOTC) announced the qualification of LRMH2I to bid for the project together with three other qualified bidders.

c) On February 26, 2015, the Board of Directors of Automated Fare Collections Services, Inc. (AFCS) approved the change of corporate name to AF Payments, Inc. (AFPI). Subsequently, the Securities and Exchange Commission approved the amendment on March 11, 2015.

d) On April 6, 2015, the Company confirmed the news article posted on philstar.com that AC Infra is interested to participate in the bidding for the development of the Ninoy Aquino International Airport if the bidding materializes. Further, the Company confirmed that at present has no plans to participate in the bidding for the five bundled regional airports project.

e) On various dates in May and July 2015, the Company confirmed and clarified the news article posted in several newspapers that AC Infra is in preliminary discussions with the Metro Pacific Investments Corporation for potential partnership in the bidding for the 653-kilometer railway project. However, the Company clarified that the $1 billion in investments refers to Ayala's equity commitment in both generation and transport infrastructure through 2016.

f) On June 11, 2015, the Company confirmed the news article posted on The Manila Standard (Internet Edition) on June 10, 2015 that Light Rail Manila Consortium (LRMC), led by Metro Pacific Investments Corp. and Ayala Corp. is interested to bid for the extension of LRT Line 1 from Bacoor, Cavite to Dasmariñas City. However, no final decision to participate in the bidding has been made at this time.

AEI

a) On March 11, 2015, the SEC approved the change in name of LiveIt Global Services Management Institute, Inc. (LGSMI) to Ayala Education Inc. (AEI).

AHHI

a) On June 18, 2015, the SEC approved the change in name of Azalea Techonology Investments, Inc. (Azalea Techonology) to Ayala Healthcare Holdings, Inc. (AHHI).

ALI

a) In January 2015, the Company assisted ALI to raise funds through a placement of 484,848,500 common shares of ALI that the Company owns at a price of ₱33.00 per share (the "Offer Price"). The placement was conducted via a bookbuilt offering structured as a top-up placement with all the proceeds to be received by ALI.

   The equity placement raised an aggregate of ₱16.0 billion in proceeds which ALI will use for its expansion projects.

   As a result of this transaction, the Company's holdings in common shares of ALI was reduced to 47.2% from 48.9% but the Company retains voting control at 68.8% as of June 30, 2015 from 70.1% as of December 31, 2014.

b) In February 2015, ALI purchased the remaining non-controlling interest of the following:

- Anglo Philippine Holdings Corporation in North Triangle Depot Commercial Corporation (NTDCC) comprising of 382,072 common shares and 1,605,169 preferred shares for ₱ 523.0 million.
- Remaining interest of Allante Realty and Development Corporation and DBH, Inc. consisting of 167,548 common shares and 703,904 preferred shares for ₱229.0 million.

This brings ALI's ownership in NTDCC from 63.8% to 73.2% of the total outstanding capital stock of NTDCC, which owns and operates the Trinoma Commercial Centre in North Triangle, Quezon City.

c) On February 20, 2015, the BOD of ALI approved the declaration of regular cash dividends of ₱0.2 per share on the outstanding common shares. The dividends will be paid on March 20, 2015 to stockholders of record as of March 6, 2015.

d) On February 23, 2015, the BOD of ALI approved the declaration of cash dividends of 4.74786% per annum or ₱0.0474786 per share on the outstanding unlisted voting preferred shares. The dividends will be paid on June 29, 2015 to stockholders of record as of June 15, 2015.

e) On February 27, 2015, ALI, through Team Trident consortium, filed the pre-qualification documents with Department of Public Works and Highways (DPWH) to participate in the bidding of Laguna Lake Expresswat-Dike Project under the PPP program of the government. Team Trident is a consortium among Aboitiz Equity Ventures, Ayala Land, Inc., Megaworld Corporation and SM Prime Holdings who agreed to form Trident Infrastructure and Development Corporation.

f) On April 6, 2015, ALI, through its wholly-owned subsidiary, Regent Wise Investments Limited, has acquired 9.16% of the shares of Malaysian company GW Plastics Holdings Bhd., to be renamed Modular Construction Technology (MCT) Bhd., through a private placement for a total amount of US$43 million (P1.9 billion). MCT Bhd., first established in 1999 as a construction company, is a property development company specializing in mixed-use projects which include retail, offices, hotels, and mid-to-affordable residences.

   On May 12, 2015, Regent Wise Investments Limited entered into call option agreements with the two founders and majority shareholders of MCT, Barry Goh Ming Choon and Tong Seech Wi, that will give ALI the opportunity to increase its shareholdings in MCT up to a maximum of 32.95%. The call options are exercisable for one month beginning on October 7, 2015.

g) On April 8, 2015, ALI purchased all of the 8.2 million common shares of Aegis PeopleSupport Realty Corporation amounting to P435 million.

h) On April 22, 2015, ALI offered P7b fixed rate bonds, 4.5% bonds due 2022.

i) On June 30, 2015, ALI, through SM-ALI Group consortium, participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City.

BHLI

a) From its Asia operations, BHL booked gains such as those from investment in Macau/Concordia distribution profits (US$2.7M) and gain on the option component of CII convertible bonds (US$2.2M).

IMI

a) On February 17, 2015, the BOD of IMI approved the declaration of regular cash dividends of US$0.0042 (₱0.1868) per share on the outstanding common shares. The dividends will be paid on March 19, 2015 to stockholders of record as of March 4, 2015.

b) As of June 30, 2015 and December 31, 2014, ACIFL, through its wholly-owned subsidiary, AYC Holdings, Ltd., owns 50.9% of IMI. The voting rights held by the Group in IMI as of June 30, 2015 and December 31, 2014 is equal to 63.7%.

MWCI

a) On January 6, 2015, MWCI's Remuneration Committee approved the grant to the qualified executives, officers and employees of stock options covering up to 7,281,647 common shares at a subscription price of ₱26.00 per share.

b) On January 5, 2015, Cebu Manila Water Development, Inc. (CMWD) delivered its initial 18.0 million liters per day bulk water supply to MCWD. CMWD will increase its bulk water delivery to 35.0 million liters per day in 2016.

c) On December 19, 2014, MWCI received a notice from the Zamboanga City Water District (ZCWD) awarding the project for non-revenue water (NRW) reduction activities in Zamboanga City ("the Project"). The Project shall be implemented for period of 10 years through a joint venture company (JVC) to be formed by and between ZCWD and the Parent Company.

   On January 30, 2015, MWCI signed and executed a Joint Venture Agreement with ZCWD for the formation of the JVC, Zamboanga Water Company, Inc. ("Zamboanga Water"). MWCI and ZCWD shall own 70% and 30%, respectively, of Zamboanga Water's outstanding capital stock. On April 10, 2015, the Philippine Securities and Exchange Commission issued the Articles of Incorporation of Zamboanga Water. On June 2, 2015, Zamboanga Water signed the Non-revenue Water Reduction Service Agreement with ZCWD as its customer.

d) On February 20, 2015, the BOD of MWCI approved the following:
   1) Declaration of cash dividends for the first semester of 2015 of ₱0.4075 per share on the outstanding Common Shares and ₱0.04075 per share on the outstanding Participating Preferred Shares. The dividends will be paid on March20, 2015 to stockholders of record as of March 6, 2015.
   2) Additional investment of ₱492.0 million in Manila Water Total Solutions Corporation (MWTS) and ₱250.0 million in Manila Water Philippine Ventures, Inc.

e) On April 22, 2015, Asia Network Solutions Joint Stock Company ("Network Solutions") has been granted the Investment Certificate from Department of Planning and Investment of Ho Chi Minh City, Vietnam. Network Solutions is a joint venture between Manila Water South Asia Holdings Pte. Ltd. (MWSAH) (a wholly-owned subsidiary of MWCI) and Saigon Water Infrastructure Corporation which aims to carry out activities such as NRW reduction management, waste system design and construction, and operation and management of distribution system and network. MWSAH owns 48.5% stake in Network Solutions.

f) On April 24, 2015, MWTS was granted by the Bureau of Food and Drugs its Certificate of Product Registration for its Healthy Family Purified Drinking Water. This authorizes MWTS to implement a full-scale marketing and promotion of its product which targets to further expand its distribution in Metro Manila

g) As of June 30, 2015 and December 31, 2014, MWCI recorded contingent consideration amounting to ₱89.02 million, related to its investment in Kenh Dong Water Supply Joint Stock Company. The share purchase transaction was completed on July 20, 2012 warranting Kenh Dong Water Holdings Pte. Ltd. to have significant influence in KDW. There were no other known events that would trigger MWCI to record contingent financial obligation that would cause a material effect on the consolidated financial statements.

h) In March 2012, MWCI submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The MWSS conducted a review of the proposal including the MWCI's last five (5) years financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% to MWCI's 2012 average basic water rate of ₱24.57 per cubic meter. The adjustment shall be implemented in 5 equal tranches of negative 5.894% per charging year. MWCI objected to MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

   On December 10, 2013, the MWSS Board of Trustees thru R.O. Resolution No. 13-012 CA, approved the implementation of a status quo for MWCI's Standard Rates including FCDA, until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

   On December 17, 2014, the MWSS Board of Trustees approved the implementation of an FCDA adjustment of ₱0.36 per cubic meter based on the exchange rates of USD1: ₱44.80 and JPY1:₱0.42, which was published on December 31, 2014 and took effect 15 days after its publication. The FCDA component of the water bill was adjusted to 1.32% of the basic charge in the first quarter of 2015. The FCDA has no impact on the net income of MWCI, as it is just a recovery or refund mechanism of foreign exchange loss or gain.

