ELECTRONICS MANUFACTURING SERVICES (EMS) REVENUES IN BILLION US$

The rapid rise of post-PC platforms has led to startling changes in our wireless world. From phones to smartphones, from PCs to tablets, from car dashboards to wearables— technology today is pervasive and ubiquitous. This has led to an unprecedented surge in demand for electronics and has transformed the competitive landscape for global electronics manufacturing services. With total EMS industry revenues projected to hit at least US$283.9 billion by 2016, we at IMI are confident that we can capture a sizable proportion of the EMS market over the next several years. Already a globally respected Top 20 player, we continue to aggressively pursue new opportunities and accelerate our drive to expand across multiple markets. By leveraging our deep bench of industry experience, technical capabilities, and global footprint, we believe that IMI's growth strategy is sustainable and will propel us into the elite ranks of the world's top EMS providers by 2020.

2013 Annual Report and Sustainability Report

Contents

Our Story

We are a leading worldwide provider of electronics manufacturing services (EMS) and power semiconductor assembly and test service

Proud to be a member of the Ayala group of companies, we play an active role in this Age of Electronics: We develop and manufacture electronic devices that impact our lives or that we use daily, whoever and wherever we are

Our Expertise

IMI's comprehensive range of pioneering product and manufacturing services assist original equipment manufacturers in product realization

Design and Engineering

- Design and Development
- Advanced Manufacturing Engineering
- Test and System Development
- EMC Pre-certification Solutions
- Custom Automation

NPI* → Manufacturing

- From PCB and FPCB Assembly Services to Complete Box Build
- High-Volume Manufacturing
- Low-Volume, High-Mix Manufacturing
- Complex Equipment Manufacturing
- Power Semiconductor Assembly and Test Solutions
- Flexible Business Set-ups
- Plastic Injection

* New Product Introduction

Support and Fulfillment

- Materials Sourcing
- Logistics Solutions
- Product Reliability and Failure Analysis
- Calibration
- Product Repair Services

Financial Highlights

In US$ Million

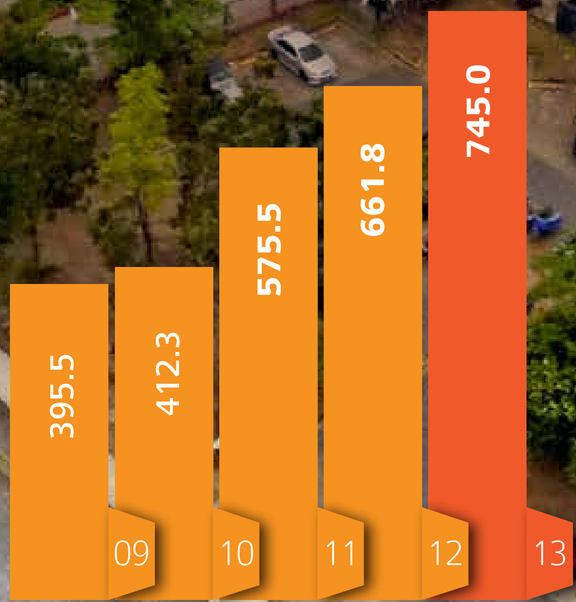
	2013	2012 (As Restated)	Variance	%
Revenues	**745.0**	661.8	83.2	13%
EBITDA	**36.4**	32.7	3.7	11%
Net income*	**10.5**	5.6	4.9	88%
Total assets	**488.2**	453.3	34.9	8%
Equity*	**192.6**	193.8	-1.2	-1%
Book value per share	**0.10**	0.10		
Current ratio	**1.53**	1.56		
Debt-to-equity ratio	**0.48**	0.47		
Return on equity*	**5.4%**	2.9%		

*attributable to equity holders of the Parent Company

5% EBITDA MARGIN

Annual Revenues

In US$ Million



$49.0M CASH BALANCE

13% REVENUE

NET INCOME

$5.6M → $10.5M

Our Locations

MANUFACTURING | ENGINEERING | SUPPORT ONLY

FREMONT, CALIFORNIA
TUSTIN, CALIFORNIA

Main Markets: Automotive, Medical, Industrial
Revenue: US$0.4M
Production Space: 2,327 sqm.

15

TREMOŠNÁ, CZECH REPUBLIC

Main Markets: Automotive, Industrial, Consumer
Revenue: US$22.4M
Production Space: 7,740 sqm.

189

GUADALAJARA, MEXICO

Main Markets: Automotive, Consumer
Revenue: US$66.1M
Production Space: 22,055 sqm.

894

BOTEVGRAD, BULGARIA

Main Markets: Automotive, Industrial, Consumer
Revenue: US$146.4M
Production Space: 25,878 sqm.

+ 1,491

Revenues by Customer Nationality

Europe	51%
North America	30%
Japan	9%
Rest of Asia/ Others	10%

CHENGDU
JIAXING
SHENZHEN

Main Markets: Telecommunications Infrastructure, Consumer, Industrial, Automotive
Revenue: US$277.2M
Production Space: 57,100 sqm.

CHINA + 5,840

JAPAN 4

Revenue: US$0.3M

Revenues by Market Segment

Automotive	37%
Telecommunications Infrastructure	18%
Industrial	15%
Consumer	14%
Multiple Markets	8%
Storage Devices	5%
Medical	3%

PHILIPPINES

LAGUNA
TAGUIG
CAVITE

Main Markets: Industrial, Automotive, Storage Device, Medical, Power Semiconductors (PSi Technologies, Inc.)
Revenue: US$232.3M
- US$189.2M IMI Philippines
- US$43.1M PSi Technologies, Inc.

Production Space: 107,822 sqm.

+ 10,752

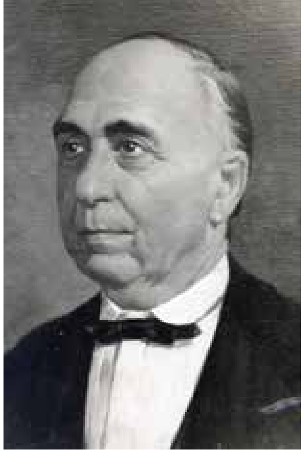
SINGAPORE

Ayala
180
Years

A Brief History of the Philippines' Oldest Business House

Ayala in 2014 celebrates its 180th year. How it evolved into one of the largest and most innovative Philippine conglomerates—with businesses ranging from real estate, financial services, and telecommunications to investments in water, electronics, automotive, business process outsourcing, power, and transport infrastructure—is the longest narrative in the country's business history.






The story begins in 1834 in what was Las Islas Filipinas. At a time when Manila's business houses were engaged mainly in executing customers' orders for buying and selling of commodities for a fee, landowner and entrepreneur Domingo Roxas and his young industrial partner Antonio de Ayala created a company that would engage in agribusiness. They built a distillery to derive greater value from cane sugar. It was small but it represented a Philippine step from the purely agricultural to the little-unexplored realm of industry.

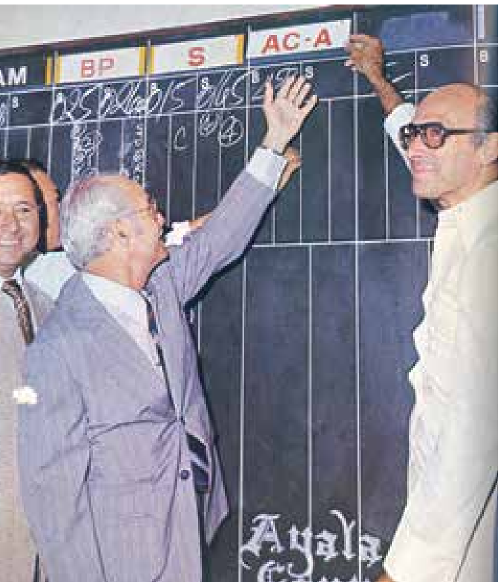
When it had grown and become well known, the distillery exported various products to Europe and garnered awards and recognition for their quality. This showed that an enterprise in the rural and remote Philippines could compete in the international arena and win. Its best selling brand, Ginebra San Miguel, remains today.

When a Spanish royal decree established El Banco Español-Filipino de Isabela II, Southeast Asia's first private commercial bank, Antonio de Ayala was appointed director representing the Manila business community. Thus began the Ayala involvement in banking. Banco Español-Filipino—which issued the first Philippine paper currency—later became Bank of the Philippine Islands.

One of de Ayala's sons-in-law was the multitalented Jacobo de Zobel: businessman, numismatist, archaeologist, writer; mayor of Manila at age 30; he read and spoke 11 languages, including Arabic and Etruscan. While engaged in the family business and serving on the Banco Español-Filipino board, he introduced the first streetcar system in Manila.

After the turn of the 20th century, the tramcar service was sold to an American company that renamed it Manila Electric Railway and Light Co., or MERALCO. The distillery was also sold, to businessman Carlos Palanca; at the time, it had 3,000 employees, including Filipino and French scientists. It had become a de facto incubator of the country's chemical industry.

Ayala
180
Years



INTO MODERN TIMES

A decision attributed to Roxas' son Jose Bonifacio was the purchase of land in San Pedro de Makati that extended all the way to the banks of the Pasig River. The property was deemed to have little value and had undergone a series of ownership changes when the company bought it for ₱52,800 in 1851.

When the family's assets were apportioned in 1914, the Makati property went to the cousins Jacobo, Alfonso, and Mercedes Zobel de Ayala. They and their successors would bring Ayala to what it is today.

Mercedes' husband, Col. Joseph McMicking, provided a new vision for Ayala, and for developing what remained of the Makati property. The venture was uncertain and at first difficult. When success came, it signified an unprecedented leap in the evolution of local real estate development. From it emerged the Philippines' first modern Central Business District.

Ayala moved further from being a family business to being more corporate in character. After a century, it began to employ professional managers. It incorporated in 1968 and became publicly listed in 1976.

With professional teams, Colonel McMicking and his successors in management—Jacobo's son Enrique Zobel and Alfonso's son Jaime Zobel—steered Ayala to great success in the 20th century. Today, Jaime Augusto and Fernando Zobel de Ayala share leadership of a modern conglomerate with a much broader impact on the life of the nation.

BEYOND 180 YEARS: ENABLING ENTREPRENEURSHIP

Ayala has found that the entrepreneurial spirit that has driven it for 18 decades is shared by many Filipinos, including merchants in its malls, retailers of Globe products, overseas workers' families that bank with BPI, residents' cooperatives in Manila Water's distribution zone, and micro-entrepreneurs who benefit from BanKO's microfinance services. As Ayala continues its expansion and diversification, it keeps an enthusiastic eye for the many thousands of people who will begin and build their own businesses through the ones it creates.

"By emphasizing a social purpose, we achieve a more complete form of doing business and generate a cycle of prosperity," says the chairman and chief executive officer, Jaime Augusto Zobel de Ayala.

"We have always believed that the development of every individual foregrounds the development of the whole," adds his brother Fernando, president and chief operating officer.

Ayala's reputation for integrity, product and service quality, financial strength and prudence, and high professionalism has made it a partner of choice for major international corporations and the employer of choice for many of the best and brightest talents. The respect and trust it enjoys is deemed to have been earned by few other businesses in the Philippines, and these are the core values that it treasures the most.

The conglomerate's leadership, with Jaime Zobel de Ayala as chairman emeritus, constantly promotes these values, including a deep commitment to Philippine development and to the Filipino.

Ayala's narrative of pioneering innovation continues into a future full of new opportunity and promise.

Chairman's Message

Growth in the global economy in 2013 was challenged by the subdued to modest growth of advanced economies, and a slowdown in many emerging markets.

As the year unfolded, the eurozone climbed out of recession, while consumers in Japan and the United States continued to mend their personal balance sheets. While China's economy continued to expand, it did so at its most sluggish pace in 20 years. This in turn moderated growth across the region. The second half of the year, however, brought some reassurance that the world's second-largest economy had averted a hard landing.

While worldwide electronic equipment production declined and the global electronics outsourcing industry contracted, IMI was able to report higher revenues and profit. This, I believe, marks the first steps of renewed success in our company's continuous transformation towards higher value products and services, driven by our operating expansion in Europe and the Philippines, and our effective diversification strategy.

IMI's automotive electronics division maintained its growth trajectory in 2013 as the sector recorded a 34 percent year-on-year growth. Our industrial unit also performed well, as did our computing and medical device segments.

The continued expansion of our revenue base is a direct result of our dedicated pursuit of higher value offerings. We managed this by constantly redefining our portfolio and skills, as well as through focused acquisitions and divestments. As an example, one

of the exciting developments in 2013 was our global automation initiative, as we kicked off a pilot project to develop IMI's first low-cost, robot-based assembly station in China. These semi-automated work stations have the potential to dramatically reduce the total cost of manufacturing by enhancing quality and minimizing IMI's dependence on highly skilled operators for selected processes.

Well into the first half of IMI's fourth decade in operations, we have continued to develop the capabilities to stay ahead of the business curve. Last year, we shut down unprofitable businesses and streamlined our China operations to contain costs. As we focused our marketing efforts on high-margin segments, we have also been laying the groundwork for a more sophisticated engagement with automotive, industrial, and medical electronics.

IMI's international design & development (D&D) teams have also been working hard to develop more complex work and thus add value to our product line. Across the entire organization, we pushed the edge of the envelope by developing creative solutions to strengthen and expand our manufacturing capabilities in the industries and programs IMI participates in. Our strategic positioning of products and services, our solid balance sheet, our recurring revenue, our healthy profit streams, and our global reach—and notably our institutional capability for innovation and sustained transformation—gave us the confidence to continue to provide differentiated value to our clients, employees, partners, and communities.

With the global economic recovery expected to continue in 2014, we are in a good position to work on new challenges. The EMS segment is projected to grow at 7.8 percent in 2014, while the electronics market continues to show renewed strength over the next decade. As IMI continues to improve its profitability levels, our company will continue to enhance its technical capabilities to capture high-growth, high-margin offerings in the automotive, industrial, and medical electronics markets.

In closing, let me say a few words on the implications of these compelling realities for IMI. As electronic products and services continue to permeate our everyday lives, IMI remains in integral parts of the production chain, and is in a unique position to participate in a wide array of products and services.

We belong to a fast-changing industry and we remain committed to being a leading provider of EMS and power semiconductor assembly and test services with manufacturing facilities across the world. We will maintain a global presence to efficiently reach and serve diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, and consumer electronics industries.

This commitment shapes everything we do: our business strategy, our people development programs, our skills enhancement initiatives, our innovation programs, and how we run the company. Ultimately, we aspire to be an integral partner to our clients, our communities, our business associates, and our investors.

In this spirit, I express my deep appreciation to the IMI group in the Philippines and our international IMI teams for forging ahead and bringing us to where we are today. I also thank our customers and shareholders for their enduring faith in IMI, in both good and demanding times. Finally, I thank our board of directors, our management teams, and our outstanding personnel without whose determination and teamwork we would never have navigated successfully through these challenging times.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman

"We also made sure that we drove businesses that actually created profitability rather than merely carrying on for the sake of doing business."

ARTHUR R. TAN
President and Chief Executive Officer

President's Report

How would you assess IMI's performance in 2013?

It has been yet another challenging year for the global economy, one marked by transition and modest recovery in the second half of 2013, led by the advanced economies of the United States and Japan, as well as the Eurozone. US economic growth for the second quarter picked up on the back of consumer spending, housing sector activity, and exports, while the Eurozone reported a modest increase in economic output for the second quarter, ending six consecutive quarters of declines. The Japanese economy expanded at a faster pace than expected, pushing up growth for the first half of the year.[1]

Worldwide electronic equipment production fell by 2.3 percent[2], with electronic manufacturing services (EMS) and original design manufacturing (ODM) revenues plunging by 4.9 percent.[3]

All our operating facilities outside of the Philippines performed well. What was flat with recovery toward end-2013 was China. Among the challenges in that market were the rising cost of doing business as well as the mounting cost of materials. Most of the products that we built in China were for the Chinese market. So the slowdown in the China consumer market directly affected us. A large portion of our business in China is geared toward telecommunications; and with China already completing its 3G rollout without yet deciding on how to proceed with its 4G created that window for the telecommunications sector to take a hit. Toward the fourth quarter of 2013 China decided to partition the 4G rollout, in which two of our major customers were able to take a key portion of that particular business—hence an upswing toward the last quarter of 2013, tempering the overall numbers of China.

On the local side, PSi Technologies Inc. felt the significant decline in the semiconductor electronics market. But when the recovery came on board by mid-2013 we were immediately able to take advantage of that because we had capacity and capability, whereas everybody else had cut down.

1 IMF World Bank Report January 2014
2 Henderson Ventures
3 IPC Outlook Jan 2014

Despite several challenges we realized higher 2013 revenues with corresponding profitability—thanks to our thriving diversification strategy. Our revenues grew 12.6 percent to US$745 million in 2013 from US$662 million in 2012. Net income of US$10.5 million nearly doubled from the previous year's US$5.6 million.

We also made sure that we drove businesses that actually created profitability rather than merely carrying on for the sake of doing business. We remained focused even on quality, so that we were able to finally integrate a global materials management group that capitalized on our cost basis for materials that we were using across the board. With that the overall yield of the company and all the different sites went up. High yield means less waste, so we were able to see profitability.

How did IMI units around the world fare in 2013?

Overall we did significantly better last year than in 2012: We increased our headcount, utilization numbers went up, and quality levels were high. Manufacturing will be back in a big way in the next couple of years because the US market is on a growth path, while Europe has settled down and Japan is recovering.

Our Philippine operations posted US$189 million in revenues, or a 20.9 percent year-on-year growth, mainly because of increased business in the storage device market following consolidation of outsourced production of storage technology products from Japan. Our subsidiary PSi Technologies Inc. generated US$43 million revenues, down from the same period last year by 5.5 percent because we shut down unprofitable businesses.

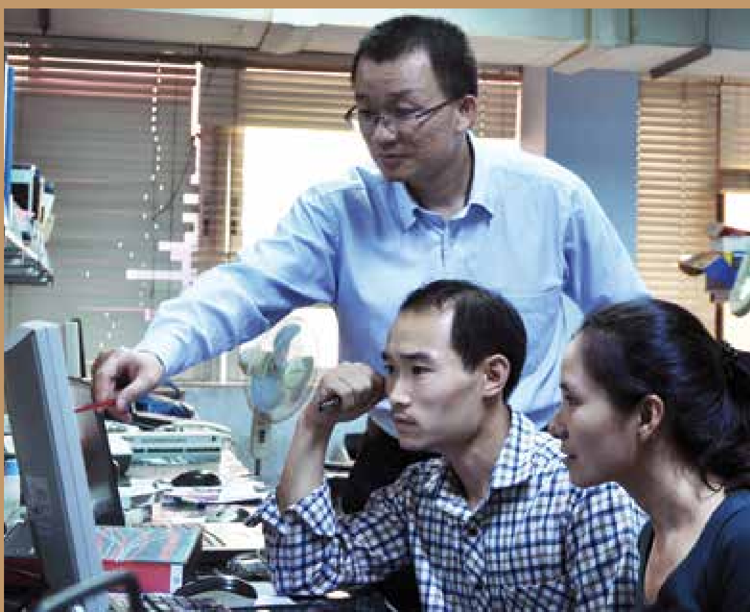
Operations in Europe and Mexico yielded US$235 million in consolidated revenues, or an increase of 28.9 percent year-over-year, owing to the continued expansion of their automotive business.

Our China and Singapore operations contributed 37 percent to our 2013 revenues, posting US$277 million, at the same level as last year's.

Adjustments in our China operations mainly had to do with costs and loose demand. We are down to four plants from six, but these plants can easily be scaled up if necessary. IMI Jiaxing has been a manufacturing hub for automotive electronics and will soon venture into automotive plastics. IMI Kuichong has recently been ISO 13485 certified: This readies the site for more business in medical electronics. As we drive manufacturing excellence, we are adopting low-cost automation, leveraging our Test and Systems Development (TSD) capabilities.

Our automotive electronics business now comprises 37 percent of IMI's total revenues, from 32 percent in 2012. Business is doing well in all fronts, accounting for the sector's 34 percent revenue year-on-year growth—the pay-off of the alignment of our strategy to focus on high-growth, high-margin markets.

In July, for example, in our Mexico plant we started manufacturing HVAC (heating, ventilation, and air conditioning) and blower units for Japan Climate Systems Corporation (JCS), which develops, manufactures, and sells air conditioning, thermal control, and cooling apparatus for automobile and industrial machinery. JCS is outsourcing to us the development of small-plastic molds and plastic injection, and complete product assembly of HVAC and blower units for Mazda cars.