On April 21, 2015, MWCI received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

1) ₱28.1 billion Opening Cash Position (OCP) which restores ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
2) ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
3) 7.61% Appropriate Discount Rate (ADR) which is an improvement of 79 bps from the post tax ADR of 6.82% in September 2013;
4) Exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% from the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments will continue to be made consistent with MWCI's Concession Agreement with MWSS.

On April 23, 2015, MWCI filed a Notice of Claim with the National Government through the Department of Finance (DOF) seeking compensation for financial losses arising from the Appeals Panel decision. In its Notice of Claim to the DOF, MWCI is calling on the Letter of Undertaking of the National Government to indemnify losses estimated to be over ₱79 billion from 2015 to 2037. In the Letter of Undertaking, the National Government, through the DOF, undertook to indemnify MWCI against any loss caused by any action on the part of the MWSS resulting in the reduction of the standard rates "below the level that would otherwise be applicable in accordance with the Concession Agreement," thereby denying MWCI a rate of return "allowed from time to time to operations of long term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines" pursuant to Section 9.4 of the Concession Agreement.

On May 16, 2015, the new water rates were published and became effective on June 1, 2015. The net adjustment applicable for 2015 is equivalent to negative 2.42% of the prevailing basic charge.

Effective July 1, 2015, MWCI has implemented a FCDA of ₱0.02 per cubic meter which was based on the exchange rates of US$1:PHP44.4136 and JPY1:PHP0.3717. The FCDA component of the water bill will be adjusted to 0.08% of the basic charge on the third quarter of 2015.

i) On June 30, 2015, Province of Laguna (POL) and Manila Water Philippine Ventures, Inc. (MWPV) signed an amendment to their joint venture agreement dated November 10, 2000. Simultaneously, and consequent to the amendment of the joint venture agreement of Laguna Water, Laguna Water signed an amendment to its concession agreement with the POL which includes the following:
   1) Expand its concession area to cover all cities and municipalities in the POL; and
   2) Include in the service obligations of Laguna Water the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

   With the expansion of its concession area, Laguna Water aims to provide clean, safe and reliable water supply to the entire POL and replicate the improvements in water services it has done in the cities of Binan, Cabuyao and Sta. Rosa.

j) The voting rights held by the Group in MWCI as of June 30, 2015 and December 31, 2014 is equal to 79.2%.

Material partly-owned subsidiaries

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

	June 2015 (Unaudited)	December 2014 (Audited)	
Ayala Land, Inc. and Subsidiaries			
(In Million Pesos)			
Current assets	**177,515**	165,634	
Non-current assets	**245,980**	223,310	
Current liabilities	**143,080**	135,446	
Non-current liabilities	**136,058**	131,503	
Equity			
Attributable to owners of the parent	**127,594**	106,940	
Attributable to non-controlling interest	**16,763**	15,055	
Revenue	**50,611**	46,198	*
Net income			
Attributable to owners of the parent	**8,388**	7,054	*
Attributable to non-controlling interest	**1,533**	1,562	*
Other comprehensive income	**(69)**	(19)	*
Manila Water Co. Inc. and Subsidiaries			
(In Million Pesos)			
Current assets	**9,153**	9,094	
Non-current assets	**66,944**	65,766	
Current liabilities	**11,936**	7,858	
Non-current liabilities	**26,834**	31,900	
Equity			
Attributable to owners of the parent	**36,651**	34,508	
Attributable to non-controlling interest	**676**	594	
Revenue	**8,450**	8,113	*
Net income			
Attributable to owners of the parent	**3,037**	3,159	*
Attributable to non-controlling interest	**72**	3	*
Other comprehensive income	**47**	67	*
Integrated Microelectronics, Inc. and Subsidiaries			
(In Million US$)			
Current assets	**402**	416	
Non-current assets	**137**	137	
Current liabilities	**226**	241	
Non-current liabilities	**64**	68	
Equity			
Attributable to owners of the parent	**249**	244	
Attributable to non-controlling interest	**-**	-	
Revenue	**416**	431.0	*
Net income			
Attributable to owners of the parent	**15.2**	11.3	*
Attributable to non-controlling interest	**-**	(0.1)	*
Other comprehensive income	**(4)**	(1.1)	*

* *Based on unaudited June 30, 2014*

As of June 30, 2015 (unaudited), the proportion of ownership interest held by material non-controlling interest of ALI, MWCI and IMI are 52.8%, 51.6% and 49.1%, respectively.

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

	June 2015 (Unaudited)	December 2014 (Audited)
Cash on hand and in banks	**23,480,543**	22,963,793
Cash equivalents	**43,101,319**	67,805,732
	66,581,862	90,769,525

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 prevailing short-term investment rates.

The Group maintains cash and cash equivalents with BPI amounting to ₱42.6 billion and ₱51.6 billion, as of June 30, 2015 (unaudited) and December 31, 2014 (audited), respectively (see Note 21 Related Party Transaction).

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

	June 2015 (Unaudited)	December 2014 (Audited)
Money market placements	**12,237,093**	1,102,703

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.

The Group maintains short-term investments with BPI amounting to ₱6.0 billion and zero, as of June 30, 2015 (unaudited) and December 31, 2014 (audited), respectively (see Note 21 Related Party Transaction).

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

	June 2015 (Unaudited)	December 2014 (Audited)
Trade:		
Real estate	**70,316,385**	57,898,143
Electronics manufacturing	**8,817,448**	8,587,953
Water distribution and wastewater services	**2,195,264**	1,991,179
Automotive	**2,105,982**	1,496,794
Information technology and BPO	**208,603**	202,829
International and others	**3,210**	5,050
Advances to other companies	**23,144,825**	21,173,727
Advances to contractors and suppliers	**12,619,277**	10,389,240
Receivable from related parties (Note 21)	**3,145,241**	2,709,445
Receivables from officers and employees (Note 21)	**1,172,752**	731,336
Investment in bonds classified as loans and receivables	**370,000**	450,000
Dividends Receivable	**9**	104
Advances and others	**1,322,430**	667,703
	125,421,426	106,303,503
Less allowance for doubtful accounts	**1,676,446**	1,586,541
	123,744,980	104,716,962
Less noncurrent portion	**36,001,730**	32,006,450
	87,743,250	72,710,512

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	49,289	9,772	20,822	3,764	83,647
Non-Trade Receivables	18,980	9,702	11,331	85	40,098
Total	68,269	19,474	32,153	3,849	123,745

The Group's Advances and Others account mainly pertain to ALI's advances to third party joint venture partners. These are generally non-interest bearing and are due and demandable. Certain advances are interest bearing and subject to terms as agreed between the parties. Advances to contractors and supplier are recouped every progress billing payment date depending on the percentage of accomplishment or delivery. Others mainly include accrued interest receivable and other non-trade accounts.

As of June 30, 2015, this account increased from year-end 2014 balances mainly driven by ALI's higher sales and increase in advances to contractors both resulting from new and existing residential and commercial projects. Provision for Doubtful Accounts amounted to ₱118.9 million and ₱69.7 million (both amounts unaudited) for the periods ended June 30, 2015 and 2014 form part of the Group's General and Administrative Expenses for the period, respectively.

7. **Inventories** (in thousand pesos):

	June 2015 (Unaudited)	December 2014 (Audited)
Real estate inventories		
At cost	**51,461,974**	47,885,638
At NRV	**524,158**	524,158
Vehicles	**2,374,839**	1,704,711
Finished goods	**684,489**	794,104
Work-in-process	**709,454**	598,323
Parts and accessories	**281,508**	266,004
Materials, supplies and others	**4,939,195**	3,562,113
	60,975,617	55,335,051
Less: Allowance for inventory obsolescence and decline in value*	**362,041**	372,887
	60,613,576	54,962,164

**Excluding allowance for real estate inventories*

The Group's net provision for impairment losses on inventories amounting to negative ₱3.6 million and positive ₱51.1 million for the period ended June 30, 2015 and 2014 (both unaudited), respectively, form part of the consolidated General and Administrative Expenses.

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

	June 2015 (Unaudited)	December 2014 (Audited)
Financial assets at FVPL	**7,187,876**	10,374,780
Prepaid expenses	**10,213,046**	10,882,300
Input VAT	**5,727,917**	5,768,622
Deposits in escrow	**5,200,018**	5,332,733
Creditable withholding tax	**1,977,525**	2,231,651
Others	**1,495,912**	566,472
Other current assets	**31,802,294**	35,156,558
Pension and other noncurrent assets	**19,030,896**	16,830,401

Decrease in Financial assets at FVPL was mainly due to ALI group's redemption of UITF investments and maturity of other current investments. Increase in Others under Other Current Assets represents increments in escrow accounts relating to residential business of ALI.

Pension and other noncurrent assets include P19.1M pension assets as of December 31, 2014 (audited) and zero as of June 30, 2015. 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).

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 ₱79,960 million as of December 31, 2014 (audited) to ₱86,312 million as of June 30, 2015 (unaudited) arising from unsubdivided land and certain land acquisitions by the Group, primarily by ALI.

10. Investments in Associates and Joint Ventures

Investments in associates and joint ventures are accounted for under the equity method of accounting. Major associates and joint ventures and the related percentages of ownership as of June 30, 2015 are as follows:

	Economic Percentage of Ownership		Carrying Amounts (in million pesos)	
	June 2015 (Unaudited)	December 2014 (Audited)	**June 2015 (Unaudited)**	December 2014 (Audited)
Domestic:				
Bank of the Philippine Islands (BPI)	**32.6**	32.6	₱ **67,580**	₱ 65,811
Liontide Holdings Inc. (LHI) *(formerly Ayala DBS Holdings, Inc.)* *	**73.8**	73.8	**37,439**	35,943
Globe Telecom, Inc. (Globe)*	**30.4**	30.4	**17,299**	16,321
GNPower Mariveles Coal Plant Ltd. Co (GNPower)	**17.0**	17.0	**7,206**	7,164
Philippine Wind Holdings Corporation (PWHC)	**75.0**	75.0	**3,453**	4,218
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**3,853**	4,113
South Luzon Thermal Energy Corp. (SLTEC)*	**50.0**	50.0	**3,558**	3,513
Berkshire Holdings, Inc. (BHI)*	**50.0**	50.0	**1,885**	1,815
Cebu District Property Enterprise, Inc. (CDPEI)*	**42.0**	42.0	**1,491**	1,492
Bonifacio Land Corporation (BLC)	**10.0**	10.0	**1,318**	1,356
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**1,152**	1,142
Foreign:				
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	**49.0**	49.0	**2,316**	2,258
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	**47.4**	47.4	**2,078**	2,018
Modular Construction Technology (MCT) Bhd. (incorporated in Malaysia)	**9.2**	-	**2,077**	-
Integreon, Inc. (Integreon)* (British Virgin Islands Company)	**58.7**	58.7	**846**	961
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	**49.0**	49.0	**559**	723
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	**31.5**	31.5	**697**	686
Others	**Various**	Various	**3,757**	3,231
			₱ **158,564**	₱ 152,765

** 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.

The following are highlights of significant transactions of the associate and joint venture, part of which affected the Company's investments in its associate and joint venture:

BPI

a) On November 19, 2014, the BOD of BPI approved the declaration of cash dividends of ₱0.90 per outstanding common shares subject to the approval of the BSP. On February 2, 2015, the

BSP approved the dividend declaration which will be paid on March 17, 2015 to stockholders of record as of February 24, 2015.

b) The effective voting rights held by the Group in BPI as of June 30, 2015 and December 31, 2014 is equal to 49.8%.

Globe

a) On June 30, 2015, Globe Capital Venture Holdings, Inc. (GCVH) was incorporated. This is a wholly-owned subsidiary of Globe through which strategic businesses and initiatives are intended to be consolidated.

b) The effective voting rights held by the Group in Globe as of June 30, 2015 and December 31, 2014 is equal to 46.5%.

LHI

a) On March 19, 2015, the SEC approved the change in name of Ayala DBS Holdings, Inc. to Liontide Holdings Inc. (LHI).

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

	June 2015 (Unaudited)	December 2014 (Audited)
Total Resources	**1,425,514**	1,450,197
Total Liabilities	**1,273,351**	1,303,518
Capital Funds Attributable to the Equity Holders of BPI	**149,682**	144,063
Capital Funds Attributable to the Noncontrolling Interest	**2,481**	2,616
Total Liabilities and Capital Funds	**1,425,514**	1,450,197

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

	June 2015 (Unaudited)	June 2014 (Unaudited)
Interest income	**25,395**	22,070
Other Income	**10,228**	9,174
Total revenues	**35,623**	31,244
Operating expenses	**15,125**	14,062
Interest expense	**6,499**	5,219
Impairment losses	**2,104**	1,779
Provision for income tax	**2,410**	2,150
Total Expenses	**26,138**	23,210
Net income for the period	**9,485**	8,034
Attributable to:		
Equity holders of BPI	**9,347**	8,030
Noncontrolling interest	**138**	4
	9,485	8,034
EPS	**2.38**	2.04

The Company's share in the net identifiable assets of BPI as of June 30, 2015 (unaudited) amounted to ₱49,569 million. Dividends received from BPI for the period ended June 30, 2015 (unaudited) amounted to ₱1,153 million. The fair market value of the Company's investment in BPI as of June 30, 2015 (unaudited) amounted to ₱121,052 million.

As of June 30, 2015, the Company's direct ownership in LHI is equal to 73.8%, while LHI's direct ownership in BPI is equal to 21.3%. The fair value of BPI shares held by LHI amounted to ₽79,156 million as of June 30, 2015 (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.

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

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

	June 2015 (Unaudited)	December 2014 (Audited)
Current Assets	**50,240**	46,742
Noncurrent Assets	**134,814**	132,765
Total Assets	**185,054**	179,507
Current Liabilities	**61,363**	60,350
Noncurrent Liabilities	**66,146**	64,619
Equity Attributable to Equity Holders of the Parent	**57,552**	54,542
Equity Attributable to Noncontrolling Interest	**(7)**	(4)
Total Liabilities and Equity	**185,054**	179,507

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

	June 2015 (Unaudited)	June 2014 (Unaudited)
Net Operating Revenues	**57,190**	50,069
Other Income	**655**	647
Total Revenues	**57,845**	50,716
Costs and Expenses	**45,330**	40,795
Provision for Income Tax	**3,805**	3,086
Total Expenses	**49,135**	43,881
Net Income	**8,710**	6,835
Total net income attributable to:		
Equity holders of the Parent	**8,712**	6,836
Noncontrolling interest	**(2)**	(1)
Net Income	**8,710**	6,835
EPS:		
Basic	**65.47**	51.39
Diluted	**65.39**	51.29

The Company's share in the net identifiable assets of Globe as of June 30, 2015 (unaudited) amounted to ₽17,490 million. Dividends received from Globe for the period ended June 30, 2015 (unaudited) amounted to ₽1,674 million. The fair value of the Company's investment in Globe as of June 30, 2015 (unaudited) amounted to ₽101,265 million.

11. Investments in Bonds and Other Securities, Intangible Assets and Deferred Tax Assets (in thousand pesos):

	June 2015 (Unaudited)	December 2014 (Audited)
Investments in bonds and other securities	**3,272,049**	3,432,215
Intangible assets	**4,238,397**	4,183,464
Deferred tax assets	**8,299,897**	8,055,020

Investment in bonds and other securities account includes quoted equity instruments comprising mainly of investments in listed equity securities and golf club shares. This account also includes unquoted equity investments consisting of investment in unlisted equity shares and unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects, water utilities projects, and to its other operations.

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. The account includes Investment in Land, ₱16,426 million as of June 30, 2015 (unaudited) and ₱11,616 million as of December 31, 2014 (audited), and Investment in Building and Construction-in-Progress, ₱62,357 million as of June 30, 2015 (unaudited) and ₱59,708 million as of December 31, 2014 (audited), net of accumulated depreciation.

13. Service Concession Assets

The Parent Company has a concession agreement with the DPWH while the MWCI Group has concession agreements with MWSS, POL, TIEZA, CDC, CMWD and ZCWD. These concession agreements set forth the rights and obligations of the Parent Company and MWCI Group throughout the concession period.

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

	June 2015 (Unaudited)	December 2014 (Audited)
Accounts payable	**94,280,564**	73,540,123
Accrued expenses		
Project costs	**15,602,851**	17,321,785
Professional and management fees	**5,373,117**	2,703,201
Personnel costs	**4,925,817**	3,772,205
Rental and utilities	**3,246,971**	3,497,019
Repairs and maintenance	**2,757,316**	1,694,872
Advertising and promotions	**616,404**	2,371,634
Various operating expenses	**1,009,942**	1,328,853
Dividends payable	**2,766,573**	2,845,013
Interest payable	**2,374,910**	2,261,525
Related parties (Note 21)	**1,759,612**	2,458,817
Taxes payable	**4,952,445**	11,292,425
Retentions payable	**853,355**	1,014,364
	140,519,877	126,101,836

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

As of June 30, 2015 (unaudited) and December 31, 2014 (audited), accounts payable includes non-interest bearing liability of the Company to DBS Ltd. in relation to the acquisition of BPI common shares and LHI Class B common shares amounting to ₱3.3 billion.

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

Incurred expenses which are not classified in the specific accrued expense accounts and which are individually immaterial are booked under various operating expenses. The increase from December 31, 2014 balance mainly pertains to higher accrued expenses of ALI for its new and existing projects.

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 balances of accounts payable and accrued expenses items from December 31, 2014 to June 30, 2015 was coming from the new and existing projects of ALI group.