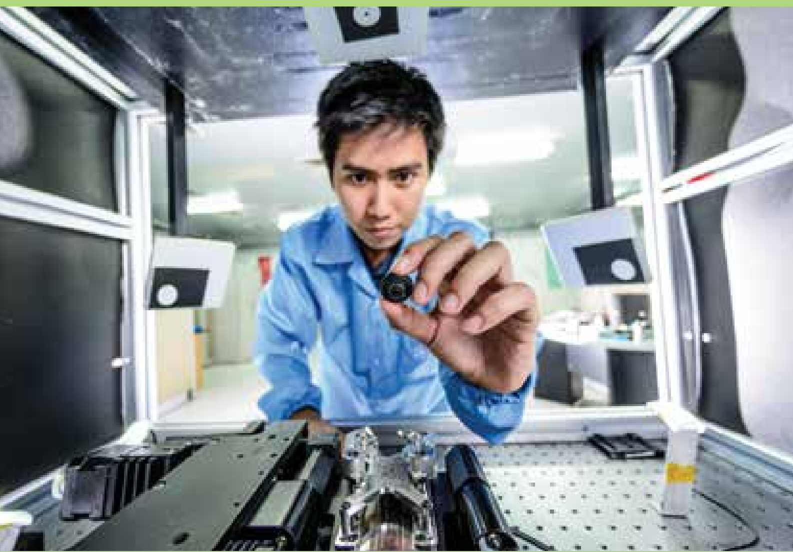


The global market is returning, with electronics playing a central role in driving the economy, so we have quite a good tailwind there. Year over year we've been growing our revenues, so yes, we are on track, even somewhat ahead. Organically we have everything in place to hit our goal of becoming the first Filipino billion-dollar EMS company by 2016.

How has IMI harnessed innovation in the organization and across its operations, and how does it ensure that it is continually innovating?

Consistency is key: We have set the tone for this, and so we always strive, whenever possible, to allow innovation to capture efficiencies and propel revenues.

The dynamic of the business is certainly changing: What an EMS company was 10 years ago is not going to be sustainable for the next 10 years. So we are now putting together the different elements that we see shall comprise the necessary skill sets and capabilities an EMS that will serve the next decade should have. Basically it'll be a model for "EMS plus"—for example, we already do design and product development, process and systems



development, automation, failure analysis and reliability testing, and plastic encapsulation.

Our Philippines Design and Development (D&D) team's automotive camera platform has attracted the attention of tier-1 suppliers who wish to work with us on their next-generation cameras. This platform's distinguishing features are its compact design, thermal management properties, and the use of overmolding to enhance thermal management.

Our China D&D team has burnished its reputation as a developer of system elements for heating, ventilation, and air conditioning (HVAC) with the production of nearly 20 new models of heating controllers for a tier-1 European HVAC supplier. It continues to leverage its expertise in developing cost-effect microcontroller input/output (I/O) systems with LCD display.

The Europe D&D group's motor drive platform for automotive applications continues to enable IMI Europe to effectively utilize complex technologies like flip-chip and connector overmolding, and reduce the risk of product malfunctions. Simulations on this platform have realized around 20 percent cost savings.

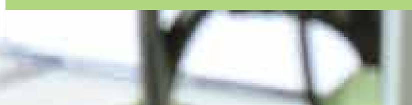
The Advanced Manufacturing Engineering (AME) group in IMI USA (Tustin, California) continues to offer a unique variety of engineering services, drawing from its long history of leading the industry in fine precision-assembly technologies. In 2013 AME was involved in 6 products that went into mass production and 16 in the prototype phase.

The IMI Test and System Development (TSD) team designed and developed innovative test solutions in 2013 to strengthen and expand our manufacturing capability in automotive and industrial products. A mass-production version of the five-axis focusing and alignment system with enhanced capabilities has been commissioned to the IMI automotive camera line. Software algorithms were optimized to improve throughput, while the particle inspection process was integrated in the same system.

Continuing its thrust in complex equipment assembly build, TSD Asia has partnered anew with low-volume high-mix teams in new projects that include test system upgrades, complex power modules for semiconductor handling systems, and servo actuator test systems. As a key value-add service to EMS customers, the TSD Asia team delivered more than 50 new test systems for various new products and applications.

TSD Europe, meanwhile, designed and built automated finavl assembly machines incorporating a variety of new technologies including robots, 3D-machine vision systems, precision pressfit technology, and laser marking systems. Developed in IMI Bulgaria, these were delivered to our production lines in Mexico. A new R&D center for equipment development was also set up at the IMI facility in the Czech Republic.

We kicked off the pilot project to develop our first low-cost, robot-based assembly station in China, with a view to significantly cut the total cost of manufacturing by improving quality and weaning our dependence on highly skilled operators for selected processes. We have also developed a fully automated robotic handler for plastic injection molding for IMI Mexico.



What does 2014 hold for IMI?

Market volatilities and uncertainties both in the global economy and global electronics industry are at par for the course, but this year the EMS segment is expected to grow at 7.8 percent.[4]

The worldwide market for automotive electronics is primed to rise to US$314 billion in 2020, up from US$191.3 billion last year, driven to new levels of prominence by government and automaker safety initiatives. A vital engine for market growth is the effort among automakers to add advanced driver assistance systems (ADAS)—mechanisms that enhance car safety, which are a key selling point. The integration of ADAS into the instrument cluster and head-up display (HUD) is expected to be commonplace.[5]

Meanwhile, the industrial electronics market is anticipated to reach US$321 billion by 2018 [6], and the medical electronics market will likely hit US$372.4 billion in the same year. Imaging systems have been forecast as the fastest-growing application, with a compounded annual growth rate (CAGR) of 16.9 percent by 2018.[7]

Amidst these positive developments we continue to boost our technical capabilities to seize high-growth, high-margin opportunities in these markets. In the automotive segment, for example, we are pursuing opportunities with potentially high value such as those in automotive cameras, automated steering, and driving assistance systems against the backdrop of a long-term annual growth rate of global vehicle production of 5 percent.[8]

We are also exploring opportunities in telecommunications infrastructure and aerospace, while keeping an eye on adjacent markets that may or may not have electronics content.

"With the economic resurgence we see this year, IMI is in a strong position to serve all these burgeoning markets."

With the economic resurgence we see this year, IMI is in a strong position to serve all these burgeoning markets. We see ourselves doing well, with positive economic and political indicators that will work to our advantage. Another thing going for us is our financial stability and our integrity in governance. An increasing number of large institutions have grown wary and will deal only with companies such as ours. So, yes, we are bullish this year. We are the largest EMS company in the Philippines, and we are on track toward our goal of becoming a billion-dollar company by 2016.

What do IMI shareholders need to know?

The global economy cannot function without electronics: Without it you can't trade, you can't build a road...nothing functions anymore without electronics. So given that, you have to be a certain type of company that would be able to deliver on those products. Yes, there's a slew of products that are commoditized—they're practically disposable,

so you care little whether it works today or not. But what if you get into a car and step on the brake? You don't have room for error there. What, for example, would be the error rate for, say, an instrument landing system in a plane? Or, take the fact that today everything is in the Cloud...and yet what happens if the network or server goes down? The whole world stops.

The world will need companies like IMI to deliver those high-precision products. Check out our Defective Parts Per Million (DPPM) numbers.The current standard is a thousand mistakes per million. We have lines in IMI that have zero! Take the line that we built for a car, for which the requirement allowed for only six defects; but since we ran it we have shipped almost a hundred million brake sensors and our batting average has been four per million.

That our products and services are deployed in a staggering range of technological applications is no coincidence: We have worked toward being essential to the workings of the modern world from which there is no turning back. Given that—and believe in it—you have to trust that only a certain type of company will be able to deliver these products. And that would be IMI.

ARTHUR R. TAN
President and Chief Executive Officer

4 New Venture Research
5 Transworld News, Strategy Analytics
6 Reportlinker
7 RnR Market Research
8 Walt Custer

Board of Directors

JAIME AUGUSTO ZOBEL DE AYALA, Filipino, 54, has served as Chairman of the Board of Directors of IMI since January 1995. He also holds the following positions: Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom Inc. and Bank of the Philippine Islands; Co-Chairman of Ayala Foundation Inc.; Vice Chairman of Ayala Land Inc. and AC Energy Holdings Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board and Asia Business Council; Vice Chairman of the Makati Business Club; member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and International Business Council of the World Economic Forum; Philippine Representative for APEC Business Advisory Council. He graduated with B.A. in Economics (with honors) degree from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business in 1987.

FERNANDO ZOBEL DE AYALA, Filipino, 53, has served as a director of IMI since January 1995. He is the Vice Chairman, President, and Chief Operating Officer of Ayala Corporation. He is also Chairman of Ayala Land Inc., Manila Water Company Inc., AC International Finance Ltd., AC Energy Holdings Inc., and Hero Foundation Inc.; Co-Chairman of Ayala Foundation Inc.; Director of Bank of The Philippine Islands, Globe Telecom Inc., Integrated Micro-Electronics Inc., LiveIt Investments Ltd., Ayala International Holdings Ltd., Honda Cars Philippines Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., Manila Peninsula, and Habitat for Humanity International; Member of The Asia Society and INSEAD East Asia Council; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, Kapit Bisig para sa Ilog Pasig Advisory Board, and National Museum.

ARTHUR R. TAN, Filipino, 54, has been a member of the Board of Directors of IMI since July 2001. He became the President of IMI on 1 July 2001 and has been the President & Chief Executive Officer of the IMI Group since 23 April 2002. Concurrently, he is the President and Chief Executive Officer of PSi Technologies Inc., President of Speedy-Tech Electronics Ltd., and Senior Managing Director of Ayala Corporation. Before joining IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts), from 1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He attended in September and October 2013 the Advanced Management Program at Harvard Business School.

DIOSDADO P. BANATAO, American, 67, has been an independent director of IMI since January 1994 to date. He has been a Managing Partner of Tallwood Venture Capital, a venture capital firm, since July 2000. Prior to forming Tallwood, he was a venture partner at Mayfield Fund from January 1998 to May 2000. He co-founded three technology start-ups: S3 Incorporated (SBLU), Chips and Technologies (INTC), and Mostron. He also held positions in engineering and general management at National Semiconductor Corporation, Seeq Technologies, and Intersil Corporation. He currently serves on the Board of Directors at Ikanos Communications, Inphi, Wave Semiconductor, and Wilocity. He previously served as Chairman and led investments in SiRF Technology, acquired by CSR (CSR); Marvell Technology Group (MRVL), Acclaim Communications, acquired by Level One (INTC); Newport Communications, acquired by Broadcom (BRCM), Cyras Systems, acquired by Ciena (CIEN), and Stream Machine, acquired by Cirrus Logic (CRUS).

JOSE IGNACIO A. CARLOS, Filipino, 44, has been a Director of IMI since December 2006. Concurrently, he is the President of Polymer Products Philippines Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins Inc., Riverbanks Development Corporation, Mindanao Energy Systems Inc., Cagayan Electric Power and Light Co., and Philippine Iron Construction and Marine Works Inc.

JOHN ERIC T. FRANCIA, Filipino, 42, has been a Director of IMI since July 2010. He is Managing Director and Member of the Management Committee of Ayala Corporation (Ayala Group) since January 2009. He is the Head of Ayala's Corporate Strategy and Development Group, which oversees Ayala's portfolio strategy and new business development. He is also the President of AC Energy Holdings Inc., which is Ayala's holding company for its investments in the power sector, and the President of AC Infrastructure Holdings Corporation. He is a Director of Manila Water Company Inc., LiveIt Investments Ltd., and HCM City Infrastructure Investment Joint Stock Company (CII). Before joining Ayala, he was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA.

ALELIE T. FUNCELL, Filipino, 58, has been an independent director of IMI since April 2010. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria Inc., a manufacturer of Concentrator Photovoltaic products, and Vice President of Supplier Management and Manufacturing Operations of Xilinx Inc., a billion- dollar semiconductor company. She has also worked in several semiconductor companies, including Intel, IDT, and Silicon Systems. She is credited with numerous patents in the semiconductor packaging and solar industry. She is twice a recipient of the S.C. Valley YWCA Tribute to Woman in the Industry (TWIN) Award: In 1994 while at IDT, and in 2000 while at Xilinx. She was President of the Filipino-American Association of Milpitas, California, a vibrant Bay area Filipino organization, in 1994–1996.

DELFIN C. GONZALEZ JR., Filipino, 64, joined the IMI board in July 2010 and became a member of the IMI's Finance Committee. He is the Chief Finance Officer of Ayala Corporation and is also a member of its Management Committee and Finance Committee since April 2010. He joined Ayala Corporation in late 2000, assigned as Chief Finance Officer for its subsidiary, Globe Telecom Inc., until early 2010. He also holds the following positions in various companies of the Ayala Group: Chairman of Darong Agricultural Development Corporation, AC Infrastructure Holdings Corporation and AYC Finance Ltd.; President and Director of Ayala DBS Holdings Inc.; and Director of AC International Finance Ltd., Asiacom Philippines,Inc., AC Energy Holdings Inc., LiveIt Investments Ltd., Ayala Aviation Corporation, AYC Holdings Ltd., Michigan Holdings Inc., Azalea International Venture Partners Ltd., Philwater Holdings Company, and various Ayala international companies.

DELFIN L. LAZARO, Filipino, 67, has served as Director of IMI since May 2000. He is a member of the Management Committee of Ayala Corporation. His other significant positions include: Chairman of Philwater Holdings Company Inc., Atlas Fertilizer & Chemicals Inc., Chairman and President of Michigan Power Inc., and A.C.S.T. Business Holdings Inc.; Chairman of Azalea Intl. Venture Partners, Ltd.; Director of Ayala Land Inc., Integrated Micro-Electronics Inc., Manila Water Co. Inc., Ayala DBS Holdings Inc., AYC Holdings Ltd., Ayala International Holdings Ltd., Bestfull Holdings Ltd., AG Holdings, AI North America Inc., Probe Productions Inc., and Empire Insurance Company; and Trustee of Insular Life Assurance Co. Ltd. He was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successive high growth levels leading up to the Asian crisis in 1997.

HIROSHI NISHIMURA, Japanese, 61, has been an independent director of IMI since April 2010. He is the Chairman and President of Linkwest International Consultancy Services Inc. He also serves as the Executive Vice President of All Purpose Appliances & Multi-Products Inc. He served as President of Panasonic Communications Philippines Corporation (PCP), formerly known as Kyushu Matsushita Electronics Philippines (PKME), from 2000-2007.

RAFAEL MA. C. ROMUALDEZ, Filipino, 50, has been a Director of IMI since 1997 to date. He is currently a Director of Resins Inc., RI Chemical Corporation, and and Claveria Tree Nursery Inc. He is also the Chairman of the Philippine Iron Construction and Marine Works Inc., Pigmentex Incorporated, Pacific Resins, Inc., and MC Shipping Corp.

Management Committee

Arthur R. Tan
Jerome S. Tan
Gilles Bernard
Shong Cheng Yeh (CY)
Linardo Z. Lopez
Olaf Gresens
Mary Ann S. Natividad
Timothy Patterson
Monina C. Macavinta
Melita R. Tomelden

Management Team

TECHNOLOGY & INNOVATION GROUP

Rafael Nestor V. Mantaring
Philippe Marquet
Michael R. Hannson
Dominador P. Leonida III
Lucrecio B. Mendoza

OPERATIONS GROUP

PHILIPPINES
Jawaharlal K. Milanes
Mario Bernardo N. Santos

CHINA
Yeung Hin Wai (Jacky)
Sze Chee Pheng (Joseph)
Yang Gong Xiao (Jack)
Joselito S. Bantatua
Tian Kia Ko (T.K.)

BULGARIA
Eric De Candido

CZECH REPUBLIC
Jean-Marie Penven

MEXICO
Juan Jose Herran

SINGAPORE
Kot Yui Kuen (Alex)

USA
Tim Patterson

PSi TECHNOLOGIES, INC.
Mike Heitzman
Maria Rosa L. Santos
Reynaldo N. Torda
Anton P. Javier

SUPPORT GROUP

FINANCE
Jaime G. Sanchez
Anthony Raymond P. Rodriguez

SALES
Jeremy Cowx
Thibaut de Vaureix
Richard Bell
Josef Pfister
Leong Wai Bun (Arthur)

SUPPLY CHAIN
Ling Miaw Jiz
Fraser Clydesdale
Zheng Xianlai (Peter)
Philippe Antunez

FACILITIES
Geronimo B. Magsombol

INDUSTRIAL EXCELLENCE
Pascal Aubois
Andrew C. Carreon

2013 Sustainability Report

Sustainability Journey Continues

"A sustainable organization lives a set of core values. Our core values of Integrity, Customer Focus, Concern for Others, and Excellence are our moral compass, transcending culture and geography. This set of values binds all the different cultures and people within IMI together and defines how we operate among ourselves. It guides us on how we transact business with our customers and suppliers. By living our values, we communicate to our customers and communities our identity, our culture. At any point of contact anywhere in the world, they will know that they are dealing with an undeniably good company."

ARTHUR R. TAN
President and Chief Executive Officer

Good Governance

IMI has set the tone from the top with regard to its priorities, objectives, and initiatives in the conduct of its global business.

Board Structure and Process. The IMI board comprises 11 members, all of whom are elected by the stockholders.

- Three of the directors are independent
- Five committees support in good governance: Executive, Compensation, Audit and Risk, Finance, and Nomination

Management. Management is primarily accountable to the Board of Directors for the operations of IMI. It concretizes the company's targets and formulates and executes the strategies to achieve these.

Accountability and Audit. The Audit and Risk Committee exercises oversight of the performance of external and internal auditors

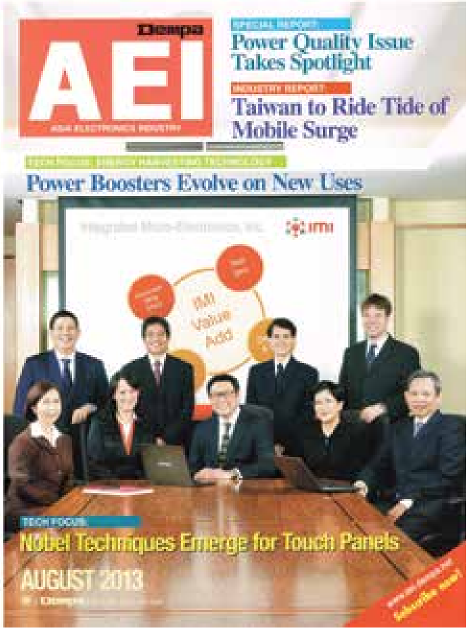
- Sycip, Gorres, Velayo & Company (SGV) is the external auditor
- Compliance Officer ensures adherence to the provisions and requirements of IMI's Corporate Governance Manual

Financial Reporting. IMI's financial statements are prepared and presented in accordance with Philippine Accounting Standards and Philippine Financial Reportin¬g Standards, which comply with International Accounting Standards.

- A presentation of IMI's risk management objectives and policies allows for a better assessment of financial performance and cash flows. Significant accounting judgments and estimates are also disclosed.

Code of Conduct. IMI and its employees commit to live by the following values: Integrity, Customer Focus, Concern for Others, and Excellence.

- It has adopted a Code of Conduct in line with the Electronics Industry's Code of Conduct
- It operates in full compliance with the laws, rules, and regulations of the countries in which it operates, and recognizes international standards to advance social and environmental responsibility



"Sustainability has been embedded in our strategy from the get-go. Our concern for others naturally extends into guaranteeing that our business remains sustainable. We make sure that the business and employment continue, that we take good care of our people, and that we do not harm the society or the environment in which we operate."

ARTHUR R. TAN
President and Chief Executive Officer

Workplace Initiatives

Employee Engagement. In its desire to determine the level of engagement and involvement of employees in the organization, IMI conducted with an independent group an Employee Engagement Survey in 2013 in all its global sites.

- The Company was measured based on the following engagement factors: Leadership and Management, Line of Sight, Nature of Work, Organizational Pride, Compensation and Benefits, and Customer Focus
- Results of the survey provided opportunities for the organization to improve its human resource management and development

Partnership with Academe. IMI has forged strategic alliances with three educational institutions in China, two in Mexico, and one in the Philippines to ensure improved flow of talented graduates to IMI.

IMI University. With its flagship programs—Leadership Training, Program Managers' Certification Training, and Business Planning Workshop—the IMI University has promoted skills enhancement and improvement of the company's competitiveness.

- The number of in-house subject-matter experts has increased to 35 in 2013 from 11 in 2011

Corporate Social Responsibility

IMI lives its value of Concern for Others in the company and in the community.

- Some 948 employees and their dependents benefited from Family Health Day in August 2013
- Some 52 employees benefited from in-house livelihood seminar-workshops on meat processing
- More than 380 employees donated blood to Red Cross
- About 40 volunteered to build a Children's Hour Daycare Center classroom at the Bayan ni Juan in Calauan, Laguna
- Some 155 volunteered for a medical outreach in Barangay Timbao in Binan, Laguna, which benefited 890 individuals

Employees, customers, and other IMI stakeholders joined forces to help victims of Typhoon Yolanda (international name: Haiyan).