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 Y2014 taxes.

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Other current liabilities	**6,263,559**	9,452,281
Other noncurrent liabilities	**26,365,112**	25,640,911

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 relate 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.

Net decrease in other current and non-current liabilities totaling ₱2.5 billion [from ₱35.1 billion in December 31, 2014 (audited) to ₱32.6 billion in June 30, 2015 (unaudited)] was mainly due to ALI group's payment to various contractors and release of retention payable from projects.

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

	June 2015 (Unaudited)	December 2014 (Audited)
Short-term debt:		
Philippine Peso with various interest rates	**7,858,700**	16,919,900
Foreign Currency with various interest rates	**5,233,367**	4,164,369
	13,092,067	21,084,269
Long-term debt:		
Company:		
Bank loans with various interest rates	**16,194,743**	21,171,095
Bonds, due 2017 to 2027	**39,757,027**	39,733,895
	55,951,770	60,904,990
Subsidiaries:		
Loans from banks & other financial institutions:		
Foreign currency with various interest rates	**41,075,099**	45,284,334
Philippine Peso with various interest rates	**39,130,487**	42,443,993
Bonds, due 2015 to 2033	**58,500,000**	46,625,230
Exchangeable bonds	**12,476,900**	12,247,531
Floating Rate Corporate Notes (FRCNs)	**1,000,000**	1,000,000
Fixed Rate Corporate Notes (FXCNs)	**27,613,314**	29,254,380
	179,795,800	176,855,468
	235,747,570	237,760,458
Less current portion	**23,403,637**	10,761,443
Non-current portion	**212,343,933**	226,999,015

As of June 30, 2015 (unaudited), total proceeds from availment of short-term and long-term debt amounted to ₱12.3 billion which consists of proceeds from loans of ALI (₱10.5 billion), AAHC (₱0.9 billion), MWCI (₱0.5 billion) and IMI (₱0.2 billion) while payments of short-term and long-term debt amounted to ₱22.4 billion which pertains to loan payment of ALI (₱10.5 billion), AC (₱5.0 billion), AYC (₱4.0 billion), MWCI (₱1.8 billion) and IMI (₱0.9 billion).

The Group has short-term and long-term debt payable to BPI amounting to ₱27.2 billion and ₱38.0 billion as of June 30, 2015 (unaudited) and December 31, 2014 (audited), respectively (see Note 21 Related Party Transaction). Interest expense incurred from these debts for the period ending June 30, 2015 and 2014 (both unaudited) amounted to ₱368.4 million and ₱176.7 million, respectively (see Note 21 Related Party Transaction).

The loan agreements on long-term debt of the Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of June 30, 2015 and December 31, 2014. 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 highlights of loan covenants of the major subsidiaries and associates/ joint ventures are discussed in the respective SEC17Q reports as of June 30, 2015 of ALI, IMI, MWCI, BPI and Globe.

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

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

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

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

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

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

As of June 30, 2015 (unaudited), the unamortized discount of the Bonds amounted to ₱1,050B. Interest expense recognized in the statement of income amounted to ₱161.7M for the period ended June 30, 2015 (unaudited).

17. Equity

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

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
At January 1, 2015 (Audited)	1,200,000	5,800,000	200,000	30,799,997	171,810	36,115,565	(715,867)	73,571,505
Exercise/cancellation of ESOP/ESOWN	-	-	-	8,235	-	137,039	143,556	288,830
Reissuance of treasury stocks	-	-	-	-	-	-	-	-
At June 30, 2015 (Unaudited)	**1,200,000**	**5,800,000**	**200,000**	**30,808,232**	**171,810**	**36,252,604**	**(572,311)**	**73,860,335**
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	-	-	-	22,530	38,420	660,682	(277,588)	444,044
Reclassification of ESOWN shares	-	-	-	16,786	(16,786)	-	-	-
Issuance of new common shares	-	-	-	938,955	-	11,298,256	-	12,237,211
Reissuance of treasury stock	-	-	-	-	-	10,724,121	-	10,724,121
At December 31, 2014 (Audited)	1,200,000	5,800,000	200,000	30,799,997	171,810	36,115,565	(715,867)	73,571,505

The Group's reconciliation of Retained Earnings available for dividend declaration shows the following as of June 30, 2015 and December 31, 2014 (in thousand pesos):

	June 2015 (Unaudited)	December 2014 (Audited)
Consolidated retained earnings balance	**115,655,918**	107,039,814
Accumulated equity in net earnings of subsidiaries, associates and joint ventures	**(85,766,110)**	(77,702,431)
Treasury shares	**(2,300,000)**	(2,300,000)
Retained Earnings available for dividends	**27,589,808**	27,037,383

The following provides details on the dividends declared by the Company as of June 30, 2015 and December 31, 2014:

(in thousand pesos except dividends per share)	**June 2015 (Unaudited)**	December 2014 (Audited)
Dividends to common shares:		
Cash dividends declared	**1,784,450**	2,927,822
Cash dividends per share	**2.88**	4.80
Dividends to equity preferred shares declared		
Cash dividends to Preferred B shares	**-**	1,277,625
Cash dividends to Voting Preferred shares	**-**	3,750

Please refer to Part II Other Information Item 5 on declaration of dividends subsequent to June 30, 2015.

18. Earnings Per Share

The following table presents information necessary to calculate EPS:

	June 30, 2015 (Unaudited)	June 30, 2014 (Unaudited)
(In Thousand Pesos)		
Net Income	**10,400,554**	9,798,711
Less: Dividends on Preferred Shares	**(642,563)**	(266,250)
	9,757,991	9,532,461
Less: Dilutive effect of Options issued by subsidiaries, associates and joint ventures	**(108,641)**	(12,487)
	9,649,350	9,519,974
(In Thousand Shares)		
Weighted average number of common shares	**619,522**	599,789
Dilutive shares arising from stock options	**2,675**	2,810
Adjusted weighted average number of common shares for diluted EPS	**622,197**	602,599
(In Pesos)		
Basic EPS	**15.75**	15.89
Dilutive EPS	**15.51**	15.80

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:

- Parent Company - represents operations of the Company including, among others, its financing entities such as ACIFL and AYCFL; plus results of operations of start-up companies in power generation, transport infrastructure and education.

- 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.

- 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.

- 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.

- Automotive – manufacturing, distribution and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others – air-chartered services, agri-business and other operating companies.

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

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

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

The following tables present revenue and net income information regarding business segments for the periods ended June 30, 2015 and 2014 (both unaudited) and total assets and total liabilities for the business segments as of June 30, 2015 (unaudited) and December 31, 2014 (audited).

June 2015 (Unaudited)
(in million pesos)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecommunications	Water Distribution and Wastewater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
INCOME											
Sales to external customers	41	47,229			7,856	18,577	983	480	8,207		83,373
Intersegment	61	197			143	(53)	-	-	209	(557)	-
Share of profit of associates and joint ventures	253	(81)	4,606	2,654	161	-	(161)	54	39	-	7,525
Interest income	423	2,890			183	14	25	29	3	(1)	3,568
Other income	(105)	375			1,958	61	(3)	292	340	305	3,223
Total income	673	50,611	4,606	2,654	10,301	18,599	844	856	8,799	(253)	97,689
Operating Expenses	1,443	34,231			4,382	17,706	1,074	556	8,640	(583)	67,450
Operating profit	(769)	16,379	4,606	2,654	5,919	893	(230)	299	159	330	30,239
Interest expense and other financing charges	2,166	3,266			731	57	15	2	44	(1)	6,280
Other charges	(9)	-			1,550	5	0	-	1	-	1,547
Provision for income tax	46	3,192			865	129	9	0	61	0	4,303
Net income	(2,972)	9,921	4,606	2,654	2,772	702	(254)	297	52	331	18,109
OTHER INFORMATION											
Segment Assets	108,171	403,847			76,431	24,301	2,579	8,810	7,723	(40,386)	591,477
Investments in associates and joint ventures	137,671	12,984			5,091	(79)	1,921	559	417	-	158,564
Deferred tax assets	149	6,664			923	81	39	-	69	375	8,300
Total Assets	245,992	423,495	-	-	82,445	24,303	4,540	9,369	8,209	(40,011)	758,341
Segment liabilities	103,275	276,866			38,668	13,035	963	113	5,044	(3,250)	434,713
Deferred tax liabilities	91	2,271			102	59	(0)	19	7	4,462	7,011
Total Liabilities	103,366	279,137	-	-	38,770	13,094	963	132	5,051	1,212	441,724
Depreciation & amortization	90	2,351			1,649	536	78	7	104	2	4,818
Non-cash expenses other than depreciation & amortization	15	78			52	5	4	-	1	-	156