- More than P1 million was raised from employees, customers, suppliers, and friends through a fund solicitation drive and a benefit concert
- Donations received were used to fund Ayala Foundation's relief and rebuild operations. Part of this donation went to rebuild efforts in Negros Occidental—the building of fishing boats for the fishermen of Cadiz and the construction of a 13-classroom disaster-ready school building in nearby Sagay.
- About 250 employees volunteered in repacking of goods in Department of Social Welfare and Development (DSWD) Center in Pasay City and in Red Cross Center in Alabang, Muntinlupa City
- "We *CAN* Help" drive collected more than 1,300 canned goods that were turned over to the GMA Foundation

Environment, Health, and Safety Program

To ease the impact of its operations on its people and the environment, IMI has been enforcing an integrated Environment, Health, and Safety (EHS) program with focus on energy management, water conservation, health and safety management, and chemical and waste management.

In 2013 IMI Laguna's energy management program realized energy savings of 1,088,067.60 KW-hr through measures such as:

- Operation of cooling towers by heat load demand-balancing approach
- Adjusting the Chiller Set point to 44° F from 43° F (from 10 p.m.–6 a.m.)
- Increase cooling tower efficiency through fillers replacement
- Economical Compressed Dry Air (CDA) utilization to common link supply pipe loop

"IMI uses energy-efficient lighting system. Last year more than 5,000 LED tube lights replaced mercurial fluorescent lighting, cutting back power consumption by 40 percent—or energy savings of 1,088,067.60 KW-hr."

IMI uses energy-efficient lighting system. Last year more than 5,000 LED tube lights replaced mercurial fluorescent lighting, cutting back power consumption by 40 percent—or energy savings of 1,088,067.60 KW-hr.

The water management program generated savings of 6.9 percent, or 39,417 m3, in 2013 through:

- Efficient use of Deionized Water System
- Use of treated water for gardening and for domestic applications

Health and safety-awareness training seminars were conducted such as those for basic First Aid, life support, chemical handling, and fire and earthquake drills.

- In 2013 IMI Laguna Site 1 achieved 4,279,880 safe man-hours, while the IMI Laguna Site 2 achieved 12,238,960 safe man-hours

IMI is fully compliant with the Philippine government's Department of Environment and Natural Resources (DENR) Toxic Substances, Hazardous and Nuclear Wastes Control Act 6969 and the Ecological Solid Waste Management Act 9003. IMI judiciously enforces the 3R (Reduce-Reuse-Recycle) program in the disposition of its chemicals for manufacturing processes, waste segregation, and waste composting. In 2013 IMI Laguna attained 97.95 percent recycling recovery.

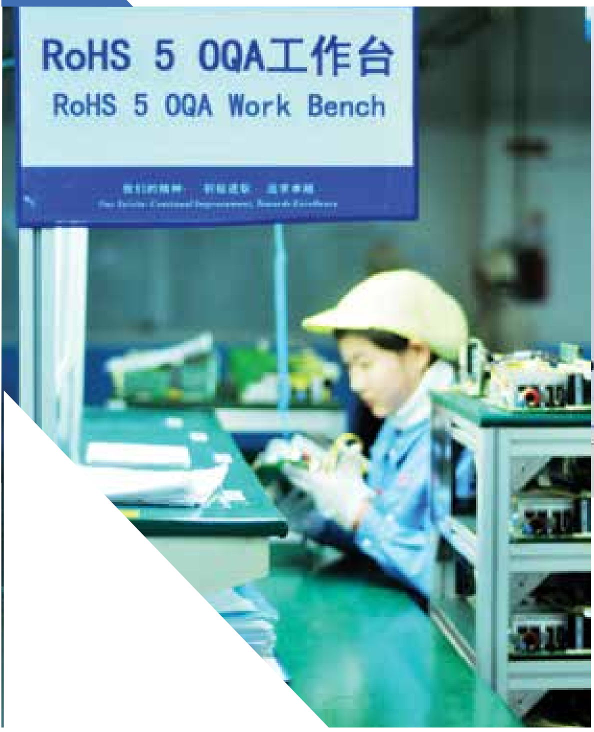
In 2013 IMI Laguna turned over its hazardous recyclable wastes (e.g., used oil and solvent chemical, and used lead battery)—a total of 24,774 kg—to the ABS-CBN Foundation's Bantay Kalikasan. The proceeds (Php 170,819.29) were donated to Tahanang Walang Hagdanan Inc.

Periodic conformance audits and safety inspections are also regularly conducted to check IMI's compliance to procedures, standards, and legal requirements. A regular management review is in place to assess IMI's overall EHS performance against its EHS objectives and targets.

IMI is ISO 14001:2004 Environmental Management System certified.

"I think sustainability has become hardwired in us. Because we operate in a global environment, we must conform in order to pass muster with all international standards; thus compliance becomes second nature to us, such that whether mandated or not, we look at ways to make sure, for example, that we dispose of hazardous materials properly. We check on our supply base to make sure that proper waste management is in place, or ascertain that only the highest levels of integrity are observed in our products' procurement and maintenance. We try to emulate this across the board, which brings us back to IMI's corporate values of integrity, customer focus, concern for others, and excellence: We want to make sure that the associates who work with us share these values wherever they may be."

ARTHUR R. TAN
President and Chief Executive Officer



Green Manufacturing

HSPM System. IMI supports and implements responsible sourcing, manufacturing, and execution through the Hazardous Substance Process Management System (HSPM). The HSPM database helps IMI ensure that purchased items are compliant with different environmental requirements such RoHS2, REACH SVHC, and others, via materials third-party test reports, certificate of compliance, and materials declaration.

The establishment of HSPM system and database has improved the assessment of product compliance. In 2013 IMI achieved 169 percent improvement in HSPM Turnaround time (TAT) compliance since the start of our continous improvement project in 2010.

Technical Capability. IMI's ISO 17025-accredited Quality Technical Support (QTS) laboratory is capable of detecting RoHS hazardous substances such as lead using an X-Ray Fluorescence (XRF) machine. The XRF Machine is a nondestructive method to detect lead content in polymers, metals, and ceramic materials.

Supply Chain Approach. In 2013 IMI started communicating its Corporate Social Responsibilityprograms to its supply chain through the Electronics Industry Citizenship Coalition® (EICC®) Supplier Evaluation Questionnaire Surveys and other tools to assess supplier capability.

IMI also started rolling out its program in support of the latest US legislation "Dodd Frank Act or Conflict Metals". This law requires US companies, through SEC filings, to declare sources of certain "conflict minerals" specifically the "3TG" metals, namely, tin, tantalum, tungsten, and gold. The law seeks to control the exploitation and trade of conflict metals originating from the Democratic Republic of Congo and neighboring countries.

Continuous Improvement. In 2013 IMI participated in online survey programs—the Carbon Disclosure Project (CDP) survey and the Eco Vadis survey—to assess its corporate social responsibility system

Solar Power Business

IMI Energy Solutions, a division of IMI USA based in Fremont, California, continues to develop and manufacture solar panels and related technologies. With the Renewable Energy Test Center (RETC), its strategic partner, right next door, fast turnaround time from prototyping to product certification is ensured.

- Offering clients photovoltaics (PV) module new product introduction (NPI), and the capability to build different PV panel sizes and PV panel coupons for new product-technology validation
- 22 solar panel development companies collaborated with us in 2013 on their front-line solar technologies

GRI Indicators

The coverage for this set of indicators is IMI Laguna, comprising IMI's main manufacturing site on North Science Avenue at the Laguna Technopark, and its manufacturing facility located on the corner of Trade Avenue and Technology Avenue, also at the Laguna Technopark.

TASK/S	2013	2012	2013 Remarks
Environment			
EN 3: Direct energy consumption by primary energy source	1769.89 MT (Combined Gas and Diesel)	409.9 MT (Combined Gas and Diesel)	Fuel consumption of all shuttle buses was included in 2013 data, which is not included in 2012 data.
EN 4: Indirect energy consumption by primary source	48,191,076.1 KW-Hr	40,705,000 KW-hr	Increase of power electricity was due to increase of facility utilization and increase of production output which includ IMI Cavite Site.
EN 5: Energy saved due to conservation and efficiency improvements	1,088,067.60 KW-hr	422,753 KW-hr	Increase of energy saving contributed mainly from the conversion of cfl lighting to LED lighting, which continue in year 2014.
EN 10: Percentage and total volume of water recycled and reused	6.9 % reduction 39,417 m3	3.56 % reduction 21,561 m3	
EN 16 : Total indirect greenhouse gas emissions by weight	29,068.85 MT	20,155.06 MT	Increase of CO2 emission was due to increase of facility utilization and increase of production output which includes IMI Cavite Site.
EN 22: Total weight of waste by type and disposal method	1,270.00 1. Common Residual waste - 25.457 tons 2. Hazardous waste - 140.00 tons 3. Recyclable waste - 1,104.539 tons	1,206.5 tons 1. Common Residual Waste -25.94 tons 2. Hazardous Waste - 161.49 tons 3. Recyclable Waste -1,019.12 tons	Increase the recycling and recovery of waste to limit the dumping of waste to municipal land fill.
EN 26 : Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Energy Management, Water Management, Waste Management, Chemical and Hazardous Substance Process Management	Energy Management, Water Management, Waste Management, Chemical Management, and Hazardous Substance Process Management	
EN 28: Monetary value of significant fines and total number of nonmonetary sanctions for noncompliance with environmental laws and regulations	0	0	Zero means no fine
Human Rights			
HR 4: Total number of incidents of discrimination and actions taken	0	0	Zero means no case
HR 6: Operations identified as having significant risk for incidents of child labor, and measures taken to contribute the elimination of child labor	None	None	
HR 7: Operations identified as having significant risk for incidents of forced or compulsory labor and measures to contribute to the elimination of forced or compulsory labor	None	None	
Labor			
LA 1 : Total workforce by employment type, gender, and age	**Total Workforce: 4,667** **Employment Type:** Permanent (proby/perma) - 4,501 Contractual - 166 **Gender:** Male - 880 Female - 3,787 **Age:** over 50 - 64 31-50 - 2,817 under 30 - 1,786	**Total Workforce: 4,520** **Employment Type:** Permanent - 4,397 Contractual - 34 Probationary - 89 **Gender:** Male - 687 Female - 3,833 **Age:** over 50 - 24 30-50 - 2,852 under 30 - 1644	
LA 2 : Total number and rate of employee turnover by age group and gender	**Employee Turnover: 392** **Turnover by age group:** over 50 - 1 (0%) 31-50 - 222 (4.8%) 30 below - 169 (3.6%) **Gender :** Male - 91 (2%) Female - 301 (6%)	**Employee Turnover: 944** **Turnover by age group:** over 50 - 3 (0%) 30-50 - 504 (10%) under 30 - 437 (9%) **Gender :** Male - 125 (3%) Female - 819 (16%)	2012 turnover figure was higher due to employer-initiated separations (redundancy).

TASK/S	2013	2012	2013 Remarks
LA 3: Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations	1. Life Insurance – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment	1. Life Insurance – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment	
	2. Medical Insurance – group hospitalization with inner limits (depending on rank) per illness per confinement	2. Medical Insurance – group hospitalization with inner limits (depending on rank) per illness per confinement	
	3. Outpatient Benefit – consultation and laboratory exams within annual benefit limits (depending on rank)	3. Outpatient Benefit – unlimited consultation with general physician and discounted laboratory tests	
	4. Annual Physical Exam – routine medical examination every year	4. Annual Physical Exam – routine medical examination every year	
	5. Vacation leave – 12 days per year; paid leave starts after 1 year of continuous service. Max of 4 (varies by tenure) unused VL credits will be converted at the end of each year for Supervisors and up	5. Vacation leave – 12 days per year; paid leave starts after 1 year of continuous service	
	6. Sick Leave – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year.	6. Sick Leave – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year.	
	7. Emergency Leave – 3 days per year; paid leave starts after 1 year of continuous service	7. Emergency Leave – 3 days per year; paid leave starts after 1 year of continuous service	
	8. Computer Loan – up to max of 50K at zero interest	8. Computer Loan – up to max of 50K at zero interest	
	9. Emergency Loan – up to max of 5K at zero interest	9. Emergency Loan – up to max of 5K at zero interest	
	10. Multipurpose loan – eligibility starts after 5 years of continuous service	10. Multipurpose loan – eligibility starts after 5 years of continuous service	
LA 4: Percentage of employees covered by collective bargaining agreements	N/A	N/A	No union. However, IMI believes in an open communication between employees and management to resolve workplace issues. Communication and engagement programs are in place to strengthen relationships (e.g, President's Update, Council Meetings, and Townhall Meetings)
LA 8: Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	• Immunization Program for employees and dependents: - Expanded Immunization Program for employees' pediatric dependents to cover for vaccinations not given by the Department of Health (DOH). -Influenza vaccines for seasonal flu -Cervical Cancer vaccine extended to above 45 years old • Breast Cancer Month -intensive awareness program tru posters, email blasts, and lecture • Blood Donation -25% higher turn out of donors done during the rainy season in preparation for Dengue outbreak with demands exceeding availability of blood (>30% of donated bld.) at St. Luke's Blood Bank. • Leptospirosis Program - Special Health Bulletin on leptospirosis during Typhoon Maring/Habagat (Sept. 23, 2013) -prophylactic medicines (Doxycycline capsules) given to employees exposed to flood waters • Outreach Program -Free medical, dental and optical consultation, treatment and medicines at Barangay Timbao in July 2013 -Family Health Day with free consultations, ECG and medicines, with lectures on adult and pediatric immunization • Fitness Program -program that offers Aerobics, Zumba and Basic Belly Dancing to all employees who want to be physically fit and healthy. There are about 133 employees who actively joined the program that lasted for 3 months.	• Health information campaign on goiter, dengue, HIV, hepatitis-B, tuberculosis, influenza, etc. • Immunization program for employees and their dependents - H1N1 & Seasonal Flu - Hepatitis B • Hypertension Prevention Program - identification and monitoring of hypertensive employees	

TASK/S	2013	2012	2013 Remarks
LA 10 : Average hours of training per year per employee by employee category	**Training Manhours Per Position:** Managers: 1472 hours Engineers & Supervisors: 7772.5 hours Rank & File: 3768 hours Operators: 4013.5 hours Others : 237	**Training Manhours Per Position:** Managers: 1245.5 hours Engineers & Supervisors: 8593.5 hours Rank & File: 3942 hours Operators: 16167 hours	
LA 11: Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	**Behavioral** 6 thinking hats ; Business & Social Protocol; Business Grammar & Practice (Effective Communication I); Business Writing (Effective Communication II); Counseling for Non – Counselor; Delegating for Success; Effective and Efficient Professional Purchasing and Procurement Skills; Effective Meeting Training; Electro Static Discharge (ESD) Essential Skills in People Management; Essentials of Leadership; Expats'guide to Managing People in The Philippines; Facilitating the Team-SGA Training Goal-Setting: Making Goals Clear and Important; I&D Training Process/Competency Program Process; PED Planning Workshop; Presentation Skills Training – SGA; Quality Mindset; SGA Leadership Skills Training; Trainer's Training Workshop; Values Re-orientation; Working Positively ¬in a Tough Environment; Working with Filipinos Orientation **Technical** 3rd Digital Forensics and Security Conference; 5S Training; 8 Step Model Problem Solving Seminar; 9th SUBTLE SELLING STRATEGIES & SKILLS WORKSHOP; Advance Product Quality Planning (APQP); Basic Dicing Blade Seminar; Basic Optics Training; Basic Understanding of Profit & Loss (PNL)Common Query Reports Used; Commonly Used Tcodes in SAP/ commonly Used Query Reports; Computer Based Training Using Adobe Presenter; Cost Management Training; DELO Industrial Adhesives Orientation; Design for Manufacturability (DFM); Design of Experiment; Developing Windows Applications with Microsoft Visual Studio 2010; Electro Static Discharge (ESD) EMS 101 Training; ETS-364/600 Maintenance; TRIZ; Aluminum Wire Bonding & Wedge Tools Training; Gold and Copper Wire Bond) Training; Asscon Vapor Phase-Multi Vacuum Reflow; Reflow Technology (heller); Wire Bonding Training; Inferential Statistics Training; Inter-Co Set Up/ material Coding and Material Types Used; Introduction to Intellectual Property Training; ISOTS16949 Standard Training; Knowledge Management; Labview Connectivity Training; Lean Manufacturing; Lean Office Training; Meaningful Measures of Equipment Performance; MSA; Metal Stamping Technology Capability; Method in Madness; Mistake Proofing; MS Excel; PBCT Pricing (ALGO);Global 8D;PFMEA; Productivity Improvement; Project Management; Quota Arrangement/Supplier Contract and U-PCN Approval Matrix; RFQ Pricing (ALGO); RCA; SAP Module; Security Management System in The Supply Chain; Semicon Learning Session; Infrared Data Communication-IRDA; Statistical Process Control; Supplier Code Creation/PO Price Based on Delivery Date; Supply Chain Simulation Workshop; Technical Report Writing; Tobii Workshop-Manufacturing Engineering; VDA6.3 Training & Certification; Innovation **Quality** Auditing Techniques Enhancement; EMS Lead Auditor; Functional Safety Certification Programme (ISO26262); IBEX Assessors' Training; Internal Audit Course; ISO 14001 / EMS Refresher Course; ISO 14791: Risk Management; ISO13485 Standards; ISO13485:2003 Internal Audit Course; ISO9001:2008 Standard; Module AMS01-Introduction to ISO/TS16949:2009; Module AMS22-Quality Excellence Thru Layered Process Audits (LPA); Module C119-Triz Based Creative Problem Solving QMS03-QMS-Auditor/Lead Auditor Training (IRCA Course); Innovation: Understanding the Requirements of ISO17025 **EHS** Construction Occupational Safety and Health Awareness; 2nd Biennial PCO Summit " Environmental Policy" Dialogues; Basic Chemical Safety; Electro-Mechanical Safety; Emergency Preparedness & Response Training - Refresher Course; Forklift Safety; Hazardous Waste Management; Loss Control Management Seminar; Mastering Enterprise Wide Risk Management; OSHNET Region 4A 2nd General Assembly; PCO Basic Training Refresher Course Radiation Safety; Standard First Aid and Basic Life Support Training	**Technology** Sharepoint Training; Agile Training; Labview Training **Behavioral** Building An Environment of Trust; Telephone Etiquette Workshop/Seminar ;Train the Trainers; Values Training (WOWCP); Facilitation Skills Training; Team Building; GL Leadership Training; Transition Leadership Training; Negotiation Skills Training; Influential Leadership; Essentials of Leadership ; Settings Clear Goals; Financial Management; Becoming an effective Supervisor Training (BEST) **Technical** Agile Training; Agile PLM User Training; AOI-Automated Optical Inspection Fundamentals Training; A/P Related Process Workshop; Corporate General Orientation; Conformal Coating Fundamentals Training; Design Failure Mode & Effect Analysis; DOE-Design of Experiment (TAGUCHI)TRAINING; DFM Training; EMC-Electro Mecahnical Compatibility Training; ESD Training; FMEA APIS TRAINING; Flipchip Fundamentals Training; ISO/IEC 17025; IPQ Internal Audit Training; IPC-A-610E Training; Incoterms Training; Jigs & Fixture Buy-off Fundamentals; Lean Manufacturing Training; Labview Core 3 Training; Labview-Basic 1 & 2 Training; MS Excel 2010 Training; MS Powerpoint Training; MSA Overview; Mechanical Fabrication Training; NI Labview-Advanced Architecture Training; Project Management Overview; PCB Design for Manufacturing Training; Programmable Logic Circuit Training; Poka Yoke Mistake Proofing Training; Pneumatics Fundamentals Training; Quality Customer Service; Robotic Soldering Training; Soldering Theory and Application Training; Refresher Course on Escalation Process; Tape and Reel training; Screw and Fastening Solution; Statistical Process Control Training; Technical Report Writing Training; Time Standard Fundamentals Training; Wire Bonding Fundamentals & Principles; Wire Bonding Machine Programming; 8 Bits Micro-controller Programming Training ; HSPM Awareness; 8 Step Model of problem Solving Techniques Workshop; SGA Presentation Skills Training; SGA Supplementary Tools Training; Process Failure Mode & Effect Analysis & Apis IQ Software Training; ISO9001:2008 Training; ISO/TS 16949:2009; Quality Auditing Orientation; EHS Training Programs	

TASK/S	2013	2012	2013 Remarks
LA 13: Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	**BOD Total Number of Members: 11** **Gender:** Male, 10; Female, 1 **Age Group:** over 50, 9; 30-50, 2	**BOD Total Number of Members: 11** **Gender:** Male, 10; Female, 1 **Age Group:** over 50, 8; 30-50, 3	Limited to Board of Directors
Economic			
EC 1 : Economic value generated and distributed, included revenues, operating costs, employee compensation, donations and other community investments, and payments to capital providers and government	Economic Value (in Million Pesos) Revenues : 8,030 Net Income :(5) **Distribution:** Suppliers /contractors - 8,748 Employees (salaries and benefits) - 1,282 Government (taxes) - 67 Stockholders (dividends) - 38 Charitable Contributions - 0.8 **Total Distribution - 10,135** **Investments** Equity Investment - 5,885 Capex - 154 **Total Investment - 6,038**	Economic Value (in Million Pesos) - As Restated Revenues : 6,730 Net Income :(134) **Distribution:** Suppliers /contractors - 9,508 Employees (salaries and benefits) - 1,065 Government (taxes) - 40 Stockholders (dividends) - 109 Charitable Contributions - 0.5 **Total Distribution - 10,722** **Investments** Equity Investment - 5,318 Capex - 243 **Total Investment - 5,561**	
EC 2: Financial implications and other risks and opportunities for the organization's activities due to climate change	We have not tracked the financial implications of activities due to climate change. IMI has established IMI Energy Solutions to offer EMS solutions for the renewable energy sector. IMI continues to engage in green manufacturing wherever applicable. It has a Business Continuity Plan to manage the business in times of disasters.	We have not tracked the financial implications of activities due to climate change. IMI has established IMI Energy Solutions to offer EMS solutions for the renewable energy sector. IMI continues to engage in green manufacturing wherever applicable. It has a Business Continuity Plan to manage the business in times of disasters.	
EC 5: Range of ratios of standard entry-level wage compared to local minimum wage at significant locations of operation	Min Wage for Region IV-A is 349.50/day which is composed of 337 basic pay and 12.50 CTPA; IMI complies with this.	Minimum Wage for Region IV-A is P337 per day; IMI complies with this	
Social			
SO 7: Total number of legal actions for anticompetitive behavior, antitrust, and monopoly practices and their outcomes	0	0	Zero means no legal action
SO 8: Monetary value of signficant fines and total number of nonmonetary sanctions for noncompliance with laws and regulations	0	0	Zero means no fine
Product Responsibility			
PR 5 - Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	**Overall CSAT Rating:** Key Accounts - 4.01 Non-Key Accounts - 4.34	**Overall CSAT Rating:** Key Accounts - 3.7 Non-Key Accounts - 4.5	5 is the highest rating
PR 6 – Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Our policy on advertising or production of marketing collaterals states that IMI adheres to truth in advertising and production of marketing collaterals, and that it does not engage in any unethical practices.	Our policy on advertising or production of marketing collaterals states that IMI adheres to truth in advertising and production of marketing collaterals, and that it does not engage in any unethical practices.	
PR 7: Total number of incidents of noncompliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	0	0	Zero means no incident of noncompliance
PR 7: Total number of incidents of noncompliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	0	0	Zero means no incident of noncompliance

Report of the Audit Committee to the Board of Directors

For the year Ended 31 December 2013

The Audit and Risk Committee's roles and responsibilities are defined in the Audit and Risk Committee Charter approved by the Board of Directors. The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to: (a) the integrity of the Company's financial statements and financial reporting process; (b) the appointment, remuneration, qualifications, independence and performance of the independent external auditors and the integrity of the audit process as a whole; (c) the effectiveness of the systems of internal control and the risk management process; (d) the performance and leadership of the internal audit function; (e) the company's compliance with applicable legal, regulatory and corporate governance requirements; (f) the preparation of year-end report of the Committee for approval of the Board and to be included in the annual report.

In compliance with the Audit and Risk Committee Charter, we confirm that:

- An independent director chairs the Committee;
- We had four (4) regular meetings during the year with all the members present;
- We met separately with the external auditors in an executive session during the year;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Integrated Micro-Electronics, Inc. and subsidiaries ("IMI") with management, the internal auditors, as well as SGV & Co. as the independent auditor of IMI, and that these activities were performed in the following context:
    - Management has the primary responsibility for the financial statements and the financial reporting process; and
    - SGV & Co. is responsible for expressing an opinion on the conformity of IMI's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and plans for the respective audit reviews of the internal auditors and SGV & Co.;
- We have discussed the audit results of SGV & Co. and their assessment of the overall quality of IMI's financial reporting process, mainly on financial statements and compliance to financial reporting standards, and their management letter of comments on internal control weaknesses observed during the audit;
- We have discussed the audit results and reports of the internal auditors and their follow-ups on the implementation of audit recommendations, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues;
- We have reviewed, approved and endorsed the revised Audit and Risk Committee Charter to the Board;
- We have undergone, together with internal audit, a Quality Assessment Review through Self-Assessment with Independent Validation, and have assessed that our internal audit activities 'Generally Conforms' with the International Standards for the Professional Practice of Internal Auditing. We received and discussed the final report of Punongbayan & Araullo (P&A) where P&A, as our independent validator, concurs with our assessment on the Internal Audit Department of Integrated Micro-Electronics, Inc.;
- We have reviewed and discussed the adequacy of Integrated Micro-Electronics, Inc.'s enterprise risk management process, including the nature of significant risk exposures, and the related risk mitigation efforts and initiatives. This activity was reviewed in the context that management is primarily responsible for the risk management process;
- We have reviewed and recommended for the approval by the Board of Directors the audit services of SGV & Co. and approved all audit-related and permitted non-audit services provided by SGV & Co. to IMI including the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2013 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange.

The Audit and Risk Committee is also recommending to the Board of Directors the re-appointment of SGV & Co. as IMI's independent auditor for 2014 based on the review of their performance and qualifications.

14 February 2014

HIROSHI NISHIMURA **Chairman**	**RAFAEL MA. C. ROMUALDEZ** **Member**	**DELFIN C. GONZALEZ, JR.** **Member**

Statement of Management's Responsibility for Financial Statements

The management of Integrated Micro-Electronics, Inc. (Parent Company) and its subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders of the Parent Company, has expressed its opinion on the fairness of presentation upon completion of such examination.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors

ARTHUR R. TAN
President & Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

Independent Auditor's Report

The Stockholders and the Board of Directors
Integrated Micro-Electronics, Inc.
North Science Avenue
Laguna Technopark
Biñan, Laguna

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Micro-Electronics, Inc. and Subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225145, January 2, 2014, Makati City

February 17, 2014

Consolidated Balance Sheets

	December 31, 2013	December 31, 2012 (As restated - Note 3)	January 1, 2012 (As restated - Note 3)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 5)	**$49,042,599**	$56,196,382	$54,069,180
Loans and receivables (Note 6)	**178,464,742**	150,880,855	133,676,580
Inventories (Note 7)	**94,135,608**	83,175,869	80,402,000
Derivative assets (Notes 2 and 31)	**–**	2,857,010	2,798,912
Other current assets (Note 8)	**16,619,969**	7,425,912	8,854,602
Total Current Assets	**338,262,918**	300,536,028	279,801,274
Noncurrent Assets			
Property, plant and equipment (Note 9)	**85,654,052**	88,071,187	97,505,460
Goodwill (Note 10)	**54,355,193**	54,355,193	54,355,193
Intangible assets (Note 11)	**4,861,730**	5,894,121	7,333,491
Available-for-sale financial assets	**1,867,094**	1,608,404	414,348
Noncurrent receivables	**–**	–	213,577
Deferred tax assets (Note 23)	**644,543**	1,082,869	743,592
Other noncurrent assets (Note 12)	**2,583,286**	1,805,084	1,518,483
Total Noncurrent Assets	**149,965,898**	152,816,858	162,084,144
	$488,228,816	$453,352,886	$441,885,418

	December 31, 2013	December 31, 2012 (As restated - Note 3)	January 1, 2012 (As restated - Note 3)
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses (Note 13)	**$171,054,574**	$143,405,648	$144,242,009
Trust receipts and loans payable (Note 14)	**45,653,865**	44,206,600	39,008,811
Current portion of long-term debt (Note 15)	**2,903,408**	2,649,600	–
Income tax payable (Note 23)	**1,649,533**	1,911,110	1,686,735
Derivative liabilities (Note 31)	**40,606**	–	34,562
Total Current Liabilities	**221,301,986**	192,172,958	184,972,117
Noncurrent Liabilities			
Noncurrent portion of:			
Long-term debt (Note 15)	**61,699,753**	62,851,135	60,398,500
Deferred revenue (Note 16)	**1,742,329**	2,031,018	2,303,765
Obligation under finance lease (Note 28)	**2,977,968**	704,866	612,724
Deferred tax liabilities (Note 23)	**3,091,890**	4,628,438	4,810,158
Pension liabilities (Note 25)	**6,742,808**	2,343,025	3,422,829
Accrued rent (Note 28)	**443,027**	585,408	913,688
Other noncurrent liabilities	**183,555**	86,609	230,704
Total Noncurrent Liabilities	**76,881,330**	73,230,499	72,692,368
Total Liabilities	**298,183,316**	265,403,457	257,664,485

(Forward)

	December 31, 2013	December 31, 2012 (As restated - Note 3)	January 1, 2012 (As restated - Note 3)
EQUITY (Note 17)			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock-common	**$30,016,551**	$30,011,256	$24,932,075
Capital stock-preferred	**26,601,155**	26,601,155	26,601,155
Subscribed capital stock	**1,229,926**	1,300,851	6,506,970
Additional paid-in capital	**51,263,933**	58,558,091	59,085,110
Subscriptions receivable	**(9,590,746)**	(9,650,842)	(10,395,200)
Retained earnings:			
Appropriated for expansion	**20,660,981**	20,660,981	30,660,981
Unappropriated	**83,503,457**	73,901,551	60,982,435
Treasury stock	**(1,012,585)**	(1,012,585)	(1,012,585)
Reserve for fluctuation on available-for-sale financial assets	**189,601**	197,894	144,067
Cumulative translation adjustment	**(1,425,142)**	(2,303,539)	(6,042,819)
Other comprehensive loss	**(8,958,073)**	(4,618,236)	(6,211,759)
Other reserves	**170,714**	170,714	170,714
	192,649,772	193,817,291	185,421,144
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries	**(2,604,272)**	(5,867,862)	(1,200,211)
Total Equity	**190,045,500**	187,949,429	184,220,933
	$488,228,816	$453,352,886	$441,885,418

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
REVENUES			
Sale of goods	**$670,772,413**	$590,363,704	$482,388,266
Sale of services	**74,259,450**	71,486,018	93,065,642
	745,031,863	661,849,722	575,453,908
COST OF SALES (Note 18)			
Cost of goods sold	**607,557,635**	541,811,352	451,911,908
Cost of services	**69,545,328**	63,102,067	81,760,621
	677,102,963	604,913,419	533,672,529
GROSS PROFIT	**67,928,900**	56,936,303	41,781,379
OPERATING EXPENSES (Note 19)	**(55,794,676)**	(49,523,632)	(56,325,062)
OTHERS - Net			
Interest expense and bank charges (Note 21)	**(2,879,941)**	(3,021,473)	(2,499,998)
Foreign exchange gains (losses) - net	**1,430,757**	(106,197)	4,480,815
Interest income (Note 22)	**218,577**	267,092	315,520
Mark-to-market gains from put and call options (Note 31)	**–**	121,185	5,355,873
Gain from bargain purchase (Note 2)	**–**	–	13,018,493
Impairment loss on goodwill (Note 10)	**–**	–	(2,717,451)
Miscellaneous income - net (Notes 7, 9 and 28)	**2,819,702**	218,458	2,501,580
INCOME BEFORE INCOME TAX	**13,723,319**	4,891,736	5,911,149
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**5,408,640**	4,687,578	4,177,862
Deferred	**(881,359)**	(728,268)	476,224
	4,527,281	3,959,310	4,654,086
NET INCOME	**$9,196,038**	$932,426	$1,257,063
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$10,472,995**	$5,584,613	$3,254,864
Non-controlling interests	**(1,276,957)**	(4,652,187)	(1,997,801)
	$9,196,038	$932,426	$1,257,063
Earnings Per Share (Note 24)			
Basic and diluted	**$0.006**	$0.002	$0.001

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
NET INCOME FOR THE YEAR	**$9,196,038**	$932,426	$1,257,063
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translation of foreign operations	**878,397**	3,739,280	(6,042,819)
Fair value changes on available-for-sale financial assets	**(8,293)**	53,827	32,108
	870,104	3,793,107	(6,010,711)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans	**(4,339,837)**	1,593,523	(1,002,770)
	(3,469,733)	5,386,630	(7,013,481)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**$5,726,305**	$6,319,056	($5,756,418)
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$7,003,262**	$10,971,243	($3,758,617)
Non-controlling interests	**(1,276,957)**	(4,652,187)	(1,997,801)
	$5,726,305	$6,319,056	($5,756,418)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common (Note 17)	Capital Stock - Preferred (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Retained Earnings Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated (Note 17)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2013, as previously reported	$30,011,256	$26,601,155	$1,300,851	$58,558,091	($9,650,842)	$20,660,981	$72,447,569	($1,012,585)	$197,894	($2,303,539)	($4,618,236)	$170,714	($5,867,862)	$186,495,447
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	1,453,982	–	–	–	–	–	–	1,453,982
Balances at January 1, 2013, as restated	30,011,256	26,601,155	1,300,851	58,558,091	(9,650,842)	20,660,981	73,901,551	(1,012,585)	197,894	(2,303,539)	(4,618,236)	170,714	(5,867,862)	187,949,429
Acquisition of non-controlling interests (Note 2)	–	–	–	(7,522,432)	–	–	–	–	–	–	–	–	4,540,547	(2,981,885)
Issued shares during the year (Note 17)	5,295	–	(5,295)	–	–	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	14,852	–	–	–	–	–	–	–	–	–	14,852
Accretion of subscriptions receivable (Note 17)	–	–	–	795,542	(795,542)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	207,888	–	–	–	–	–	–	–	–	207,888
Forfeitures during the year (Note 17)	–	–	(65,630)	(582,120)	647,750	–	–	–	–	–	–	–	–	–
Cash dividends (Note 17)	–	–	–	–	–	–	(871,089)	–	–	–	–	–	–	(871,089)
	30,016,551	26,601,155	1,229,926	51,263,933	(9,590,746)	20,660,981	73,030,462	(1,012,585)	197,894	(2,303,539)	(4,618,236)	170,714	(1,327,315)	184,319,195
Net income (loss)	–	–	–	–	–	–	10,472,995	–	–	–	–	–	(1,276,957)	9,196,038
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	(8,293)	878,397	(4,339,837)	–	–	(3,469,733)
Total comprehensive income (loss)	–	–	–	–	–	–	10,472,995	–	(8,293)	878,397	(4,339,837)	–	(1,276,957)	5,726,305
Balances at December 31, 2013	$30,016,551	$26,601,155	$1,229,926	$51,263,933	($9,590,746)	$20,660,981	$83,503,457	($1,012,585)	$189,601	($1,425,142)	($8,958,073)	$170,714	($2,604,272)	$190,045,500

	Attributable to Equity Holders of the Parent Company												
	Capital Stock - Common (Note 17)	Capital Stock - Preferred (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Retained Earnings Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated (Note 17)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2012, as previously reported	$24,932,075	$26,601,155	$6,506,970	$59,085,110	($10,395,200)	$30,660,981	$59,671,124	($1,012,585)	$144,067	($6,042,819)	$–	$170,714	($1,200,211)	$189,121,381
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	1,311,311	–	–	–	(6,211,759)	–	–	(4,900,448)
Balances at January 1, 2012, as restated	24,932,075	26,601,155	6,506,970	59,085,110	(10,395,200)	30,660,981	60,982,435	(1,012,585)	144,067	(6,042,819)	(6,211,759)	170,714	(1,200,211)	184,220,933
Issued shares during the year (Note 17)	5,079,181	–	(5,079,181)	–	–	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	70,490	–	–	–	–	–	–	–	–	–	70,490
Accretion of subscriptions receivable (Note 17)	–	–	–	676,304	(676,304)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	19,911	–	–	–	–	–	–	–	–	19,911
Forfeitures during the year (Note 17)	–	–	(126,938)	(1,273,813)	1,400,751	–	–	–	–	–	–	–	–	–
Reversal of appropriation (Note 17)	–	–	–	–	–	(10,000,000)	10,000,000	–	–	–	–	–	–	–
Cash dividends (Note 17)	–	–	–	–	–	–	(2,665,497)	–	–	–	–	–	(15,464)	(2,680,961)
	30,011,256	26,601,155	1,300,851	58,558,091	(9,650,842)	20,660,981	68,316,938	(1,012,585)	144,067	(6,042,819)	(6,211,759)	170,714	(1,215,675)	181,630,373
Net income (loss), as previously reported	–	–	–	–	–	–	5,441,942	–	–	–	–	–	(4,652,187)	789,755
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	142,671	–	–	–	–	–	–	142,671
Net income (loss), as restated	–	–	–	–	–	–	5,584,613	–	–	–	–	–	(4,652,187)	932,426
Other comprehensive income	–	–	–	–	–	–	–	–	53,827	3,739,280	1,593,523	–	–	5,386,630
Total comprehensive income (loss)	–	–	–	–	–	–	5,584,613	–	53,827	3,739,280	1,593,523	–	(4,652,187)	6,319,056
Balances at December 31, 2012, as restated	$30,011,256	$26,601,155	$1,300,851	$58,558,091	($9,650,842)	$20,660,981	$73,901,551	($1,012,585)	$197,894	($2,303,539)	($4,618,236)	$170,714	($5,867,862)	$187,949,429

	Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common (Note 17)	Capital Stock - Preferred (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Retained Earnings Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated (Note 17)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2011, as previously reported	$24,893,713	$26,601,155	$1,901,963	$34,646,889	($11,411,994)	$60,660,981	$32,727,457	($1,012,585)	$111,959	$–	$–	$170,714	$769,280	$170,059,532
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	1,345,761	–	–	–	(5,208,989)	–	–	(3,863,228)
Balances at January 1, 2011, as restated	24,893,713	26,601,155	1,901,963	34,646,889	(11,411,994)	60,660,981	34,073,218	(1,012,585)	111,959	–	(5,208,989)	170,714	769,280	166,196,304
Increase in non-controlling interests due to the acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	–	–	–	–	–	–	–	48,092	48,092
Issued shares during the year (Note 17)	38,362	–	(38,362)	–	–	–	–	–	–	–	–	–	–	–
Subscriptions during the year (Notes 2 and 17)	–	–	4,746,084	24,062,649	–	–	–	–	–	–	–	–	–	28,808,733
Cost of share-based payments (Note 26)	–	–	–	673,762	–	–	–	–	–	–	–	–	–	673,762
Accretion of subscriptions receivable (Note 17)	–	–	–	427,535	(427,535)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	615,889	–	–	–	–	–	–	–	–	615,889
Forfeitures during the year (Note 17)	–	–	(102,715)	(725,725)	828,440	–	–	–	–	–	–	–	–	–
Reversal of appropriation (Note 17)	–	–	–	–	–	(30,000,000)	30,000,000	–	–	–	–	–	–	–
Cash dividends (Note 17)	–	–	–	–	–	–	(6,345,647)	–	–	–	–	–	(19,782)	(6,365,429)
	24,932,075	26,601,155	6,506,970	59,085,110	(10,395,200)	30,660,981	57,727,571	(1,012,585)	111,959	–	(5,208,989)	170,714	797,590	189,977,351
Net income (loss), as previously reported	–	–	–	–	–	–	3,289,314	–	–	–	–	–	(1,997,801)	1,291,513
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	(34,450)	–	–	–	–	–	–	(34,450)
Net income (loss), as restated	–	–	–	–	–	–	3,254,864	–	–	–	–	–	(1,997,801)	1,257,063
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	32,108	(6,042,819)	(1,002,770)	–	–	(7,013,481)
Total comprehensive income (loss)	–	–	–	–	–	–	3,254,864	–	32,108	(6,042,819)	(1,002,770)	–	(1,997,801)	(5,756,418)
Balances at December 31, 2011, as restated	$24,932,075	$26,601,155	$6,506,970	$59,085,110	($10,395,200)	$30,660,981	$60,982,435	($1,012,585)	$144,067	($6,042,819)	($6,211,759)	$170,714	($1,200,211)	$184,220,933