June 2014 (Unaudited)
(in million pesos)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecom munications	Water Distribution and Wastew ater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
INCOME											
Sales to external customers	109	42,703	-	-	7,767	19,243	844	475	5,762		76,903
Intersegment	72	270	-	-	-	1	-	-	83	(426)	-
Share of profit of associates											
and joint ventures	205	629	3,796	2,099	173	-	(80)	-	5	-	6,828
Interest income	156	2,191	-	-	54	6	31	1	1	(1)	2,438
Other income	182	382	-	-	1,995	104	1,858	279	212	(21)	4,992
Total income	724	46,176	3,796	2,099	9,990	19,353	2,653	755	6,062	(448)	91,161
Operating Expenses	1,311	32,003	-	-	3,977	18,602	1,014	618	6,057	(273)	63,309
Operating profit	(587)	14,173	3,796	2,099	6,013	752	1,639	137	6	(175)	27,852
Interest expense and other financing charges	2,248	3,005	-	-	799	64	11	4	26	(1)	6,158
Other charges	-	-	-	-	1,580	-	-	-	-	-	1,580
Provision for income tax	20	2,634	-	-	771	188	21	(0)	35	(43)	3,627
Net income	(2,856)	8,534	3,796	2,099	2,862	500	1,607	133	(56)	(131)	16,488

December 2014 (Audited)
(in million pesos)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecom munications	Water Distribution and Wastew ater Services	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Other information											
Segment Assets	158,642	372,509	-	-	88,113	24,616	2,085	7,180	6,442	(97,791)	561,796
Investments in associates											
and joint ventures	133,826	11,735	-	-	4,959	23	3,292	1,914	447	-	156,196
Deferred tax assets	149	7,202	-	-	881	80	39	-	75	(371)	8,055
Total Assets	292,617	391,446	-	-	93,953	24,719	5,416	9,094	6,964	(98,162)	726,047
Segment liabilities	125,145	264,761	-	-	39,823	13,724	745	300	3,865	(15,294)	433,069
Deferred tax liabilities	89	1,967	-	-	4,593	64	2	19	9	-	6,743
Total Liabilities	125,234	266,728	-	-	44,416	13,788	747	319	3,874	(15,294)	439,812

20. Financial Instruments

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. As of June 30, 2015, 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.

In November 2014, the charter of the Audit and Risk Committee was revised with the creation of a separate Risk Committee of the Board.

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 June 30, 2015. 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)	(281,170)	(12,677,972)	1.00	(281,170)
			(1.00)	281,170
Japanese Yen (JPY)	(4,579,595)	(1,692,435)	1.00	(4,579,595)
			(1.00)	4,579,595
Chinese RMB (RMB)	310,403	2,289,334	1.00	310,403
			(1.00)	(310,403)
Singapore Dollar (SGD)	3,423	114,656	1.00	3,423
			(1.00)	(3,423)
Euro (EUR)	29,810	1,498,340	1.00	29,810
			(1.00)	(29,810)
Hongkong Dollar (HKD)	18,834	109,540	1.00	18,834
			(1.00)	(18,834)
Vietnam dong (VND)	150,883,734	312,235	1.00	150,883,734
			(1.00)	(150,883,734)
Czech Koruna (CZK)	(59,630)	(109,995)	1.00	(59,630)
			(1.00)	59,630
Indian Rupee (INR)	371,689	263,746	1.00	371,689
			(1.00)	(371,689)
Mexican Peso (MXN)	160,012	459,086	1.00	160,012
			(1.00)	(160,012)

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.

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 commercial prices and terms.

There has not been any material transaction during the last two years, or proposed transaction, to which the Group 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.

In 2014, Company adopted a Related Party Transactions (RPT) policy which provides that related party transactions between the Company and related parties shall be subject to review and approval to ensure that they are at "arm's length", the terms are fair, and they will inure to the best interest of the Company and its shareholders.

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 ₱48.6 billion and ₱51.6 billion, as of June 30, 2015 (unaudited) and December 31, 2014 (audited), respectively. The Other Noncurrent Assets account as of June 30, 2015 (unaudited) and December 31, 2014 (audited) includes ₱8.2 billion and ₱8.3 billion placement of AYC Finance with BPI, respectively. It also has short-term and long-term debt payable to BPI amounting to ₱27.2 billion and ₱38.0 billion as of June 30, 2015 (unaudited) and December 31, 2014 (audited), respectively. The loans have various maturities from 2017 up to 2023 and bear interest at varying prevailing market rates.

Receivables from Related Parties
The Group has ₱3,145 million and ₱2,709 million receivables from related parties as of June 30, 2015 (unaudited) and December 31, 2014 (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 ₱1,173 million and ₱731 million receivables from officers and employees as of June 30, 2015 (unaudited) and December 31, 2014 (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 2015 to 2026.

Payables to Related Parties
The Group has payables to various related parties amounting to ₱1,760 million and ₱2,459 million as of June 30, 2015 (unaudited) and December 31, 2014 (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 ₱441 million from related parties and incurred total expenses of ₱437 million for the period ending June 30, 2015 (unaudited). These amounts represent 0.45% and 0.58% 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 revenues in the first semester of 2015 reached ₱97.7 billion, 7% higher than the same period in 2014. Sale of goods and rendering services, which accounted for 85% of total revenues, grew 8% to ₱83.4 billion. This was mainly driven by higher sales of the real estate and automotive groups.

Consolidated net income attributable to owners of the parent rose 6% to ₱10.4 billion in the first half of the year driven by the sustained momentum in its telecom, real estate, banking, and electronics businesses, boosted by the positive performance of its power business.

Compared to the net income excluding the net gains from the sale of its business process outsourcing unit in the previous year, Ayala's net income grew 31%.

Real Estate

Ayala Land's net income expanded 19% to ₱8.4 billion, lifted by the upbeat performance of its property development and commercial leasing operations. In property development, residential revenues grew 11% on new bookings and project completion while office sales expanded nearly twofold on the back of new launches from its upscale brand Alveo.

In commercial leasing, shopping center revenues went up 9% owing to higher occupancy and average rentals, while office leasing revenues expanded 16% due to the contribution of newly opened offices and the stronger performance of its existing offices. Revenues from hotels and resorts improved by 8% on higher occupancy.

Ayala Land launched 21 residential projects, the Ayala Triangle Gardens mixed-use development and other leasing projects worth ₱81 billion in the first semester. In addition, Ayala Land and Puregold Price Club recently opened its first supermarket venture named "Merkado" in UP Town Center.

Water

Manila Water's net income dipped 4% from a year ago to ₱3 billion owing to higher operating expenses primarily from catch-up rental costs incurred by the East Zone concession during the period. This resulted in a 5% decline in the net profits of the East Zone concession to ₱2.6 billion despite a 2% growth in billed volume. Excluding the extraordinary rental expense, Manila Water's net income ended flat for the first semester.

Total billed volume grew 2% to 340 million cubic meters supported by billed volume growth outside the East Zone. Billed volume from Laguna Water surged 26%; Clark Water expanded 19%, while Boracay Water and Kenh Dong Water in Vietnam posted growth of 7% and 2%, respectively. Meanwhile, Cebu Manila Water Development started operations in January this year.

Manila Water continues to develop its footprint outside the East Zone concession. It expanded its Laguna Water operations to cover the entire province of Laguna with the addition of used water services in the concession. Moreover, Manila Water was awarded a 15-year bulk water supply contract by the Tagum City Water District.

Electronics

Integrated Micro-Electronics Inc. recorded a net income of $15.2 million, 35% higher from the previous year as operational improvements, continued focus on higher-margin products, and cost saving measures increased profitability.

Revenues slightly declined by 3% to $416.3 million on the back of a weakness in the euro coupled with a slowdown in demand in the computing sector. Excluding the impact of foreign exchange rates, revenues rose 2.4% during the period.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures during the period expanded 10% to ₱7.5 billion largely due to higher equity in net earnings from Globe Telecom (Globe), and Bank of the Philippine Islands (BPI).

Banking

As its core banking business continued to drive growth, net earnings of the Bank of the Philippine Islands expanded 16% to ₱9.3 billion. Total revenues improved 12% to ₱29 billion on higher net interest income and non-interest income. Net interest income grew 12% to ₱19 billion owing to a 15%-expansion in average assets. Non-interest income was up 12% to ₱10 billion as a result of higher income from securities trading, fees and commissions, and insurance business.

The bank's operating expenses grew 7.6% year-on-year resulting in a cost-to-income ratio of 51.9%.

The bank's total assets stood at ₱1.4 trillion at the end of the first half, a 9.7 %-increase from the previous year. Deposit level increased 12% to P1.2 trillion while total loan portfolio grew 9% year-on-year. Asset quality remains strong, with a gross 90-day non-performing loan ratio of 1.77%, lower than last year's 1.85%. Loan loss cover was maintained at 108%.

Consolidated CET 1 Capital Adequacy Ratio (CAR) was 14.3% while total CAR was 15.2% in the first semester.

Telecommunications

Globe Telecom registered a net income of ₱8.7 billion, up 27% year-on-year, bolstered by increased demand for data connectivity across the mobile, fixed line, and broadband segments.

Service revenues rose 13% to ₱53.8 billion with the highest growth coming from mobile browsing and other data revenues, jumping 53% to ₱9.5 billion. Broadband revenues expanded 30% to ₱7.6 billion, while fixed line data revenues surged 20% to ₱3.1 billion. Combined, all these comprise 38% of Globe's total revenues during the period. Globe's mobile and fixed line voice likewise improved, growing 10% and 7%, respectively. Its mobile subscriber base reached 48.4 million, 13% higher year-on-year. Similarly, Globe's broadband subscriber base grew 55% to 3.5 million in the first semester of the year.