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$13,723,319**	$4,891,736	$5,911,149
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	**21,070,099**	23,319,434	24,615,286
Interest expense (Note 21)	**2,879,941**	3,021,473	2,499,998
Provision for inventory obsolescence (Note 7)	**2,123,145**	282,948	1,029,155
Amortization of intangible assets (Note 11)	**1,789,772**	2,057,626	1,163,969
Net pension expense (Note 25)	**1,682,245**	2,199,943	1,886,214
Unrealized foreign exchange loss (gain) - net	**(878,010)**	1,315,751	(1,740,231)
Loss (gain) on derivative transactions (Note 31)	**479,062**	(1,730,765)	(6,218,718)
Amortization of deferred revenue	**(288,689)**	(260,829)	(260,829)
Interest income (Note 22)	**(218,577)**	(267,092)	(315,520)
Gain on sale of property, plant and equipment (Note 9)	**(125,172)**	(132,752)	(115,117)
Reversal of allowance for decline in value of inventories (Note 7)	**(107,131)**	–	(21,343)
Provision (reversal of provision) for doubtful accounts (Note 6)	**(103,124)**	441,498	1,977,541
Cost of share-based payments (Note 26)	**14,852**	70,490	673,762
Impairment loss on property, plant and equipment (Note 9)	**4,991**	225,521	–
Provision for restructuring (Note 13)	**–**	1,896,238	831,718
Gain from bargain purchase (Note 2)	**–**	–	(13,018,493)
Impairment loss on goodwill (Note 10)	**–**	–	2,717,451
Dividend income	**–**	–	(367)
Operating income before working capital changes	**42,046,723**	37,331,220	21,615,625
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans and receivables	**(26,275,532)**	(16,858,982)	(836,152)
Inventories	**(12,648,183)**	(2,591,634)	(378,828)
Other current assets	**(9,194,057)**	1,428,690	(6,346,587)
Noncurrent receivables	**–**	213,577	(29,398)
Increase (decrease) in:			
Accounts payable and accrued expenses	**30,429,189**	(3,044,616)	8,524,113
Other noncurrent liabilities	**96,946**	(144,095)	(141,380)
Accrued rent	**(142,381)**	(328,280)	19,600
Net cash generated from operations	**24,312,705**	16,005,880	22,426,993
Income tax paid	**(5,670,217)**	(4,463,203)	(4,789,919)
Interest paid	**(3,513,625)**	(2,591,952)	(1,885,055)
Interest received	**522,183**	238,560	315,521
Dividends received	**–**	–	367
Net cash provided by operating activities	**15,651,046**	9,189,285	16,067,907

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Notes 9 and 33)	**($17,819,927)**	($16,026,776)	($14,830,473)
Intangible assets (Note 11)	**(776,158)**	(525,070)	(411,344)
Available-for-sale financial assets	**(350,369)**	(1,000,000)	–
Proceeds from sale of property, plant and equipment	**2,868,782**	3,710,103	2,656,466
Decrease (increase) in other noncurrent assets	**(841,810)**	(288,683)	293,354
Settlement of derivatives (Note 31)	**(438,456)**	1,638,105	1,315,015
Cash paid upon exercise of call option (Note 2)	**(124,875)**	–	–
Acquisition through business combination - net of cash acquired (Note 2)	**–**	–	5,053,343
Net cash used in investing activities	**(17,482,813)**	(12,492,321)	(5,923,639)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Loans payable (Note 14)	**(4,468,943)**	(32,780,287)	(2,622,978)
Long-term debt (Note 15)	**(2,656,400)**	–	(38,000,000)
Availments of loans	**6,134,943**	43,697,044	50,838,903
Dividends paid to equity holders of the Parent Company (Notes 13 and 17)	**(2,661,415)**	(2,468,881)	(3,883,683)
Separation/benefits paid (Note 25)	**(1,286,407)**	(1,870,152)	(1,111,767)
Payment of obligations under finance lease	**(523,260)**	(800,671)	–
Collections of subscriptions receivable (Note 17)	**207,888**	19,911	615,889
Dividends paid to non-controlling interests	**–**	(15,464)	(19,782)
Net cash provided by (used in) financing activities	**(5,253,594)**	5,781,500	5,816,582
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(68,422)**	(351,262)	(26,413)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,153,783)**	2,127,202	15,934,437
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**56,196,382**	54,069,180	38,134,743
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$49,042,599**	$56,196,382	$54,069,180

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. **Corporate Information**

Integrated Micro-Electronics, Inc. (the “Parent Company”), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four (4) subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (IMI Singapore), IMI USA, Inc. (IMI USA), IMI Japan, Inc. (IMI Japan) and PSi Technologies, Inc. (PSi) (collectively referred to as the “Group”). IMI Singapore, IMI USA and IMI Japan are wholly-owned subsidiaries while PSi is 83.25% owned. The Group’s parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 50.66% owned by Mermac, Inc., 10.52% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark, Biñan, Laguna.

The Parent Company was listed by way of introduction in the PSE on January 21, 2010.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts, among others. The Parent Company is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services. These PEZA registrations entitle the Parent Company to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements. As of December 31, 2013, there are four (4) new project activities with ITH entitlement which will expire in 2017. Under its PEZA registrations, the Parent Company’s projects and activities are subject to certain requirements and are entitled to certain incentives, which include, but are not limited to, ITH and tax and duty free importation of inventories and capital equipment. Upon expiration of the ITH on these projects and activities, the Parent Company will be subject to a 5% final tax on gross income earned after certain allowable deductions provided under Republic Act (R.A.) No. 7916 (otherwise known as the “Special Economic Zone Act of 1995”), in lieu of payment of national and local taxes.

IMI Singapore was incorporated and is domiciled in Singapore. It is engaged in the procurement of raw materials, supplies and provision of customer services. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and is domiciled also in Singapore. STEL, on its own, has subsidiaries located in Hong Kong, People’s Republic of China (PRC), and Singapore. STEL and its subsidiaries (collectively referred to as “STEL Group”) are principally engaged in the provision of Electronic Manufacturing Services (EMS) and Power Electronics solutions to original equipment manufacturing customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors.

On April 16, 2009, IMI Singapore established its Philippine Regional Operating Headquarters (“IMI International ROHQ” or “IMI ROHQ”). It serves as a supervisory, communications and coordinating center for the affiliates and subsidiaries of IMI Singapore.

On April 28, 2011, the Parent Company infused additional capital to IMI Singapore consisting of $7,026,195 cash and 200 million of the Parent Company’s own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.00 per share. This was used by IMI Singapore to set up Monarch Elite Ltd. (Monarch) and Cooperatief IMI Europe U.A. (Cooperatief) as holding companies and to facilitate the acquisition of Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ), and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I de C.V.) (IMI MX) (collectively referred to as “IMI EU/MX Subsidiaries”) from EPIQ NV (see Note 2). IMI EU/MX Subsidiaries design and produce printed circuits and spray casting of plastics, and supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, industrial market and other applications with plastic parts and electronic components. IMI EU/MX Subsidiaries also provide engineering, research and development, and logistics management services.

On December 14, 2012, the Directors of STEL approved the assignment of assets and liabilities of its subsidiary, Speedy-Tech (Philippines), Inc. (STPH), to the Parent Company of the operations of STPH. On June 13, 2013, the Board of Directors (BOD) of the Parent Company authorized the transfer of all rights, title and ownership over all of the assets, and assumption of liabilities and obligations of STPH as of December 31, 2012. The Deed of Assignment was executed on July 30, 2013.

IMI USA was incorporated and is domiciled in California, USA. It is at the forefront of technology with regard to precision assembly capabilities including surface mount technology, chip on flex, chip on board and flip chip on flex. It specializes in prototyping low to medium PCBA and sub-assembly. It is also engaged in engineering, design for manufacturing technology, advanced manufacturing process development, new product innovations, direct chip attach and small precision assemblies.

IMI Japan was registered and is domiciled in Japan. IMI Japan's primary purpose is to transact business with Japanese customers in the following areas: (a) turnkey EMS; (b) engineering and design services; and (c) original design manufacturing solutions. IMI Japan also functions as program management center for new business in coordination with the Parent Company (wireless), STEL Group (power management) and IMI USA (film chip). IMI Japan secures programs/projects from Japanese customers and then endorses these to the Parent Company or IMI Singapore. There is no manufacturing operation in IMI Japan.

The Parent Company acquired of 55.78% of PSi on October 6, 2010. PSi is a power semiconductor assembly and test services (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices. On March 12, 2013, the Parent Company increased its ownership interest in PSi from 55.78% to 83.25% (see Note 2).

PSi wholly owns PSi Technologies Laguna, Inc. (PSi Laguna), which also provides SATS. In addition, PSi owns 40% of PSiTech Realty, Inc. (PSiTech Realty), the holding company of Pacsem Realty, Inc. (Pacsem Realty), which is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired.

On June 21, 2012, the Philippine Securities and Exchange Commission (SEC) approved the legal merger of PSi Laguna and PSi, with the former as the absorbed entity and PSi as the surviving entity. Also, on June 21, 2012, the respective BOD of PSi, Pacsem Realty and PSiTech Realty authorized the dissolution and liquidation of Pacsem Realty and PSiTech Realty by shortening their corporate life up to December 31, 2013, subject to the approval of the Philippine SEC.

The consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issue by the Parent Company's BOD on February 17, 2014.

2. Group Information

Information about Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

	Percentage of Ownership			Country of	
Subsidiary	**2013**	2012	2011	Incorporation	Functional Currency
IMI Singapore	**100.00%**	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI ROHQ	**100.00%**	100.00%	100.00%	Philippines	USD
STEL	**100.00%**	100.00%	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD)	**100.00%**	100.00%	100.00%	China	USD
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE)	**99.48%**	99.48%	99.48%	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	**100.00%**	100.00%	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. (STCQ)	**100.00%**	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	**100.00%**	100.00%	100.00%	China	USD
STPH [a]	**100.00%**	100.00%	100.00%	Philippines	USD
Vista Manufacturing Pte Ltd (VISTA) [b]	**–**	–	100.00%	Singapore	USD
Speedy-Tech Technologies Pte. Ltd. (STTS) [b]	**–**	–	100.00%	Singapore	USD
Speedy-Tech Electronics, Inc.	**100.00%**	100.00%	100.00%	USA	USD
Monarch	**100.00%**	100.00%	100.00%	Hong Kong	USD
Cooperatief	**100.00%**	100.00%	100.00%	Netherlands	Euro (EUR)
IMI BG	**100.00%**	100.00%	100.00%	Bulgaria	Bulgarian Lev (BGN)
Microenergia EOOD	**70.00%**	70.00%	70.00%	Bulgaria	BGN
IMI CZ	**100.00%**	100.00%	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX	**100.00%**	100.00%	100.00%	Mexico	Mexican Peso (MXN)
Integrated Micro-Electronics Manufactura S.A.P.I de C.V.	**100.00%**	100.00%	100.00%	Mexico	MXN
IMI France SAS (IMI France)	**100.00%**	100.00%	100.00%	France	EUR
IMI USA	**100.00%**	100.00%	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	100.00%	Japan	USD

(Forward)

Subsidiary	Percentage of Ownership 2013	2012	2011	Country of Incorporation	Functional Currency
PSi	**83.25%**	55.78%	55.78%	Philippines	USD
PSi Laguna [c]	**–**	–	55.78%	Philippines	USD
PSiTech Realty [d]	**33.30%**	22.31%	22.31%	Philippines	USD
Pacsem Realty [d]	**53.28%**	35.70%	35.70%	Philippines	USD

[a] STPH's business operations was integrated as part of the Parent Company in 2013 (see Note 1). STPH is a dormant company.
[b] On August 8, 2012 and July 3, 2012, VISTA and STTS were liquidated, respectively.
[c] On June 21, 2012, PSi Laguna was legally merged with PSi.
[d] The percentage pertains to the indirect ownership of the Parent Company. On June 21, 2012, the BOD of PSi, PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval.

Business Combinations

Acquisition of PSi

On June 25, 2010, the Parent Company and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the "New Investors") entered into an Investors' Agreement (the "Agreement") with PSi Technologies Holdings, Inc. and Merrill Lynch Global Emerging Markets Partners, LLC (collectively referred to as the "Old Investors"), to take on 55.78% and 11.22% equity share in PSi, respectively.

The equity subscription of the New Investors was finalized on October 6, 2010, and the Parent Company took control of PSi on that date.

The Agreement also provided details regarding the grant of put and call options, as follows:

Put Option	Option to require the New Investors to purchase all but not some of the shares held by the Old Investors (Option Shares) at the time of exercise, at any time during the Put Option Period.
Put Option Period	The period from acquisition date up to twenty-four (24) months from completion date, with 7-day exercise notice.
Put Option Strike Price	The higher of (a) $1.00 and (b) value of the shares calculated based on 5.5x trailing 12-month earnings before interest, taxes, depreciation and amortization (EBITDA) of PSi as of receipt of the exercise notice, less net debt.
Call Option	Option to require the Old Investors to sell all but not some only of the shares held by the Old Investors at the time of exercise, at any time during the Call Option Period.
Call Option Period	The period commencing six (6) days prior to the lapse of the Put Option Period and ending thirty (30) days after the lapse of the Put Option Period.
Call Option Strike Price	The higher of (a) $1.00 and (b) value of the shares calculated based on 6.0x trailing 12-month EBITDA of PSi as of the date of receipt of the exercise notice, less net debt.

In 2010, the Parent Company recorded its share in the identifiable assets and liabilities of PSi using provisional fair values due to unavailability of certain information to facilitate the fair value computation of receivables, property, plant and equipment, accounts payable and accrued expenses, and goodwill. The acquisition cost also includes contingent consideration.

In 2011, the Parent Company finalized the purchase price allocation as follows:

	Fair Value	Provisional Values
Assets		
Cash	$10,527,930	$10,527,930
Receivables	12,454,190	18,419,853
Inventories	6,580,987	6,580,987
Property, plant and equipment	9,210,386	9,210,386
Other assets	1,311,932	1,311,932
Total	40,085,425	46,051,088

(Forward)

	Fair Value	Provisional Values
Liabilities		
Accounts payable and accrued expenses	31,591,670	35,783,492
Loans payable	2,347,609	2,347,609
Deferred revenue	2,922,953	2,922,953
Accrued rental	902,028	902,028
Other long-term employee benefits	372,084	372,084
Total	38,136,344	42,328,166
Net assets	$1,949,081	$3,722,922
Non-controlling interest share in the fair value of net assets acquired (44.22%)	$861,884	$1,646,276
Cost of acquisition	$11,283,628	$11,570,031
Less Parent Company's share in the fair value of net assets acquired (55.78%)	1,087,197	2,076,646
Goodwill (Note 10)	$10,196,431	$9,493,385

Receivables, accounts payable and accrued expenses, and the cost of acquisition (as adjusted for contingent consideration) decreased by $5.97 million, $4.19 million, and $0.29 million, respectively. The final purchase price allocation resulted in a goodwill of $10.20 million.

Cash on acquisition follows:

Cash acquired from PSi	$10,527,930
Cash paid	8,325,000
Net cash flow	$2,202,930

Acquisition of Additional Interest in PSi
On September 26, 2012, amendments relating to the Agreement were made to allow the parties to respectively exercise their option rights without the need for further determination of valuation or engagement of third parties. Accordingly, a fixed price was established amounting to $150,000.

On January 9, 2013, pursuant to the second amendment to the Agreement, the exercise notice, which is one of the conditions for the completion of the sale and purchase of the Option Shares, was received by the parties. The sale and purchase transaction involving the Option Shares shall be deemed completed upon compliance of the rest of conditions set forth in the Agreement.

On March 12, 2013, the Deed of Assignment have been executed and the stock certificates have been delivered. The exercise of the option rights increased the Parent Company's ownership interest in PSi from 55.78% to 83.25%.

Details of the transactions are as follows:

Consideration paid to non-controlling shareholders (share of the Parent Company in the exercise price)	$124,875
Value of the option exercised	2,857,010
Additional interest acquired	2,981,885
Adjustment to non-controlling interests	4,540,547
Total amount recognized in "Additional paid-in capital" account within equity	$7,522,432

Acquisition of IMI EU/MX Subsidiaries
On April 28, 2011, the Parent Company infused additional capital to IMI Singapore consisting of $7,026,195 cash and 200 million of the Parent Company's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.00 per share. This was used by IMI Singapore to set up Monarch and Cooperatief as holding companies and to facilitate the acquisition of IMI EU/MX Subsidiaries from EPIQ NV.

On May 4, 2011, the Parent Company, Cooperatief (the "Purchaser"), and EPIQ NV (the "Seller"), entered into a Sale and Purchase Agreement (SPA), for the Purchaser to buy the Seller's 100% direct or indirect ownership shares (the "EPIQ shares") in IMI EU/MX Subsidiaries.

The Parent Company, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200 million of the Parent Company's shares (the "IMI Consideration Shares"); deferred payment of €7,345,080 ($10,515,218) from 2013 to 2018 subject to an interest rate of 1.60% plus 1.50% (see Note 15); and assumption of liabilities of EPIQ NV to IMI EU/MX Subsidiaries aggregating to €2,546,419 ($3,645,453).

The acquisition costs are allocated as follows as at May 4, 2011:

	IMI BG	IMI CZ	IMI MX	Total
Issuance of 200 million IMI Consideration Shares (Note 17)	$20,638,697	$524,970	$7,645,066	$28,808,733
Deferred payment	7,533,146	191,615	2,790,457	10,515,218
Assumed liabilities of EPIQ NV to IMI EU/MX Subsidiaries	115,265	8,887	3,521,301	3,645,453
	$28,287,108	$725,472	$13,956,824	$42,969,404

On July 29, 2011, all of the completion conditions under the SPA were fulfilled by the responsible parties, and the acquisition of IMI EU/MX Subsidiaries by Cooperatief was completed.

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from IMI EU/MX Subsidiaries aggregating to €11,734,824 ($16,799,576). On July 29, 2011, €4,831,161 ($6,916,294) of this was settled through cash payment, while the rest will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.60% plus 1.50% (see Note 15).

In 2011, the purchase price allocation for the acquisition of IMI EU/MX Subsidiaries was done on a preliminary basis as certain information were unavailable to finalize the fair value calculations of property, plant and equipment, intangible assets, contingent liabilities and goodwill.

In 2012, the Group finalized the purchase price allocation. As shown below, no changes were made to the provisional values as the impact of additional information subsequently obtained was not significant to affect the preliminary values.

	IMI BG		IMI CZ		IMI MX	
	Fair Value	Provisional Values	Fair Value	Provisional Values	Fair Value	Provisional Values
Assets						
Cash and cash equivalents	$1,152,558	$1,152,558	$515,223	$515,223	$3,385,562	$3,385,562
Loans and receivables	26,485,891	26,485,891	3,333,944	3,333,944	10,508,102	10,508,102
Inventories	20,700,958	20,700,958	2,984,546	2,984,546	4,476,328	4,476,328
Property, plant and equipment	24,810,566	24,810,566	5,734,207	5,734,207	8,618,229	8,618,229
Computer software	158,818	158,818	–	–	299,735	299,735
Customer relationships	6,766,617	6,766,617	–	–	–	–
Deferred tax assets	–	–	444,245	444,245	–	–
Other assets	193,184	193,184	–	–	120,831	120,831
Total	80,268,592	80,268,592	13,012,165	13,012,165	27,408,787	27,408,787
Liabilities						
Accounts payable	17,650,612	17,650,612	2,444,865	2,444,865	6,409,754	6,409,754
Bank loans	12,871,248	12,871,248	–	–	–	–
Long-term debt	4,779,883	4,779,883	10,114,478	10,114,478	2,909,135	2,909,135
Provisions	1,319,762	1,319,762	–	–	–	–
Accrued charges and deferred income	1,158,778	1,158,778	377,763	377,763	–	–
Taxes payable	352,571	352,571	–	–	1,089,987	1,089,987
Deferred tax liabilities	2,138,855	2,138,855	–	–	1,686,277	1,686,277
Total	40,271,709	40,271,709	12,937,106	12,937,106	12,095,153	12,095,153
Net assets	$39,996,883	$39,996,883	$75,059	$75,059	$15,313,634	$15,313,634
Cost of acquisition	$28,287,108	$28,287,108	$725,472	$725,472	$13,956,824	$13,956,824
Less Cooperatief's share in the fair value of net assets acquired	39,948,791	39,948,791	75,059	75,059	15,313,634	15,313,634
Goodwill (gain from bargain purchase)	($11,661,683)	($11,661,683)	$650,413	$650,413	($1,356,810)	($1,356,810)

Acquisition-related costs, which consist of professional fees, representation and travel expenses amounting to $2.14 million, were recognized as expenses in 2011.

In 2011, from the date of acquisition, IMI EU/MX Subsidiaries have contributed $66.24 million and $2.42 million to the Group's total revenue and net income before tax, respectively. If the combination had taken place at the beginning of 2011, the Group's total revenue and net income before tax would have increased by $189.90 million and $10.45 million, respectively.

Material Partly-owned Subsidiary
PSi is the only subsidiary with non-controlling interests that are material to the Group. Financial information of PSi are provided below:

Proportion of equity interest held by non-controlling interests:

	2013	2012	2011
Proportion of equity interest held by non-controlling interests	**16.75%**	44.22%	44.22%
Accumulated balances of material non-controlling interests	**($2,921,102)**	($5,550,643)	($883,298)
Loss allocated to material non-controlling interests	**($1,297,486)**	($4,666,461)	($1,998,732)

The summarized financial information of PSi are provided below. These information are based on amounts before intercompany eliminations:

Summarized balance sheets as of December 31, 2013 and 2012:

	2013	2012 (As restated*)
Current assets	**$13,549,353**	$12,919,929
Noncurrent assets	**6,324,708**	6,836,382
Current liabilities	**(34,333,848)**	(28,769,848)
Noncurrent liabilities	**(3,496,747)**	(4,131,069)
Total equity	**($17,956,534)**	($13,144,606)
Attributable to:		
Equity holders of the Parent Company	**($15,035,432)**	($7,593,963)
Non-controlling interests	**(2,921,102)**	(5,550,643)
	($17,956,534)	($13,144,606)

**As restated for the effects of the adoption of the revised Philippine Accounting Standards (PAS) 19, Employee Benefits.*

Summarized statements of comprehensive income for 2013, 2012 and 2011:

	2013	2012 (As restated*)	2011 (As restated*)
Revenues	**$43,084,648**	$45,598,208	$73,963,213
Cost of sales	**(44,290,097)**	(49,044,230)	(71,157,382)
Operating expenses	**(3,802,830)**	(5,860,537)	(6,767,839)
Other income (expenses)	**174,751**	(740,764)	(366,223)
Loss before income tax	**(4,833,528)**	(10,047,323)	(4,328,231)
Provision for income tax	**(51,629)**	(42,271)	(119,164)
Net loss for the year	**(4,885,157)**	(10,089,594)	(4,447,395)
Other comprehensive income (loss)	**73,229**	244,052	(546,364)
Total comprehensive loss	**($4,811,928)**	($9,845,542)	($4,993,759)
Attributable to:			
Equity holders of the Parent Company	**($3,514,442)**	($5,179,081)	($2,995,027)
Non-controlling interests	**(1,297,486)**	(4,666,461)	(1,998,732)
	($4,811,928)	($9,845,542)	($4,993,759)

**As restated for the effects of the adoption of the revised PAS 19, Employee Benefits.*

Summarized statements of cash flows for 2013, 2012 and 2011:

	2013	2012	2011
Operating	**($3,795,317)**	($6,886,515)	($1,654,538)
Investing	**(1,530,828)**	(1,368,538)	(3,076,193)
Financing	**4,255,025**	6,163,471	3,542,682
Net decrease in cash and cash equivalents	**($1,071,120)**	($2,091,582)	($1,188,049)

3. **Summary of Significant Accounting and Financial Reporting Policies**

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in USD, which is the functional currency of the Parent Company, and are rounded off to the nearest dollar, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated balance sheet at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the consolidated financial statements. An additional consolidated balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to the retrospective application of the revised PAS 19, *Employee Benefits.*

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2013 and 2012.

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

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities.

Legal merger of PSi and PSi Laguna
The plan of merger provides that PSi, as the surviving entity, received all the assets and assumed all the liabilities of PSi Laguna effective June 21, 2012. No new shares of stock were issued by PSi for the aforementioned transfer.

At the time PSi Laguna was merged to PSi, PSi already had an investment in PSi Laguna. Therefore, the legal merger does not represent PSi obtaining control of PSi Laguna and hence, outside the scope of PFRS 3, *Business Combinations*. Accordingly, the consolidated financial statements continue to carry the same amounts.

Changes in Accounting Policies and Disclosures
New and amended standards and interpretation
The Group applied, for the first time, PAS 19 (As Revised in 2011), *Employee Benefits*, that requires restatement of previous consolidated financial statements.

Several other new and amended standards and interpretation were applied for the first time in 2013. The nature and the impact of each new and amended standard and interpretation are described below:

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

- PAS 19 (As Revised in 2011), *Employee Benefits*
  On January 1, 2013, the Group adopted the revised PAS 19.

  For defined benefit plans, the revised standard requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

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

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

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

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

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

  Consolidated Balance Sheets

Increase (decrease) in:	**December 31, 2013**	December 31, 2012	January 1, 2012
Pension asset	**($1,606,862)**	($1,941,695)	($2,806,876)
Pension liabilities	**5,550,296**	1,222,559	2,093,572
Other comprehensive income	**(8,958,073)**	(4,618,236)	(6,211,759)
Retained earnings	**1,800,915**	1,453,982	1,311,311

Consolidated Statements of Income

Increase (decrease) in:	**2013**	2012	2011
Cost of sales	**$77,601**	($199,803)	$25,866
Operating expenses	**12,157**	(250,800)	8,584
Foreign exchange loss	**(436,691)**	307,932	–
Net income	**346,933**	142,671	(34,450)

There is no significant impact on the Group's basic and diluted earnings per share (EPS).

Consolidated Statements of Comprehensive Income

Increase (decrease) in:	**2013**	2012	2011
Net income for the year	**$346,933**	$142,671	($34,450)
Remeasurement gains on defined benefit plans	**(4,339,837)**	1,593,523	(1,002,770)
Total comprehensive income for the year	**(3,992,904)**	1,736,194	(1,037,220)

The adoption of the revised standard did not have impact on the consolidated statements of cash flows.

As permitted by the standard, sensitivity disclosures for pension liabilities for comparative year ended December 31, 2012 have not been provided.

- PAS 27 (As Revised in 2011), *Separate Financial Statements*
  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities (JCEs), and associates in the separate financial statements. The adoption of the revised standard did not have a significant impact on the separate financial statements of the entities in the Group.

- PAS 28 (As Revised in 2011), *Investments in Associates and Joint Ventures*
  As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28, *Investments in Associates*, has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard did not have any impact on the consolidated financial statements of the Group.

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

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

  This is presented separately for financial assets and financial liabilities recognized at balance sheet date. The amended standard did not have any impact on the consolidated financial statements of the Group.

- PFRS 10, *Consolidated Financial Statements*
  The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation – Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which

entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adoption of the new standard did not have any impact on the consolidated financial statements of the Group. The Group assessed that no facts and circumstances would suggest change to any criteria of control since the subsidiaries are either wholly-owned or majority owned.

- PFRS 11, *Joint Arrangements*
  This standard replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *JCEs – Non-monetary Contributions by Venturers*. The standard removed the option to account for JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The new standard did not have any impact on the consolidated financial statements of the Group.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Group has a subsidiary with material non-controlling interests, there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Note 2.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. The standard does not change when the Group is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. The standard defines fair value as an exit price. The standard also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group reassessed its policies for measuring fair values. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 30.

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

Annual improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011 Cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year. The nature and the impact of each amendment are described below:

- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*
  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. The Group must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required. As a result, the Group has not included supporting notes in respect of the opening balance sheet as at January 1, 2012.

- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory, if otherwise. The amendment did not have any significant impact on the consolidated financial statements of the Group.

- PAS 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment did not have any significant impact on the Group's financial position or financial performance.

<u>Standards Issued but not yet Effective</u>
The Group will adopt the following new and amended standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the consolidated financial statements.

Effective in 2014

- PAS 32 (Amendments), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

- PAS 36 (Amendments), *Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements* (Amendments) – *Investment Entities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL).

- Philippine Interpretation of IFRIC 21, *Levies* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  Philippine Interpretation of IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Effective in 2015

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

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

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the

parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

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

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of these amendments and in the immediately preceding annual period.

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

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

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that has been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

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

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

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

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

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

Standard with no mandatory effective date

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

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

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Interpretation whose effective date was deferred

- Philippine Interpretation of IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is expected to be realized or intended to be sold or consumed in the normal operating cycle or within twelve (12) months after the balance sheet date, when it is held primarily for the purpose of trading, or cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the balance sheet date. All other assets are classified as noncurrent.

A liability is current when it is expected to be settled in the normal operating cycle or due to be settled within twelve (12) months after the balance sheet date, when it is held primarily for trading, or when there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the balance sheet date. All other liabilities are classified as noncurrent.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Classification of financial instruments
Financial instruments within the scope of PAS 39 are classified as: (1) financial assets and financial liabilities at FVPL; (2) loans and receivables; (3) held-to-maturity (HTM) investments; (4) AFS financial assets; and (5) other financial liabilities. The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

The financial instruments of the Group as of December 31, 2013 and 2012 consist of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL and other financial liabilities.

Date of recognition of financial instruments
Financial instruments are recognized in the consolidated balance sheets when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using trade date accounting. The Group follows the trade date accounting where an asset to be received and liability to be paid are recognized on the trade date and the derecognition of an asset that is sold and the recognition of a receivable from the buyer are likewise recognized on the trade date.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

Financial assets or financial liabilities at FVPL
Financial assets or financial liabilities at FVPL include derivatives, financial instruments held for trading and financial instruments designated upon initial recognition as at FVPL.

Financial instruments are classified as held for trading if they are entered into for the purpose of short-term profit-taking.

Derivatives, including separated embedded derivatives, are accounted for as financial assets or financial liabilities at FVPL, unless they are designated as effective hedging instruments or a financial guarantee contract. Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial instruments may be designated at initial recognition as financial assets or financial liabilities at FVPL if any of the following criteria are met: (1) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the instrument or recognizing gains or losses on a different basis; or (2) the financial instrument is part of a group of financial instruments which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (3) the financial instrument contains an embedded derivative that would need to be separately recorded.

Financial assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss.

The Group uses currency forwards to hedge its risks associated with foreign currency fluctuations. Such are accounted for as nonhedge derivatives.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract; (2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (3) the hybrid or combined instrument is not recognized at FVPL. The Group assesses whether an embedded derivative is required to be separated from the host contract when the Group first becomes party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for doubtful accounts. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy relates primarily to the Group's cash and cash equivalents, loans and receivables and miscellaneous deposits.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, loans and receivables or HTM investments. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of AFS financial assets.

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in profit or loss as dividend income when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are recognized in OCI under "Fair value changes on available-for-sale financial assets" account. The losses arising from impairment of such investments are recognized as impairment losses in profit or loss. When the security is disposed of, the cumulative gains or losses previously recognized in OCI are recognized as realized gains or losses in profit or loss.

When the fair value of AFS equity instruments cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

This accounting policy pertains to the Group's investments in club shares and preferred equity shares and convertible notes.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when other financial liabilities are derecognized, as well as through the EIR amortization process.

This accounting policy relates primarily to the Group's accounts payable and accrued expenses (excluding customers' deposits, statutory payables and taxes payable), trust receipts and loans payable and long-term debt.

Fair Value Measurement
The Group measures derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 30.

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

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

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

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

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 balance sheet date.

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

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

<u>Derecognition of Financial Instruments</u>
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (that is, removed from the consolidated balance sheets) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

<u>Impairment of Financial Assets</u>
The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred “loss event”), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.
Loans and receivables

For loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated provision for doubtful accounts increases or decreases because of an event occurring after the provision for doubtful accounts was recognized, the previously recognized provision for doubtful accounts is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss.

AFS financial assets
For AFS financial investments, the Group assesses, at each balance sheet date, whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is evaluated against the original cost of the investments and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that investments previously recognized in profit or loss - is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method for raw materials and supplies. For finished goods and work-in-process, cost includes direct materials, direct labor and a proportion of manufacturing overhead costs based on normal operating capacity determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. In the event that NRV is lower than cost, the decline shall be recognized as an expense in profit or loss.

Tax Credits
Tax credits, included under "Other current assets" account in the consolidated balance sheets, include amounts withheld from income tax payments and value added tax refund claims.

Property, Plant and Equipment
Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. The initial cost of property, plant and equipment consists of its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Upon retirement or sale, the cost of the asset disposed and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in profit or loss.

Construction in progress is stated at cost, less impairment loss, if any. This includes costs of construction and installation of plant and equipment and machinery items and any other costs directly attributable to bringing the asset to its intended use. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Depreciation of property, plant and equipment commences once the property, plant and equipment are available for use and is calculated on a straight-line basis over the estimated useful lives (EUL) of the assets as follows:

	Years
Buildings	25 - 30
Building improvements	5
Machinery and facilities equipment	7
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5
Tools and instruments	2 - 5

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss when the asset is derecognized.

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer use and no further depreciation is charged to profit or loss.

The EUL of property, plant and equipment are reviewed annually based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The EUL and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Business Combination and Goodwill or Gain on Bargain Purchase
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statements of income under "Operating expenses" account.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss. The Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost, less accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the

Group's CGU, or group of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- Represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Not be larger than an operating segment determined in accordance with PFRS 8.

When goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill allocated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation.

PFRS 3, *Business Combinations*, provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve (12) months of the acquisition date; and from the acquisition date (1) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (2) goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (3) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition.

After initial recognition, intangible assets are carried at cost, less accumulated amortization and any accumulated impairment losses.

The EUL of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized over their EUL and assessed for impairment whenever there is an indication that the intangible asset is impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in profit or loss.

The EUL of intangible assets are as follows:

	Years
Customer relationships	5
Unpatented technology	5
Computer software	3

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

The Group assesses, at each balance sheet date, whether there is an indication that an asset is impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations generally covered a period of five (5) years.

For assets excluding goodwill, an assessment is made at each balance sheet date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

Goodwill is tested for impairment annually as of September 30 and when circumstances indicate that the carrying amount is impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

Restructuring provisions are recognized when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Equity

Capital stock

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds at par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against "Retained earnings" account. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Additional paid-in-capital

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock.

Subscriptions receivable

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings and dividend on capital stock of the Parent Company
Retained earnings represent net accumulated earnings of the Group, less dividends declared. Appropriated retained earnings are set aside for future expansion. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the shareholders of the Parent Company and its subsidiaries.

Treasury stock
Treasury stock is recorded at cost and is presented as a deduction from equity. When the shares are retired, the “Capital stock” account is reduced by its par value and the excess of cost over par value upon retirement is debited to “Additional paid-in capital” account to the extent of the specific or average additional paid-in capital when the shares were issued and to “Retained earnings” account for the remaining balance.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from sale of goods is recognized when goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, title and risk of ownership have passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured.

Rendering of services
Revenue from sale of services is recognized when the related services to complete the required units have been rendered.

Interest
Interest income is recognized as it accrues using the EIR method.

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

Miscellaneous income
Miscellaneous income is recognized as the Group earns the right over it.

<u>Expenses</u>
Expenses of the Group include cost of sales and operating expenses.

Cost of sales
This account includes cost of goods sold and cost of services. These expenses pertain to the direct expenses incurred by the Group related to the products and services offered. Cost of sales is recognized when the related goods are sold and when services are rendered.

Operating expenses
This account pertains to the general and administrative expenses. Operating expenses are recognized when incurred, except for rent expense, which is computed on a straight line-basis over the lease term.

<u>Income Taxes</u>
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date in the countries where the Group operates and generates taxable profit.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

For periods where an ITH is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the Group neither results in a deductible temporary difference or taxable temporary difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Foreign Currency Transactions
Management has determined that the functional and presentation currency of the Parent Company, IMI USA, IMI Japan and IMI Singapore is the USD, being the currency of the primary environment in which these entities operate. The functional currencies of its operations in Bulgaria, Czech Republic and Mexico are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to USD.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of IMI BG, IMI CZ, and IMI MX, are the BGN, CZK and MXN, respectively. The functional currency of IMI France and Cooperatief is the EUR. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity's net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Pensions and Other Employee Benefits

Defined benefit plans

The Parent Company, PSi and IMI BG maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded and noncontributory pension plans administered by their respective Boards of Trustees, while that of IMI BG is unfunded and noncontributory.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Net pension expense comprises the following:

- Service cost;
- Net interest on pension liabilities; and
- Remeasurements of pension liabilities.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Defined contribution plans

The Parent Company's subsidiaries in Singapore, PRC and Hong Kong, IMI CZ, and IMI MX participate in their respective national pension schemes which are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The required contributions to the national pension schemes are recognized as pension expense as accrued.

Singapore

The subsidiaries incorporated and operating in Singapore make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

PRC

The subsidiaries incorporated and operating in PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Hong Kong

The subsidiary in Hong Kong participates in the defined Provident Fund. The subsidiary and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident

Fund legislation. The contributions of the subsidiary and the employees are subject to a cap of HK$1,000 per month and thereafter, contributions are voluntary.

IMI CZ
IMI CZ, under its Collective Agreement, is committed to pay contributions to life and pension insurance of its loyal employees. This is done on a monthly basis as part of payroll expenses and only over the employment period. IMI CZ is not obliged to any other payments if employment terminates.

IMI MX
In accordance with the Mexican Labor Law, IMI MX provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve (12) days of wage for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen (15) or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. IMI MX estimates that the differences that might be determined if this liability had been estimated by an independent actuary are immaterial.

IMI MX also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three (3) months wages plus twenty (20) days wages for each year of service payable upon involuntary termination without just cause. These are recognized when such an event occurs.

Employee leave entitlement
Parent Company
Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months (12) after the end of the balance sheet date is recognized for services rendered by employees up to the end of the balance sheet date.

PSi
PSi compensates employees for vacation and sick absences (compensated absences). Entitlement to compensated absences is accumulating.

Unused sick leave and vacation leave benefits can be accumulated. Leave days entitlement for a certain year can be availed of during and/or the following year, except those unused vacation leaves for prior years through December 31, 2009. Upon separation of an employee who has rendered at least one (1) year of service, accumulated sick leave and vacation leave balances will be converted to cash based on the employee's final daily rate, except for Executives' (directors and higher positions), sick leave and vacation credits which are non-commutable to cash.

Unused vacation leaves for prior years through December 31, 2009 can only be converted to cash upon separation of the employees from PSi and are actuarially determined using the projected unit credit method.

Share-based Payment Transactions
Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company's shares at a discounted price. The Group recognizes the difference between the market price at the time of subscription and the subscription price as employee benefit expense over the holding period.

EPS Attributable to Equity Holders of the Parent Company
Basic EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding, plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share.

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;

b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Operating lease commitments - Group as lessor
A lease in which the Group does not transfer substantially all the risks and benefits of ownership of an asset is classified as an operating lease. Lease income is recognized in the consolidated statements of income under "Miscellaneous income - net" account on a straight-line basis over the lease term.

Operating and finance lease commitments - Group as lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property, plant and equipment" account with the corresponding liability to the lessor included in the "Accounts payable and accrued expenses" account for the current portion and "Noncurrent portion of obligation under finance lease" account for the noncurrent portion in the consolidated balance sheets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under "Interest expense" account in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the respective lease terms.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Segment Information
The Group is organized and managed separately according to geographical locations of businesses. The geographical segments are segregated as follows: Philippines, Singapore/China, Europe/Mexico and Japan. These geographical businesses are the basis upon which the Group reports its primary segment information presented in Note 27.

Events after the Balance Sheet Date
Post year-end events that provide additional information about the Group's financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these judgments, assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Functional currency
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Group's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, the Group considers the currency in which the sales prices for its goods and services are denominated and settled. Further details are disclosed in Note 3.

Operating lease commitments - Group as lessor
In agreement with the original lessors, the Parent Company and STEL Group subleased portions of the properties they occupy. Based on the evaluation of the terms and conditions of the arrangements between the Parent Company and STEL Group and their sublessees, the contracts are operating leases. Further details are disclosed in Note 28.

Operating and finance lease commitments - Group as lessee
The Group has entered into various lease contracts for office equipment, office spaces and land as lessee. The Group has determined that it has not acquired the significant risks and rewards of ownership of the leased properties and so account for the contracts as operating leases.

In addition, the Parent Company has entered into finance lease contracts covering certain office equipment while IMI BG and IMI CZ have various finance lease contracts related to machineries and production equipment and transportation equipment. They have determined, based on the evaluation of the terms and conditions of their respective arrangements, that they bear substantially all the risks and rewards incidental to the ownership of the said assets and so account for the contracts as finance leases. Further details are disclosed in Note 28.

Contingencies
The Group is currently involved in various legal proceedings and tax assessments. The estimate of the probable costs of the resolutions and assessments of these claims have been developed in consultation with outside counsels handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings and tax assessments will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. Further details are disclosed in Note 32.

Impairment of AFS equity investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value of these investments below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. The Group treats significant generally as 20% or more and prolonged as greater than six (6) months for quoted equity securities. In addition, the Group evaluates other factors, such as normal volatility in share price for quoted equities.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of loans and receivables
The Group reduces the carrying amount of its loans and receivables through the use of an allowance account if there is objective evidence that an impairment loss on loans and receivables has been incurred, based on the result of the individual and collective impairment assessments. Factors considered are payment history and past due status. Further details on loans and receivables are disclosed in Note 6.

Estimating NRV of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense. Further details on inventories are disclosed in Note 7.

Depreciation and amortization
The Group computes depreciation of property, plant and equipment on a straight-line basis over the assets' EUL. The EUL and depreciation method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Further details on property, plant and equipment are disclosed in Note 9.

The Group computes amortization of intangible assets on a straight-line basis over the assets' EUL. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in profit or loss, in the expense category consistent with the function of the intangible assets. Further details on intangible assets are disclosed in Note 11.

Impairment of property, plant and equipment and intangible assets
The Group determines, at each balance sheet date, whether there is any indication that an item of property, plant and equipment and intangible assets with finite useful lives may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exists or has decreased. If any such indication exists, and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset or, if it is not possible, for the CGU to which the asset belongs is written down to its recoverable amount. Further details on property, plant and equipment and intangible assets are disclosed in Notes 9 and 11, respectively.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount, which is the net selling price or value-in-use of the CGU to which the goodwill is allocated. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details on goodwill are disclosed in Note 10.