The solid revenue growth balanced out the higher subscriber and network-driven costs, with earnings before interest taxes depreciation and amortization (EBITDA) expanding 19% to ₱22.7 billion.

Following the approval of the National Telecommunications Commission, Globe converted $115 million of debt in Bayan Telecommunications into equity, effectively securing control of Bayantel. Subsequently, Globe acquired the stake held by the Lopez group in Bayantel, hiking up its stake in the company to over 98%.

Interest Income

Interest income jumped 46% to ₱3.6 billion in the first half of the year as a result of the higher investible funds of ALI and AC parent.

Costs and Expenses

Consolidated cost of sales increased 9% to ₱44.7 billion as a result of higher sales of the real estate and automotive groups. This accounts for 59% of the total costs and expenses during the period.

Consolidated general and administrative expenses declined 3% to ₱7.9 billion on lower manpower costs from Ayala Land and Manila Water, as well as lower provisions from IMI.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges grew 2% in the first half of the year to ₱6.3 billion. As of June 30, 2015, consolidated debt (short and long-term loans) declined 4% to ₱249 billion from ₱259 billion at the end of 2014 due to settlements of loans of Ayala parent company and MWC partly offset by loan availments of the real estate group.

Similarly, at the parent level, debt dropped 9% to ₱92 billion from end-of 2014.

Balance Sheet Highlights

Cash and cash equivalents and short-term investments at the end of June 30, 2015 dropped 14% to ₱79 billion during the period due largely to payment of loans and dividends. Accounts and notes receivable (current and non-current) registered an 18% increase to ₱124 billion attributed to ALI's higher residential sales and increased rental receivable from mall merchants and Ayala Automotive's higher vehicle sales. This accounts for 17% of the total assets as of June 30, 2015.

On the liabilities side, aside from short and long term debt, accounts payable and accrued expenses rose 11% to P141 billion relating to higher trade accounts of ALI, IMI and Automotive groups.

Consolidated current ratio and debt-to-equity ratio remained healthy at 1.39 and 1.24 to 1, respectively as of the end of June 2015. Consolidated net debt-to-equity ratio was at 0.81 to 1 while net debt-to-equity at the parent level was at 0.23 to 1.

Key Performance indicators:

The Group maintains healthy financial ratios driven by strong operating performance of major subsidiaries and investees.

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

Ratio	Formula	June 2015 (Unaudited)	December 2014 (Audited)
Liquidity Ratio	Cash/ Cash equivalents + Short-term cash investments / Current Liabilities	**0.42**	0.54
Current ratio	Current assets / Current liabilities	**1.39**	1.50
Solvency Ratio	After-Tax Net Profit + (Depreciation + Amortization)+ Provision for Bad Debts / Total Liabilities	**0.03**	0.03 *
Debt-to-Equity Ratio	Long-term Loans + Short Term Loans / Equity Attributable to Owners of the Parent	**1.24**	1.39
Assets- to-Equity Ratio	Total Assets / Equity Attributable to Owners of the Parent	**3.79**	3.91
Interest Expense Coverage Ratio	EBITDA / Interest Expense	**5.34**	4.99 *
Return on Equity	Net Income to Owners of the Parent / Equity Attributable to Owners of the Parent (Average)	**5.4%**	6.6% *
Return on Common Equity	Net Income to Owners of the Parent Less Dividends on Preferred Shares / Common Equity Attributable to Owners of the Parent (Average)	**5.8%**	6.9% *
Return on Assets	Net Income / Total Assets	**2.4%**	2.4% *

** Based on Unaudited June 30, 2014.*

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

The Group does not expect any liquidity problems and is not in default of any financial obligations. The Group complied with the existing loan covenants and restrictions as of June 30, 2015.

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.

In 2015, the Ayala Group has earmarked P185 billion in combined capital expenditures to support the massive expansion plans of its real estate and telecom units.

As of the first half, Ayala has spent ₱2.1 billion (from the total of ₱21.4 billion for 2015), a significant portion of which was used to support its investments in ACEHI and AC Infra. The capital expenditures will be funded through a combination of internally-generated cash, debt and equity issue.

For the year 2015, ALI's consolidated budget for project and capital expenditures amount to ₱100.3 billion. This will be financed through a combination of internally-generated funds, borrowings and pre-selling.

ALI spent a total of ₱41.10 billion for project and capital expenditures in the first six months of 2015. 75% of the capital expenditures were spent on construction of projects under core businesses with the remaining 25% spent for land acquisition.

MWCI targets to spend around ₱5.0 billion capital expenditures in 2015 for the rehabilitation and construction of facilities to improve water and sewer services in the East Zone Service Area, based on the 2013 rate rebasing arbitration decision and government approvals. Capital Expenditures will be funded from the current cash reserves, internal funds generation and proceeds of available loan facilities.

MWCI's East Zone spent a total of ₱1,599 million (inclusive of concession fee payments) for capital expenditures in the first half of 2015, 20% less than the ₱2,008 million spent in the same period the previous year. The bulk of capital expenditures was spent on wastewater expansion, water supply and network reliability projects, which accounted for 91% of the total. The balance of 9% was accounted for by concession fees paid to MWSS. Capital expenditures for the balance of 2015 is expected to ramp up with the approval of the business plan, following the conclusion of the 2013 Rate Rebasing exercise. Committed capital expenditures from 2015 to 2017 in the business plan amount to ₱27 billion. Meanwhile, total capital expenditures of the subsidiaries rose by 10% to ₱ 374 million from the ₱341 million spent in the first half of 2014. Of the total amount, ₱173 million was used by Laguna Water for its network coverage expansion, while Boracay Water and Clark Water disbursed ₱134 million and ₱67 million, respectively.

For the six-month period of 2015, IMI's capital expenditures amounted to US$14.0 million which comprised mainly of warehouse, building improvements, machineries and facilities equipment to sustain continuous plant expansions. For the full year of 2015, IMI expects to spend $27.7M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the IMI's cash from operations and public offering and a portion to be funded by debt. IMI looks forward to line expansions to cater increased demand in the automotive sector being its target market.

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. Key economic indicators, interest rate and foreign exchange rate movements will continue to impact 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 June 30, 2015 (Unaudited) vs. December 31, 2014 (Audited)

Cash and cash equivalents – 27% decrease from ₱66,582 million to ₱90,770 million
Primarily due to AC Parent's payment of loans, dividends and placements to Short-term investment; AYC's placements and loan payment. This account is at 9% and 13% of the total assets as of June 30, 2015 and December 31, 2014, respectively.

Short-term investments – 10 times higher from ₱1,103 million to ₱12,237 million
Due to additional placements made by AC and AYC for the period. This account is at 1.6% and 0.2% of the total assets as of June 30, 2015 and December 31, 2014, respectively.

Accounts and notes receivable (current) – 21% increase from ₱72,710 million to ₱87,743 million
Increase attributable ALI group's higher sales of residential units and higher rental receivable from mall merchants. Moreover, Automotive group's and ACEHI's increase in vehicle sales and advances to contractors attributed to the increase in receivables. This account is at 12% and 10% of the total assets as of June 30, 2015 and December 31, 2014, respectively.

Inventories – 10% increase from ₱54,962million to ₱60,614 million
Increase pertains to ALI group's higher completed inventories for new and existing projects and Automotive group's higher vehicle inventory. This account is at 8% of the total assets as of June 30, 2015 and December 31, 2014.

Other current assets – 10% decrease from ₱35,157million to ₱31,802 million
Decrease mainly due to ALI group's redemption of UITF investments and maturity of other current investments. This account is at 4% and 5% of the total assets as of June 30, 2015 and December 31, 2014, respectively.

Accounts and notes receivable (noncurrent) – 12% increase from ₱32,006 million to ₱36,002 million
Increase attributable to ALI group's higher sales of residential units. This account is at 5% and 4% of the total assets as of June 30, 2015 and December 31, 2014, respectively.

Investment in bonds and other securities – 5% decrease from ₱3,432 million to ₱3,272 million
Mainly due to ALI group's sale of investment shares. This account is at 0.4% and 0.5% of the total assets as of June 30, 2015 and December 31, 2014, respectively.

Land and improvements – 8% increase from ₱79,960 million to ₱86,312 million
Increase comprised of ALI group's new unsubdivided lots acquired during the period mainly from provincial areas. This account is at 11% of the total assets as of June 30, 2015 and December 31, 2014.

Investments in associates and joint ventures – 4% increase from ₱152,765 million to ₱158,564 million
Attributable to share in equity earnings offset by dividends from BPI and Globe; and ALI's new investment in MCT, Bhd., a company based in Malaysia. This account is at 21% of the total assets as of December 31, 2014 and 2013.

Investment properties – 10% increase from ₱71,324 million to ₱78,783 million
Increase comprised of ALI group's additional investment properties (malls, office buildings and land acquisitions). This account is at 10% of the total assets as of June 30, 2015 and December 31, 2014.