Fair value measurement of intangible assets resulting from business combinations
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Upon acquisition of IMI BG (see Note 2), the Parent Company identified an intangible asset (customer relationships) and determined its fair value based on discounted 5-year projected income from existing customers as of acquisition date after excluding projected returns contributed by working capital, workforce and fixed assets. Further details on intangible assets resulting from business combinations are disclosed in Note 11.

Impairment of AFS financial assets
The Group classifies certain equity investments as AFS financial assets and recognizes movements in their fair value in OCI. When the fair value of these assets declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss.

The carrying amount of AFS financial assets of the Group amounted to \$1.87 million and \$1.61 million as of December 31, 2013 and 2012, respectively. In 2013, 2012, and 2011, no impairment losses have been recognized on AFS financial assets.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 23.

Pensions and other employee benefits
The cost of defined benefit plans and other long-term employee benefits (including accrued leaves of PSi) as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rates and future pension increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on pension and other employee benefits are disclosed in Note 25.

Share-based payment transactions
For share-based payments granted prior to 2010, the Group determined the cost of equity-settled shares based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of ten (10) comparable Asian EMS companies as at the close of the calendar year prior to the grant.

For the grant made in 2010, the cost of equity-settled shares was based on the market value of the Parent Company's stocks as quoted at the PSE at the date of grant. Further details on share-based payment transactions are disclosed in Note 26.

Fair value of put and call options
The acquisition of PSi on October 6, 2010 gave rise to a long equity call option and written equity put option for the Parent Company (see Note 2). The put and call options were valued using binomial model. This valuation technique considers the probability of the value of PSi's shares, determined based on a 5-year discounted cash flow model, to move up or down depending on the volatility, risk-free rate and exercise price. Further details on the fair value of put and call options are disclosed in Notes 30 and 31.

5. Cash and Cash Equivalents

This account consists of:

	2013	2012
Cash on hand	**$97,912**	$127,180
Cash in banks	**44,887,461**	48,304,387
Short-term deposits	**4,057,226**	7,764,815
	$49,042,599	$56,196,382

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three (3) months and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and short-term deposits amounted to $0.22 million in 2013, $0.27 million in 2012 and $0.30 million in 2011 (see Note 22).

6. Loans and Receivables

This account consists of:

	2013	2012
Trade	**$174,135,627**	$147,455,163
Nontrade	**2,838,394**	2,268,477
Receivable from insurance	**1,178,785**	1,178,785
Receivable from employees	**542,944**	539,159
Due from related parties (Note 29)	**218,453**	517,508
Others	**3,041,196**	2,702,067
	181,955,399	154,661,159
Less allowance for doubtful accounts	**3,490,657**	3,780,304
	$178,464,742	$150,880,855

Trade
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms ranging from 30 to 60 days from invoice date.

As of December 31, 2013 and 2012, IMI BG's pledged receivables with UniCredit Bulbank and BNP Paribas follow (see Note 14):

	In EUR		In USD	
	2013	2012	**2013**	2012
UniCredit Bulbank	**€5,080,000**	€8,000,000	**$7,010,000**	$10,600,000
BNP Paribas	**–**	320,000	**–**	430,000
	€5,080,000	€8,320,000	**$7,010,000**	$11,030,000

Nontrade
Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms ranging from 30 to 60 days from invoice date.

Receivable from Insurance
This represents insurance claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009.

Allowance for Doubtful Accounts
Trade receivables, nontrade receivables, receivable from insurance, receivable from employees and other receivables with aggregate nominal value of $3.49 million and $3.78 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2013 and 2012, respectively.

Movements in the allowance for doubtful accounts are as follows:

2013

	Trade	**Nontrade**	**Receivable from Insurance**	**Receivable from Employees**	**Total**
At January 1, 2013	**$2,459,173**	**$124,320**	**$1,178,785**	**$18,026**	**$3,780,304**
Provisions (reversals)	**(115,511)**	**12,387**	**–**	**–**	**(103,124)**
Accounts written-off	**(172,306)**	**(14,217)**	**–**	**–**	**(186,523)**
At December 31, 2013	**$2,171,356**	**$122,490**	**$1,178,785**	**$18,026**	**$3,490,657**

2012

	Trade	Nontrade	Receivable from Insurance	Receivable from Employees	Total
At January 1, 2012	$2,117,204	$65,783	$1,202,135	$18,065	$3,403,187
Provisions (reversals)	344,666	120,221	(23,350)	(39)	441,498
Accounts written-off	(2,697)	(61,684)	–	–	(64,381)
At December 31, 2012	$2,459,173	$124,320	$1,178,785	$18,026	$3,780,304

Provisions (reversals) during the year form part of "Operating expenses" account and are included under "Facilities costs and others" (see Note 20).

7. Inventories

This account consists of:

	2013	2012
Raw materials and supplies	**$70,481,190**	$65,789,008
Work-in-process	**13,785,193**	10,822,065
Finished goods	**15,248,673**	11,277,519
	99,515,056	87,888,592
Less:		
Allowance for inventory obsolescence	**5,151,060**	4,349,787
Allowance for decline in value of inventories	**228,388**	362,936
	5,379,448	4,712,723
	$94,135,608	$83,175,869

The cost of the inventories carried at NRV amounted to $19.20 million and $15.85 million as of December 31, 2013 and 2012, respectively. The amount of inventories recognized as an expense under "Cost of goods sold and services" account amounted to $498.22 million in 2013, $449.06 million in 2012 and $388.88 million in 2011 (see Note 18).

Movements in the allowance for inventory obsolescence are as follows:

	2013	2012
At January 1	**$4,349,787**	$4,072,997
Provisions (Note 20)	**2,123,145**	282,948
Write-offs	**(1,321,872)**	(6,158)
At December 31	**$5,151,060**	$4,349,787

Movements in the allowance for decline in value of inventories value are as follows:

	2013	2012
At January 1	**$362,936**	$362,936
Reversals (Note 20)	**(107,131)**	–
Write-offs	**(27,417)**	–
At December 31	**$228,388**	$362,936

The Group recognized gains (losses) from sale of materials amounting to $0.92 million in 2013, ($1.82 million) in 2012, and $0.70 million in 2011. Gains (losses) from sale of materials are included under "Miscellaneous income - net" account in the consolidated statements of income.

As of December 31, 2013 and 2012, IMI BG's pledged inventories with UniCredit Bulbank and BNP Paribas follow (see Note 14):

	In EUR		In USD	
	2013	2012	2013	2012
UniCredit Bulbank	**€8,000,000**	€8,000,000	**$11,039,017**	$10,600,000
BNP Paribas	**–**	320,000	**–**	430,000
	€8,000,000	€8,320,000	**$11,039,017**	$11,030,000

8. **Other Current Assets**

This account consists of:

	2013	2012
Tax credits	**$12,402,958**	$5,028,572
Input taxes	**1,411,528**	559,125
Advances to suppliers	**1,668,113**	1,031,452
Prepayments	**1,076,126**	683,528
Current portion of deferred licensing fee (Note 12)	**10,000**	10,000
Others	**51,244**	113,235
	$16,619,969	$7,425,912

Tax credits are mainly attributable to IMI MX, IMI BG and the Parent Company.

Prepayments include prepayments for life and fire insurance, rent and product liability and recall insurance which cover product recall expenses and liability to third parties seeking damage in the event the Group recalls any of its products.

9. Property, Plant and Equipment

Movements in this account are as follows:

2013

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At January 1, 2013	$72,228,680	$128,050,382	$16,108,919	$1,216,621	$3,751,507	$1,214,071	$222,570,180
Additions	2,086,900	10,177,887	1,937,408	246,049	428,459	5,973,276	20,849,979
Disposals	(1,718,354)	(17,131,999)	(428,241)	(463,830)	(265,411)	–	(20,007,835)
Retirement	(3,436,092)	(12,138,924)	(1,899,897)	(53,973)	–	–	(17,528,886)
Transfers	1,245,220	4,641,848	161,250	52,313	–	(6,100,631)	–
Foreign currency exchange difference	(291,147)	1,266,183	77,706	26,058	–	84,866	1,163,666
At December 31, 2013	70,115,207	114,865,377	15,957,145	1,023,238	3,914,555	1,171,582	207,047,104
Accumulated depreciation							
At January 1, 2013	36,498,492	80,145,011	13,081,121	425,019	2,622,129	–	132,771,772
Depreciation	3,507,838	15,360,988	1,323,320	305,304	572,649	–	21,070,099
Disposals	(1,594,516)	(14,740,564)	(384,327)	(371,141)	(173,677)	–	(17,264,225)
Retirement	(3,436,092)	(12,138,924)	(1,899,897)	(53,973)	–	–	(17,528,886)
Foreign currency exchange difference	32,675	498,250	61,453	19,702	–	–	612,080
At December 31, 2013	35,008,397	69,124,761	12,181,670	324,911	3,021,101	–	119,660,840
Accumulated impairment losses							
At January 1, 2013	736,565	978,430	12,226	–	–	–	1,727,221
Impairment loss	–	4,991	–	–	–	–	4,991
At December 31, 2013	736,565	983,421	12,226	–	–	–	1,732,212
Net book value	$34,370,245	$44,757,195	$3,763,249	$698,327	$893,454	$1,171,582	$85,654,052

2012

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At January 1, 2012	$70,939,508	$128,579,403	$14,338,511	$1,284,067	$2,942,712	$1,813,527	$219,897,728
Additions	1,838,855	10,835,276	813,327	454,204	867,854	2,000,310	16,809,826
Disposals	(6,214)	(11,869,870)	(89,987)	(426,333)	(600)	–	(12,393,004)
Retirement	(205,774)	(908,415)	–	(51,339)	–	–	(1,165,528)
Transfers	82,368	2,282,879	184,721	40	–	(2,550,008)	–
Foreign currency exchange difference	(420,063)	(868,891)	862,347	(44,018)	(58,459)	(49,758)	(578,842)
At December 31, 2012	72,228,680	128,050,382	16,108,919	1,216,621	3,751,507	1,214,071	222,570,180
Accumulated depreciation							
At January 1, 2012	34,269,032	73,322,521	10,747,278	429,385	2,122,352	–	120,890,568
Depreciation	3,249,977	17,399,707	1,740,835	428,570	500,345	–	23,319,434
Disposals	(4,097)	(8,873,429)	(71,280)	(352,238)	(568)	–	(9,301,612)
Retirement	(205,774)	(418,156)	–	(31,098)	–	–	(655,028)
Foreign currency exchange difference	(810,646)	(1,285,632)	664,288	(49,600)	–	–	(1,481,590)
At December 31, 2012	36,498,492	80,145,011	13,081,121	425,019	2,622,129	–	132,771,772
Accumulated impairment losses							
At January 1, 2012	736,565	752,909	12,226	–	–	–	1,501,700
Impairment loss	–	225,521	–	–	–	–	225,521
At December 31, 2012	736,565	978,430	12,226	–	–	–	1,727,221
Net book value	$34,993,623	$46,926,941	$3,015,572	$791,602	$1,129,378	$1,214,071	$88,071,187

As of December 31, 2013 and 2012, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $92.89 million and $80.47 million, respectively.

The carrying values of equipment under finance lease amounted to $5.25 million and $2.05 million as of December 31, 2013 and 2012, respectively (see Note 28).

Depreciation expense included in "Cost of goods sold and services" and "Operating expenses" accounts follows:

	2013	2012	2011
Cost of goods sold and services (Note 18)	**$18,698,523**	$20,448,129	$21,682,170
Operating expenses (Note 19)	**2,371,576**	2,871,305	2,933,116
	$21,070,099	$23,319,434	$24,615,286

PSi recognized impairment loss on certain machineries amounting to $5.00 thousand in 2013 and $0.23 million in 2012.

The Group recognized gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to $0.13 million in 2013 and 2012, and $0.12 million in 2011. Gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments are included under "Miscellaneous income - net" account in the consolidated statements of income.

10. Goodwill

As of December 31, 2013 and 2012, goodwill acquired through business combinations have been allocated to five (5) individual CGUs as follows:

STEL Group	$45,128,024
PSi	7,478,980
IMI USA	656,610
IMI CZ	650,413
Parent Company	441,166
	$54,355,193

STEL Group, PSi, IMI USA and IMI CZ

The recoverable amounts of these CGUs have been based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a 5-year period. The pre-tax discount rates applied to cash flow projections are as follows:

	2013	2012
STEL Group	**13.07%**	11.85%
PSi	**14.11%**	13.47%
IMI USA	**13.69%**	11.41%
IMI CZ	**12.73%**	12.40%

Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global EMS industry.

Key assumptions used in the value-in-use calculations

The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Revenue - Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STEL Group, IMI USA, and IMI CZ in 2013, 2012 and 2011.

For PSi, the assessment resulted to an impairment loss of $2.72 million in 2011 but no impairment losses in 2013 and 2012.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of STEL Group, PSi, IMI USA, and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

Parent Company

This pertains to the goodwill from the Parent Company's purchase of M. Hansson Consulting, Inc. (MHCI) in 2006. MHCI was subsequently merged to the Parent Company as testing and development department.

The recoverable amount was based on the market price of the Parent Company's shares at valuation date less estimated costs to sell. The comparison of the recoverable amount and the carrying amount resulted to no impairment loss in 2013, 2012 and 2011.

11. **Intangible Assets**

Movements in this account are as follows:

2013

	Customer Relationships	**Unpatented Technology**	**Computer Software**	**Total**
Cost				
At January 1, 2013	**$19,666,617**	**$100,000**	**$2,897,761**	**$22,664,378**
Additions	**–**	**–**	**776,158**	**776,158**
Foreign currency exchange difference	**–**	**–**	**56,200**	**56,200**
At December 31, 2013	**19,666,617**	**100,000**	**3,730,119**	**23,496,736**
Accumulated amortization				
At January 1, 2013	**14,817,208**	**100,000**	**1,853,049**	**16,770,257**
Amortization	**1,353,323**	**–**	**436,449**	**1,789,772**
Foreign currency exchange difference	**–**	**–**	**74,977**	**74,977**
At December 31, 2013	**16,170,531**	**100,000**	**2,364,475**	**18,635,006**
Net book value	**$3,496,086**	**$–**	**$1,365,644**	**$4,861,730**

2012

	Customer Relationships	Unpatented Technology	Computer Software	Total
Cost				
At January 1, 2012	$19,666,617	$100,000	$2,254,030	$22,020,647
Additions	–	–	525,070	525,070
Foreign currency exchange difference	–	–	118,661	118,661
At December 31, 2012	19,666,617	100,000	2,897,761	22,664,378
Accumulated amortization				
At January 1, 2012	13,463,885	100,000	1,123,271	14,687,156
Amortization	1,353,323	–	704,303	2,057,626
Foreign currency exchange difference	–	–	25,475	25,475
At December 31, 2012	14,817,208	100,000	1,853,049	16,770,257
Net book value	$4,849,409	$–	$1,044,712	$5,894,121

Customer Relationships
Customer relationships pertain to STEL Group's and IMI BG's noncontractual and contractual agreements, respectively, with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Customer relationship of STEL Group amounting to $12.90 million is fully amortized as of December 31, 2013 and 2012.

Unpatented Technology
Unpatented technology of STEL pertains to products which are technologically feasible. The following technologies are also unique, difficult to design around and meet the separability criteria:

- Self bias double-ended switching circuit; and
- A zero power consumption switch circuit to simplify the energy star solution for external power adapter.

Computer Software
This includes the Parent Company's acquisitions of computer applications and modules. IMI EU/MX Subsidiaries also have computer software with aggregate carrying value of $0.52 million and $0.56 million as of December 31, 2013 and 2012, respectively.

Amortization expense included in "Cost of goods sold and services" and "Operating expenses" accounts follows:

	2013	2012	2011
Cost of goods sold and services (Note 18)	**$11,290**	$17,148	$16,183
Operating expenses (Note 19)	**1,778,482**	2,040,478	1,147,786
	$1,789,772	$2,057,626	$1,163,969

12. **Other Noncurrent Assets**

This account consists of:

	2013	2012
Miscellaneous deposits	**$2,525,697**	$1,696,534
Noncurrent portion of deferred licensing fee	**–**	10,000
Others	**57,589**	98,550
	$2,583,286	$1,805,084

Miscellaneous Deposits
Miscellaneous deposits include electric and water meter deposits.

Deferred Licensing Fee
Deferred licensing fee pertains to the payment made by PSi to Amkor Technology, Inc., an unrelated party, in 2004 amounting to $100,000, in accordance with the terms of their Microleadframe Patent License Agreement (the "Patent License Agreement"). The amortization expense, using the straight-line method, amounts to $10,000 for each of the ten (10) succeeding years. Moreover, PSi has to pay additional fees for the use of the license based on a certain formula included in the Patent License Agreement. The account is payable quarterly and any unpaid balance shall be subject to 1% interest per month. The amortization expense, and the additional licensing fee amounting $78,139 in 2013, $74,870 in 2012 and $71,559 in 2011 are included in "Cost of goods sold and services" account under "Facilities costs and others - Others" (see Note 20).

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	2013	2012
Trade payables	**$120,669,723**	$101,772,745
Accrued expenses	**32,783,762**	21,075,223
Accrued payroll	**7,347,471**	8,859,315
Nontrade payables	**4,116,382**	1,797,645
Customers' deposits	**1,721,072**	1,481,960
Current portion of obligation under finance lease (Note 28)	**907,761**	674,071
Dividends payable (Note 17)	**858,539**	2,648,852
Taxes payable	**720,216**	704,023
Employee-related payables	**627,590**	612,713
Accrued interest payable (Notes 14 and 15)	**471,700**	1,105,384
Current portion of obligation under deferred revenue (Note 16)	**287,568**	272,747
Due to related parties (Note 29)	**41,604**	6,290
Others	**501,186**	2,394,680
	$171,054,574	$143,405,648

Accounts payable and accrued expenses are noninterest-bearing and are normally settled on 15 to 60-day terms.

Accrued Expenses
Accrued expenses consist mainly of accruals for light and water, taxes, repairs and maintenance, professional fees, transportation and travel, subcontractual costs, security, insurance, representation and rent.

Accrued Payroll
As of December 31, 2013 and 2012, accrued payroll includes accrued leaves amounting to $1.10 million and $1.86 million, respectively.

Nontrade Payables
Nontrade payables include provision for losses on purchase commitments of PSi amounting to $0.22 million and $0.29 million as of December 31, 2013 and 2012, respectively, which pertain to losses arising from price decline and expected termination of several firm and executory purchase commitments. Reversals of $0.05 million and provisions of $0.13 million were recorded in 2013 and 2012, respectively (see Note 20).

Provision for Restructuring
In 2011, PSi and STEL announced a restructuring of operations due to unfavorable economic and business situation. PSi made actual payout in September and November 2011 aggregating to $1.14 million. Part of this payout

amounting to $0.58 million is not covered by its pension plan. This was recognized as provision in 2011. In addition, STEL recognized provision amounting to $0.25 million, which was paid in 2012.

In 2012, PSi and STEL recognized additional provision of $1.16 million and $0.74 million, respectively, which were also paid during the year. As of December 31, 2012, movement in provision for restructuring follows:

At January 1	$249,044
Provision during the year	1,896,238
Payment during the year	(2,145,282)
At December 31	$–

14. **Trust Receipts and Loans Payable**

This account consists of borrowings of the following entities:

	2013	2012
Parent Company	**$24,000,000**	$22,000,000
PSi	**9,422,426**	9,099,902
IMI BG	**6,547,015**	9,700,611
STEL	**3,501,332**	1,396,626
IMI MX	**2,183,092**	2,009,461
	$45,653,865	$44,206,600

Parent Company

As of December 31, 2013 and 2012, the Parent Company has short-term loans aggregating to $24.00 million and $22.00 million, respectively. The loans have maturities ranging from 30-180 days and fixed interest rates ranging from 1.90% to 2.40% in 2013, 1.64% to 2.00% in 2012, and 1.16% to 2.27% in 2011.

The Parent Company incurred interest expense on its short-term loans amounting to $0.50 million in 2013, $0.27 million in 2012 and $0.16 million in 2011.

PSi

PSi has short-term loans and trust receipts payable to Metropolitan Bank & Trust Co. (MBTC) amounting to $9.42 million and $9.10 million as of December 31, 2013 and 2012, respectively.

These loans fall under an unsecured Omnibus Line Credit Facility of $10.00 million granted on November 24, 2010. The credit facility includes 30 to 360 days Promissory Notes (maybe denominated in USD or Philippine Peso (PHP)), Letter of Credit (LC)/Trust Receipt Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates ranging from 2.16% to 2.57% in 2013, 2.21% to 2.71% in 2012, and 2.18% to 2.80% in 2011.

As of December 31, 2013 and 2012, the outstanding trust receipts payable amounted to $0.22 million and $0.40 million, respectively.

The undrawn credit facility amounted to $0.58 million and $0.90 million as of December 31, 2013 and 2012, respectively.

PSi incurred interest expense on its short-term loans and trust receipts payable amounting to $0.22 million in 2013, $0.26 million in 2012 and $0.44 million in 2011.