Pension and other noncurrent assets - 13% increase from ₱16,830 million to ₱19,031 million
Increase attributable to ALI group's higher pre-operating expenses, deferred charges and down payments pertaining to new projects. The account also includes the Group's pension asset which has no significant movement for the period.[1] This account is at 3% and 2% of the total assets as of June 30, 2015 and December 31, 2014, respectively.

Accounts payable and accrued expenses - 11% increase from ₱126,102 million to ₱140,520 million
Increase caused by higher trade payables and accruals of ALI group for its new and existing projects (including higher construction payables); IMI's higher payables on turnkey projects in Philippines; offset by AC's settlement of dividends payable. This account is at 32% and 29% of the total liabilities as of June 30, 2015 and December 31, 2014, respectively.

Short-term debt – 38% decrease from ₱21,084 million to ₱13,092 million
Mainly due to lower loan balance of the ALI and IMI groups partly offset by loan availment of the Automotive group. This account is at 3% and 5% of the total liabilities as of June 30, 2015 and December 31, 2014, respectively.

Income tax payable – 28% increase from ₱1,340 million to ₱1,711 million
Attributable to higher tax payable of ALI group. As a percentage to total liabilities, this account is at less than 1% as of June 30, 2015 and December 31, 2014.

Long-term debt (current) – 117% increase from ₱10,761 million to ₱23,404 million
Mainly due to MWCI and AYC groups' reclassification of loans maturing this year and ALI's loan availment this year. This account is at 5% and 2% of the total liabilities as of June 30, 2015 and December 31, 2014, respectively.

Service concession obligation (current) – 14% increase from ₱1,020 million to ₱1,160 million
Increase was due to higher computed and actual obligation due within one year. This account is at less than 1% of the total liabilities as of June 30, 2015 and December 31, 2014.

Other current liabilities – 34% decrease from ₱9,452 million to ₱6,264 million
Net decrease was mainly due to ALI group's payment to various contractors and release of retention payable from projects. This account is at 1% and 2% of the total liabilities as of June 30, 2015 and December 31, 2014.

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

Long-term debt (noncurrent) – 6% decrease from ₱226,999 million to ₱212,344 million
Due to settlements and reclassification to current loans of AC, MWCI and AYC groups partly offset by loan availment of ALI group. This account is at 48% and 52% of the total liabilities as of June 30, 2015 and December 31, 2014, respectively.

Pension liabilities – 9% decrease from ₱2,180 million to ₱1,992 million
Decrease consists of settlement of last year liabilities. This account is at less than 1% of the total liabilities as of June 30, 2015 and December 31, 2014.

Cumulative translation adjustments - 17% increase from negative ₱604 million to negative ₱708 million
Downward impact due to slight depreciation of PhP vs US$ in Q2 2015 *(45.09 in 2015 vs. 44.72 in 2014)*

Cost of share based payments – 14% decrease from ₱377 million to ₱326 million
Pertains to exercise of stock options of AC employees.

Net unrealized gain on available-for-sale financial assets –8 times decrease from negative ₱7 million to negative ₱64 million
Pertains to the movement in the market value of securities held by BPI group as available for sale financial assets.

Equity reserve – 76% increase from ₱7,478 million to ₱13,139 million
Increase mainly came from AC's dilution resulting from ALI's top-up placement in January 2015.

Retained earnings – 8% increase from ₱107,040 million to ₱115,656 million
Represents share in Q2 2015 group net income, reduced by the amount of dividends declared.

Non-controlling interests – 15% increase from ₱101,202 million to ₱116,600 million
Includes share in Q2 2015 group net income, effect of ALI's top-up placement, share in dividends declared and share in other comprehensive income.

Income Statement items
For the Period Ended June 30, 2015 (Unaudited) vs. June 30, 2014 (Unaudited)

Sale of goods and rendering services – 8% increase from a total of ₱76,903 million to ₱83,373 million
Growth in sale of goods came primarily from higher sales of ALI and Automotive groups. ALI sustained its sales momentum on residential projects. Automotive group's higher sales were driven by Honda and Isuzu. As a percentage to total income, this account is at 85% and 84% in June 30, 2015 and 2014, respectively.

Share of profit of associates and joint ventures – 10% increase from ₱6,828 million to ₱7,525 million
Increase significantly from the higher equity in net earnings of Globe (on subscriber-based revenue growth) and BPI (on higher net interest income). As a percentage to total income, this account is at 8% and 7% in June 30, 2015 and 2014, respectively.

Interest income – 46% increase from ₱2,438 million to ₱3,568 million
Mainly from ALI, AC, MWCI and AYC groups higher investible funds and higher accretion income on installment sales of ALI. This account is at 4% and 3% of the total income in June 30, 2015 and 2014, respectively.

Other income – 35% decrease from ₱4,992 million to ₱3,223 million
Decline was due to one-off item in 2014 pertaining to a P1.8B gain from divestment of Stream. This account is at 3% and 5% of the total income in June 30, 2015 and 2014, respectively.

Cost of sales – 9% increase from ₱40,920 million to ₱44,696 million
Increase resulting from higher sales of ALI and Automotive groups. As a percentage to total costs and expenses, this account is at 59% and 58% in June 30, 2015 and 2014, respectively.

Provision for income tax (current and deferred) – 19% increase from ₱3,627 million to ₱4,302 million
Primarily due to higher taxable income of several subsidiaries significant part of which comes from ALI and MWCI groups on account of better sales and other operating results.

<u>Income attributable to Owners of the parent – 6% increase from P9,799 million to P10,400million</u>
Increase due to better performance of most subsidiaries and associates of the Group.

<u>Income attributable to Non-controlling interests – 15% increase from ₱6,689 million to ₱7,709 million</u>
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 cyclicality 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.

ACEHI

a) On July 24, 2015, the Company confirmed the news article posted on BusinessMirror (Internet Edition) on July 23, 2015 that the Company is interested to participate in the privatization of hydro power plants should this be put out for bid, subject to a proper evaluation and assessment of the projects. Further, the Company confirmed that it is more inclined to acquire rather than to merely operate hydropower assets.

AC Infra

a) On July 21, 2015, Ayala Corporation (AC), its 80%-owned subsidiary MCX Tollway, Inc. (MCXI), South Luzon Tollway Corporation (SLTC), and Manila Toll Expressway Systems, Inc. (MATES) signed a Memorandum of Agreement on the Interoperability ("MOA on Interoperability") of the Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang-Hari-SLEX Connector Road) and the South Luzon Expressway (SLEX) and an accompanying Addendum to the MOA on Interoperability. The MOA on Interoperability and the Addendum provide the framework that will govern the interface and integration of the technical operations and toll collection systems between MCX and SLEX, to ensure seamless travel access into MCX and SLEX for road users.

   MCX is AC's first toll road project under the Philippine government's Public Private Partnership Program. It is a vital access road that links the rapidly growing city of Muntinlupa and the province of Cavite to Metro Manila and the rest of Southern Luzon. MCXI, which is 80% owned by AC and 20% by Getinsa Ingeniera, SL is the Facility Operator of the MCX. SLTC is a subsidiary of San Miguel Corp. and is the grantee of the concession to finance, design and construct the SLEX, while MATES is the grantee of the concession to operate the SLEX.

   MATES and MCXI also executed on July 21, 2015 a Toll Collection Services Agreement, under which, MATES was appointed a sub-contractor of MCXI for the provision of toll collection services for the MCX toll plaza.

   On July 24, 2015, MCX was opened to the public free of charge for one month.

AEI

a) On July 28, 2015, AEI, the education investment arm of AC, acquired a 60% stake in University of Nueva Caceres (UNC) for ₱450 million, it will hold the majority of UNC's board seats. UNC is located in Naga, Camarines Sur, and was founded in 1948 as the first university in Southern Luzon outside Manila.

AHHI

a) On July 15, 2015, AHHI signed agreements to acquire a 50% stake in the Generika group from the family of Mr. Julien Bello. Mr. Teodoro Ferrer and his group, who co-founded Generika with Mr. Bello, will continue to hold the remaining 50% ownership in Generika. Mr. Ferrer shall continue to serve as the President and Chief Executive Officer of the group. The value of the acquisition is less than 10% of Ayala's book value.

ALI

a) In July 2015, Ayala Corporation sold 3 lots approximately 12,278 sqm. of its 13,484 sqm. property in San Antonio, Makati to Avida Land Corp.

b) On August 11, 2015, ALI won the bid for the Integrated Transport System Project – South Terminal ("ITS South Project"). ALI will be awarded by the Department of Transportation and Communications ("DOTC") with a 35-year concession agreement to build and operate the ITS South Project and will likewise have the right to develop and operate commercial leasing facilities on the same 5.57 hectare former Food Terminal Inc.

IMI

a) On June 25, 2015, the BOD of IMI approved the redemption of all outstanding 1.3 billion redeemable preferred shares which were issued in 2008. The preferred shares will be redeemed at a redemption price of P1.00 per share. The redemption price of the shares and all accumulated unpaid cash dividends, if any, shall be paid on August 24, 2015 to the stockholders of record as of July 24, 2015.

MWCI

a) On July 28, 2015, the Tagum City Water District (TCWD) awarded the Tagum City Bulk Water Supply Project to the consortium of Manila Water and iWater Inc. In accordance with the joint venture agreement, the TCWD and the consortium of Manila Water and iWater Inc. will form a joint venture company which will implement the Project in accordance with the joint venture agreement and the corresponding bulk water supply purchase agreement.

BPI

a) On May 20, 2015, the BOD of BPI approved the declaration of cash dividends of ₱0.90 per outstanding common shares subject to the approval of the BSP. On July 20, 2015, the BSP approved the dividend declaration which will be paid on September 2, 2015 to stockholders of record as of August 10, 2015.

Globe

a) On July 2, 2015, National Telecommunications Commission (NTC) approved the joint application filed by Globe and Bayan Telecommunications, Inc. (BTI) to authorize Globe to convert its debt holdings in BTI into equity which will result in a controlling interest by the former of at least 54% of the latter's outstanding shares. BTI is a facilities-based provider of data services and fixed-line telecommunications.

   Following the approval of the NTC, Globe converted $115 million of debt in BTI into equity, effectively securing control of BTI.

   On July 20, 2015, Globe acquired additional voting shares of BTI, which increased its controlling interest to approximately 98% in exchange for cash amounting to ₱1,830 million. Globe's acquisition of BTI is intended to augment its current data and DSL businesses using BTI's existing platform.

   On July 31, 2015, loan receivables from BTI were revalued, in accordance with the Master Restructuring Agreement, comprising of principal and interest due until 2023, with quarterly interest payments and semi-annual principal payments.

3.1 Other material events or transactions during the interim period.

Refer to Notes 3 and 10 of the Notes to Unaudited Consolidated Financial Statements.

PART II – OTHER INFORMATION

The other major information about the Group are disclosed in appropriate notes in the accompanying audited Consolidated Financial Statements for December 31, 2014 or discussed in previously filed SEC 17A / SEC 17Q and SEC 17-C reports for 2014.

In addition, the Group has the following other major information:

1. On March 10, 2015, the BOD of the Company approved the following:

   - Approval for AI North America, Inc. ("AINA"), a wholly-owned subsidiary of AG Holdings, to invest US$20.0 million in the Sares Regis Multi-family Value Add Fund II, a real estate private equity fund to be managed by the Sares-Regis group (SRG) based in California, USA. The investment will entitle AINA to get a voting interest through 1 (one) board seat on the Board of Advisors. AINA is also authorized, through its authorized signatories, to execute the Limited Partnership Agreement with SRG.
   - Application of US$20.0 million Term Loan Facility for GN Power Mariveles Coal Plant Ltd. Co. (GMCP). Arlington BV will grant the loan of up to US$20.0 million in accordance with the following terms and Ayala-Sithe Global funding terms:
     - Interest of 10% per annum compounded semi-annually
     - Payable on or before December 31, 2016
     - Step-up interest of 20% per annum if the loan is unpaid by maturity date
     - Sithe commits to buy-out US$15.0 million of the loan by July 2015

2. On April 10, 2015, at the annual meeting of the Company's stockholders, the following are the major items approved:

   a. 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 audited financial statements of the Corporation and its subsidiaries as of 31 December 2014, as audited by the Corporation's external auditor SyCip Gorres Velayo & Co.
   b. 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
      Delfin L. Lazaro
      Xavier P. Loinaz
      Ramon R. del Rosario, Jr.
      Yoshio Amano
      Antonio Jose U. Periquet

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

   c. Election of SyCip, Gorres, Velayo & Co. as the external auditors of our Company for the fiscal year 2015.

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

Risk Management Committee
Antonio Jose U. Periquet - Chairman
Yoshio Amano - Member
Ramon R. del Rosario, Jr. - Member

Nomination Committee
Ramon R. del Rosario, Jr. - Chairman
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
Bernard Vincent O. Dy	- Senior Managing Director
Arthur R. Tan	- Senior Managing Director
Alfredo I. Ayala	- Managing Director
John Eric T. Francia	- Managing Director
Solomon M. Hermosura	- Managing Director, General Counsel, Corporate Secretary & Compliance Officer & Corporate Governance Group Head
Delfin C. Gonzalez Jr.*	- Managing Director, Chief Finance Officer, Chief Risk Officer & Finance Group Head
Jose Teodoro K. Limcaoco*	- Managing Director, Chief Finance Officer, Chief Risk Officer & Finance Group Head
Ruel T. Maranan	- Managing Director
John Philip S. Orbeta	- Managing Director & Corporate Resources Group Head
Paolo Maximo F. Borromeo	- Executive Director & Corporate Strategy and Development Group Head
Ma. Cecilia T. Cruzabra	- Executive Director & Treasurer
Josephine G. De Asis	- Executive Director & Controller
Catherine H. Ang	- Executive Director & Chief Internal Auditor
Dodjie D. Lagazo**	- Assistant Corporate Secretary
Charlene Mae C. Tapic-Castro**	- Assistant Corporate Secretary

** Mr. Gonzalez was replaced by Mr. Limcaoco who was appointed as CFO and Finance Group Head effective April 10, 2015.*
*** The term of Ms. June Vee D. Monteclaro-Navarro as Assistant Corporate Secretary expired effective on April 10, 2015. Mr. Lagazo and Ms. Tapic-Castro succeeded Ms. Monteclaro-Navarro as Assistant Corporate Secretary.*

c. Ayala Group of Companies Management Committee

Jaime Augusto Zobel de Ayala	- Chairman and Chief Executive Officer, Ayala Corporation
Fernando Zobel de Ayala	- Vice Chairman, President and Chief Operating Officer, Ayala Corporation
Gerardo C. Ablaza, Jr.	- President, Manila Water Company, Inc.
Alfredo I. Ayala	- President, LiveIt Investments, Ltd.

Paolo Maximo F. Borromeo	- Corporate Strategy and Development Group Head, Ayala Corporation
Cezar P. Consing	- President, Bank of the Philippine Islands
Ernest Lawrence L. Cu	- President, Globe Telecom, Inc.
Bernard Vincent O. Dy	- President, Ayala Land, Inc.
John Eric T. Francia	- President, AC Energy Holdings, Inc. and AC Infrastructure Holdings Corporation
Delfin C. Gonzalez Jr.*	- Chief Finance Officer, Chief Risk Officer & Finance Group Head, Ayala Corporation
Jose Teodoro K. Limcaoco*	- Chief Finance Officer, Chief Risk Officer & Finance Group Head, Ayala Corporation
Ruel T. Maranan	- President, Ayala Foundation, Inc.
Solomon M. Hermosura	- General Counsel, Corporate Secretary, Compliance Officer & Corporate Governance Group Head, Ayala Corporation
John Philip S. Orbeta	- Corporate Resources Group Head, Ayala Corporation & President, Ayala Automotive Holdings Corporation
Arthur R. Tan	- President, Integrated Micro-Electronics, Inc.

** Mr. Gonzalez was replaced by Mr. Limcaoco who was appointed as CFO and Finance Group Head effective April 10, 2015.*

d. Ayala Corporation Management Committee

Jaime Augusto Zobel de Ayala
Fernando Zobel de Ayala
Gerardo C. Ablaza, Jr.
Paolo Maximo F. Borromeo
John Eric T. Francia
Solomon M. Hermosura
Delfin C. Gonzalez Jr.*
Jose Teodoro K. Limcaoco*
John Philip S. Orbeta

** Mr. Gonzalez was replaced by Mr. Limcaoco who was appointed as CFO and Finance Group Head effective April 10, 2015.*

3. On April 17, 2015 and May 21, 2015, the Company, in compliance with the SEC Memoranda 1 and 12, Series of 2014, filed the changes and updates made in the Annual Corporate Governance Report (ACGR). The updated ACGR may be accessed from the Company's website through the following link:
http://www.ayala.com.ph/governance/page/annual-corporate-governance-report.

4. On May 13, 2015, the Company issued a press statement regarding the Company's net income in Q1 2015 which amounted to ₱5.0 billion.

5. On June 25, 2015, the Board of Directors, at its regular meeting, approved the following:

   a. The declaration of regular cash dividend of ₱2.88 per common share. The record date is July 9, 2015 and payment is July 24, 2015. This cash dividend is for the first semester ending June 30, 2015, and it is 20% higher than the cash dividend of ₱2.40 per common share for the first semester ending June 30, 2014.
   b. The change of name of our Board's Risk Management Committee to Risk Management and Related Party Transactions Committee. The purpose of this is to further emphasize the commitment of our Company to its compliance with the principles of good corporate governance, which require that our Board assigns a sufficient number of its members capable of exercising independent judgment to tasks where there is a potential conflict of interest, such as the review of related party transactions.

6. On July 3, 2015, the Company updated Manual or Corporate Governance reflecting the change in name of our Board's Risk Management Committee to Risk Management and Related Party Transactions Committee as approved by the Board on June 25, 2015.

SIGNATURES

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

Registrant **AYALA CORPORATION**

By:

JOSEPHINE G. DE ASIS
Authorized Signatory
Comptroller
Ayala Corporation

Date: August 14, 2015