IMI BG

IMI BG has short-term loans from the following banks:

	2013	2012
UniCredit Bulbank	**$5,167,138**	$9,275,017
BNP Paribas	**1,379,877**	425,594
	$6,547,015	$9,700,611

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one (1) year. The loans from UniCredit Bulbank and BNP Paribas bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively.

IMI BG incurred interest expense on its loans amounting to $0.21 million in 2013, $0.39 million in 2012 and $0.45 million in 2011.

The credit facility with UniCredit Bulbank is subject to the following collaterals:

- First ranking pledge on materials, ready-made and unfinished production at balance sheet value, minimum of €8,000,000;
- First ranking pledge on receivables from a certain customer; and
- Notary signed Soft Letter of Comfort from the Parent Company.

As of December 31, 2013 and 2012, IMI BG's pledged inventories and receivables with UniCredit Bulbank amounted to €13.08 million ($18.05 million) and €16.00 million ($21.20 million), respectively.

The credit facility with BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of IMI BG, subject to pre-financing in the amount of 125% of the utilized portion of the facility but not more than €3,750,000; and
- First rank pledge on goods of IMI BG in the amount of 125% of the utilized portion of the facility but not more than €3,750,000.

As of December 31, 2013 and 2012, IMI BG's pledged inventories and receivables with BNP Paribas amounted to nil and €0.64 million ($0.86 million), respectively.

STEL
The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 2.30% to 2.39% in 2013, 3.36 to 3.55% in 2012, and 3.35% to 3.45% in 2011, and have maturities of 90 to 240 days from the date of issue, with renewal options.

STEL incurred interest expense on its short-term loans amounting to $0.04 million in 2013, $0.40 million in 2012 and $0.34 million in 2011.

IMI MX
IMI MX has a revolving credit line with Banamex amounting to $2.18 million and $2.00 million as of December 31, 2013 and 2012, respectively, with term not exceeding twelve (12) months and bears interest based on LIBOR plus 2%.

IMI MX incurred interest expense on its short-term loan amounting to $0.08 million in 2013 and 2012.

15. Long-Term Debt

This account consists of borrowings of the following entities:

	2013	2012
Parent Company	**$46,898,500**	$46,624,000
Cooperatief	**16,892,242**	18,876,735
IMI CZ	**812,419**	–
	64,603,161	65,500,735
Less current portion:		
Cooperatief	**2,758,200**	2,649,600
IMI CZ	**145,208**	–
	2,903,408	2,649,600
Noncurrent portion	**$61,699,753**	$62,851,135

Parent Company
In October 2011, the Parent Company obtained a 5-year term clean loan from a local bank amounting to $40.00 million payable in a single balloon payment at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%.

On February 29, 2012, the Parent Company obtained a €5.00 million ($6.90 million), 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty, if made on an interest payment date, subject to certain conditions. Interest is payable semi-annually at the rate of 6-month LIBOR plus 1.50% spread per annum.

The Parent Company incurred interest expense on its long-term loans amounting to $0.81 million in 2013, $0.90 million in 2012 and $0.43 million in 2011.

Loan covenants related to the Parent Company's loans are as follows:

- The ratio of debt to EBITDA shall not exceed 3:1 at all times with reference to the borrower's consolidated financial statements;
- Maintenance of debt service coverage ratio of at least 1.5:1;
- Maintenance at all times of a current ratio of at least 1:1; and
- Maintenance of a debt to equity ratio, computed with reference to the borrower's consolidated financial statements, of not greater than 1.75:1.

As of December 31, 2013 and 2012, the Parent Company has complied with all of the above-mentioned loan covenants.

Cooperatief
Cooperatief's long-term debt aggregating to €14.25 million ($20.40 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX Subsidiaries (see Note 2). Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

In 2013, Cooperatief made payments of €2.00 million ($2.76 million).

Below is the amortization schedule:

Due Dates	In EUR	In USD
2014	€2,000,000	$2,758,200
2015	2,000,000	2,758,200
2016	2,000,000	2,758,200
2017	2,000,000	2,758,200
2018	4,248,743	5,859,442
	€12,248,743	$16,892,242

Cooperatief incurred interest expense on its long-term debt amounting to $0.55 million in 2013, $0.57 million in 2012 and $0.28 million in 2011.

IMI CZ
IMI CZ has a long-term debt from Citibank amounting to €0.59 million ($0.81 million) that relates to a term loan facility for the purchase of its new Surface Mount Technology machine. The debt bears interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.

Below is the amortization schedule:

Due Dates	In EUR	In USD
2014	€105,246	$145,208
2015	105,246	145,208
2016	105,246	145,208
2017	105,246	145,208
2018	105,246	145,208
2019	62,607	86,379
	€588,837	$812,419

IMI CZ incurred interest expense on its long-term debt amounting to $0.02 million in 2013.

16. **Deferred Revenue**

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to $3.00 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the above local customer. The local customer and PSi agree that the full cash advances amounting to $3.00 million will be applied to pre-pay and cover any, and all of the fees payable under Annex B of the SSA for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances, less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2013 and 2012, the current and noncurrent portion of the advances from the local customer follows:

	2013	2012
Total outstanding advances from the local customer	**$2,029,897**	$2,303,765
Less current portion (Note 13)	**287,568**	272,747
Noncurrent portion	**$1,742,329**	$2,031,018

17. Equity

Capital Stock
This account consists of:

	2013		2012		2011	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		2,250,000,000		2,250,000,000	
Preferred	**1,500,000,000**		1,500,000,000		1,500,000,000	
Issued - Common						
At January 1	**1,571,874,431**	**$30,011,256**	1,354,230,740	$24,932,075	1,352,290,094	$24,893,713
Issuances during the year through ESOWN	**254,998**	**5,295**	17,643,691	333,097	1,940,646	38,362
Issuances during the year to EPIQ NV	**–**	**–**	200,000,000	4,746,084	–	–
At December 31	**1,572,129,429**	**$30,016,551**	1,571,874,431	$30,011,256	1,354,230,740	$24,932,075
Issued - Preferred						
At December 31	**1,300,000,000**	**$26,601,155**	1,300,000,000	$26,601,155	1,300,000,000	$26,601,155

Out of the total issued shares, 15,892,109 shares as of December 31, 2013, 2012 and 2011 pertain to treasury shares.

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends at a dividend rate of 2.90% rate per annum, cumulative in payment of current dividends, nonparticipating in any other or further dividends beyond those that are specifically payable on the shares, nonconvertibility to common shares, preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation and in the payment of the dividend at the rate specified, no pre-emptive rights, redeemable at the option of the issuer and certificated.

On October 23, 2009, the Philippine SEC approved the registration of 1,268,497,252 common shares of the Parent Company with ₱1.00 par value. As of December 31, 2013, 2012 and 2011, there were 526,562 and 112 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

	2013		2012		2011	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At January 1	**60,421,000**	**$1,300,851**	283,909,186	$6,506,970	90,587,000	$1,901,963
Subscriptions during the year EPIQ NV	**–**	**–**	–	–	200,000,000	4,746,084
Issuances during the year						
ESOWN	**(254,998)**	**(5,295)**	(17,643,691)	(333,097)	(1,940,646)	(38,362)
EPIQ NV	**–**	**–**	(200,000,000)	(4,746,084)	–	–
Forfeitures during the year ESOWN	**(3,025,002)**	**(65,630)**	(5,844,495)	(126,938)	(4,737,168)	(102,715)
At December 31	**57,141,000**	**$1,229,926**	60,421,000	$1,300,851	283,909,186	$6,506,970

As mentioned in Note 2, the consideration for the acquisition of EPIQ shares includes the issuance of 200 million of the Parent Company's shares to EPIQ NV. On July 29, 2011, the Parent Company and EPIQ NV executed a subscription agreement for the subscription of the said shares. On October 19, 2012, the Philippine SEC approved the valuation of shares of stock of EPIQ NV applied as payment for the 200 million unissued shares of the Parent Company. The shares were issued to EPIQ NV on October 31, 2012.

Subscriptions Receivable
Details of this account are as follows:

	2013	2012	2011
At January 1	**$9,650,842**	$10,395,200	$11,411,994
Accretion during the year (Note 26)	**795,542**	676,304	427,535
Collections during the year	**(207,888)**	(19,911)	(615,889)
Forfeitures during the year (Note 26)	**(647,750)**	(1,400,751)	(828,440)
At December 31	**$9,590,746**	$9,650,842	$10,395,200

Dividends
2013
On November 29, 2013, the Parent Company's BOD approved a new dividend rate on preferred shares from 8.25% to 2.90% per annum. The BOD also approved the declaration and payment of quarterly dividends for 2014 to all shareholders of the Parent Company's preferred shares. Details of the dividend payment are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 7, 2014	May 7, 2014	August 7, 2014	November 7, 2014
Payment date	February 21, 2014	May 21, 2014	August 22, 2014	November 21, 2014
Amount	$217,772	$212,986	$222,559	$217,772

2012
On December 10, 2012, the Parent Company's BOD approved the declaration and payment of the quarterly dividends of 8.25% per annum for 2013 to all shareholders of the Parent Company's preferred shares. Details of the dividend payment are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 8, 2013	May 8, 2013	August 9, 2013	November 11, 2013
Payment date	February 21, 2013	May 21, 2013	August 23, 2013	November 22, 2013
Amount	$662,846	$655,106	$684,699	$662,846

2011
On February 14, 2011, the Finance Committee of the Parent Company approved the declaration and payment of the first quarter cash dividends of 8.25% per annum or equivalent of $0.61 million to all shareholders of the Parent Company's preferred shares as of record date of February 8, 2011. Payment date was on February 21, 2011. This was ratified by the BOD of the Parent Company on February 23, 2011.

Likewise, on February 23, 2011, the BOD of the Parent Company approved the declaration of the quarterly cash dividends of 8.25% per annum for the second to fourth quarters of 2011 on its outstanding preferred shares. The record and payment dates for the cash dividends are as follows:

	2nd Quarter	3rd Quarter	4th Quarter
Record date	May 9, 2011	August 17, 2011	November 9, 2011
Payment date	May 20, 2011	August 23, 2011	November 22, 2011
Amount	$605,658	$605,658	$605,658

On the same date, the BOD of the Parent Company approved the declaration of regular cash dividend of ₱0.04 per share (aggregating to $1.43 million) to all outstanding common shares as of record date, March 9, 2011. This was paid on April 4, 2011.

On December 5, 2011, the BOD of the Parent Company also approved the declaration of the quarterly cash dividends of 8.25% per annum for 2012 on its outstanding preferred shares. The record and payment dates for the cash dividends are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 8, 2012	May 9, 2012	August 10, 2012	November 9, 2012
Payment date	February 21, 2012	May 21, 2012	August 23, 2012	November 22, 2012
Amount	$621,229	$607,575	$641,709	$621,229

Retained Earnings

The balance of the appropriated retained earnings from prior years' appropriations approved by the Parent Company's BOD and Executive Committee will be used to finance the continuous plant expansions in the newly acquired facilities in Europe and Mexico.

On December 10, 2012, the BOD of the Parent Company approved the reclassification of appropriated retained earnings to unappropriated retained earnings amounting to $10.00 million for dividend declaration.

On February 23, 2011 and December 5, 2011, the BOD of the Parent Company approved the reclassification of appropriated retained earnings to unappropriated retained earnings amounting to $20.00 million and $10.00 million, respectively.

Accumulated net earnings of the subsidiaries amounting to $63.48 million and $53.13 million as of December 31, 2013 and 2012, respectively, are not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend upon receipt of cash dividends from the investees.

In accordance with Securities Regulation Code Rule 68, As Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2013 amounted to $12.47 million.

18. Cost of Goods Sold and Services

This account consists of:

	2013	2012 (As restated)	2011 (As restated)
Direct, indirect and other material-related costs (Note 7)	**$498,220,475**	$449,059,291	$388,879,422
Direct labor, salaries, wages and employee benefits (Note 25)	**120,088,886**	97,455,209	87,243,622
Depreciation and amortization (Notes 9 and 11)	**18,709,813**	20,465,277	21,698,353
Facilities costs and others (Note 20)	**40,083,789**	37,933,642	35,851,132
	$677,102,963	$604,913,419	$533,672,529

19. Operating Expenses

This account consists of:

	2013	2012 (As restated)	2011 (As restated)
Salaries, wages and employee benefits (Note 25)	**$31,856,630**	$26,902,826	$31,813,636
Depreciation and amortization (Notes 9 and 11)	**4,150,058**	4,911,783	4,080,902
Facilities costs and others (Note 20)	**19,787,988**	17,709,023	20,430,524
	$55,794,676	$49,523,632	$56,325,062

20. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			**Operating Expenses**		
	2013	2012 (As restated)	2011 (As restated)	**2013**	2012 (As restated)	2011 (As restated)
Utilities	**$11,507,507**	$13,408,630	$12,993,248	**$1,099,034**	$935,136	$913,419
Variable overhead	**8,336,469**	3,751,925	2,945,218	**–**	–	–
Repairs and maintenance	**7,319,614**	6,249,440	6,189,964	**599,233**	856,785	974,965
Outsourced activities (Note 28)	**6,533,853**	5,139,000	6,008,519	**5,907,212**	5,915,728	6,828,361
Government-related	**1,312,753**	1,132,098	1,262,184	**3,562,265**	1,725,075	1,605,101
Insurance	**801,624**	758,459	586,854	**1,072,684**	948,695	550,173
Travel	**622,964**	1,158,276	1,435,137	**1,803,638**	2,112,897	1,922,497

(Forward)

	Cost of Goods Sold and Services			Operating Expenses		
	2013	2012 (As restated)	2011 (As restated)	**2013**	2012 (As restated)	2011 (As restated)
Postal and communication	**$322,637**	$121,147	$142,677	**$943,065**	$986,286	$869,266
Provision (reversal of provision) for inventory obsolescence (Note 7)	**220,256**	593,469	–	**1,902,889**	(310,521)	1,029,155
Technology-related	**211,685**	90,820	184,563	**1,800,141**	1,949,604	1,408,556
Promotional materials, representation and entertainment	**185,416**	67,229	116,445	**821,979**	518,765	492,746
Reversal of allowance for decline in value of inventories (Note 7)	**(107,131)**	–	(21,434)	**–**	–	–
Loss (reversal of loss) on purchase commitments (Note 13)	**(51,552)**	131,885	–	**–**	–	–
Staff house	**977**	841	482	**294,622**	325,824	271,366
Membership fees	**634**	92	30,322	**89,998**	51,453	182,961
Sales commission	**–**	–	–	**731,918**	753,667	835,092
Provision for (reversal of) doubtful accounts (Note 6)	**–**	–	–	**(103,124)**	441,498	1,977,541
Others	**2,866,083**	5,330,331	3,976,953	**(737,566)**	498,131	569,325
	$40,083,789	$37,933,642	$35,851,132	**$19,787,988**	$17,709,023	$20,430,524

"Others" include amortization expense of deferred licensing fee, additional licensing fee, donations, small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, copying expenses and impairment loss on machinery and equipment.

21. Interest Expense and Bank Charges

This account consists of:

	2013	2012	2011
Interest expense (Notes 14 and 15)	**$2,429,992**	$2,795,360	$2,182,374
Bank charges	**136,697**	81,621	155,191
Others	**313,252**	144,492	162,433
	$2,879,941	$3,021,473	$2,499,998

"Others" include interest on finance lease obligations and employees' car and housing loans.

22. Interest Income

This account consists of:

	2013	2012	2011
Interest on bank balances and fixed deposits (Note 5)	**$218,577**	$267,092	$299,849
Others	**–**	–	15,671
	$218,577	$267,092	$315,520

23. Income Taxes

Current Tax

Parent Company

As discussed in Note 1, the Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. As of December 31, 2013, there are four (4) remaining project activities with ITH entitlement which will expire in 2017. Upon the expiration of the ITH, the Parent Company will be subject to a 5% final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to regular corporate income tax (RCIT) rate of 30%.

IMICD, SZSTE, STCQ and STJX

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two (2) years and a 50% reduction in EIT for the next three (3) years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five (5) years.

IMICD is subject to taxation at the statutory rate of 25% in 2013, 2012 and 2011 on their taxable income as reported in the financial statements. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

SZSTE is subject to taxation at the statutory tax rate of 25% in 2013 and 2012 and 24% in 2011 on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five (5) years, commencing from the first profitable year, that is, after all tax losses have been fully offset in accordance with the "Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises." STCQ is in its second profitable year, and hence, is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

STJX is entitled to full exemption from EIT for the first two (2) years and a 50% reduction in EIT for the next three (3) years, commencing from the first profitable year after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises." STJX is in its seventh profitable year, and hence, is subject to taxation at the rate of 25% in 2013 and 2012 and 28% in 2011 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STHK and Monarch
Hong Kong profits tax has been provided at the rate of 16.5% in 2013, 2012 and 2011 on the assessable profit for the year.

STPH
STPH is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under R.A. No. 7916, in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking into account any losses carried forward from previous financial years (if applicable), tax-exempt items and nondeductible expenses and using tax facilities.

IMI BG
Income taxes are calculated in accordance with Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current tax is calculated based on the taxable income for tax purposes. The nominal tax rate in 2013, 2012 and 2011 is 10%.

IMI CZ
Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate in 2013, 2012 and 2011 is 19%.

IMI MX
IMI MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate in 2013, 2012 and 2011 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

IMI France
Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one (1) year. The tax rate applicable in 2013, 2012 and 2011 is 33% based on net income.

PSi
PSi is registered with PEZA under the Omnibus Investment Code of 1987 and R.A. No. 7916 on May 17, 2004, for the manufacture of semiconductor devices and for export and importation of raw materials, machinery and equipment, and other materials used in manufacturing semiconductor devices in the Food Terminal Incorporated - Special Economic Zone (FTI-SEZ), Taguig City and Carmelray Industrial Park II, Calamba City.

On August 24, 2012, PEZA issued an amended Certificate of Registration to PSi as an Ecozone Export Enterprise to include the transfer of registered activities of PSi Laguna to PSi. The issuance of the new certification was based on the approval of the merger of PSi and PSi Laguna with the former as the surviving entity and the latter as the absorbed entity, by the Philippine SEC on June 21, 2012 (see Note 1).

As a PEZA-registered entity, PSi is subject to a 5% tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi in FTI-SEZ and Carmelray Industrial Park II. The 5% tax on gross income shall be paid and remitted as follows: (a) 3% to the National Government; and (b) 2% to the treasurer's office of the municipality or city where the enterprise is located. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

As of December 31, 2013, there are two (2) remaining PEZA registered activities with ITH entitlement which will expire in 2014.

Deferred Tax
Recognized deferred taxes of the Group relate to the tax effects of the following:

	2013	2012
Deferred tax assets:		
Revaluation of property, plant and equipment of subsidiaries	**$444,245**	$444,245
Allowance for inventory obsolescence	**75,134**	231,245
Allowance for doubtful accounts	**15,366**	194,591
Others	**109,798**	212,788
	$644,543	$1,082,869
Deferred tax liabilities:		
Revaluation of property, plant and equipment and intangibles of subsidiaries	**$1,646,260**	$3,405,195
Accelerated depreciation	**202,052**	186,914
Unrealized foreign exchange gain on monetary assets -net	**62,412**	–
Unrealized mark-to-market gains from put and call options	**–**	802,557
Excess of net book value over tax written-down value of property, plant and equipment of subsidiaries	**–**	9,988
Others	**1,181,166**	223,784
	$3,091,890	$4,628,438

The component of PSi's recognized deferred tax asset and liability as of December 31, 2013 is as follows:

Deferred tax asset on accumulated impairment losses on property, plant and equipment	$119,430
Deferred tax liability on unrealized foreign exchange gain on monetary assets	(119,430)
	$–

PSi and IMI CZ have unrecognized deferred tax assets as of December 31, 2013 and 2012.

PSi
The temporary differences, minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO) for which no deferred tax assets have been recognized are as follows:

	2013	2012 (As restated)
Accumulated impairment losses on property, plant and equipment	**$9,740,318**	$14,953,529
Deferred revenue	**2,029,897**	2,303,765
Pension liability	**993,701**	724,037
Excess of:		
Cost over NRV of inventories	**1,733,928**	2,437,112
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**443,027**	585,409
Allowance for doubtful accounts	**441,165**	348,348
NOLCO	**744**	403,008
Unrealized foreign exchange loss on monetary assets	**–**	487,086
MCIT	**–**	46
	$15,382,780	$22,242,340

NOLCO that can be claimed as a deduction from regular taxable income are as follows:

Years Incurred	Expiry Date	NOLCO
December 31, 2012	December 31, 2015	$402
December 31, 2011	December 31, 2014	342
		$744

IMI CZ
The temporary differences and tax losses for which no deferred tax assets have been recognized are as follows:

	2013	2012
Tax losses	**$3,175,932**	$3,410,526
Noncurrent assets	**1,294,737**	1,352,632
Provisions	**421,053**	342,105
Excess of cost over NRV of inventories	**184,211**	21,053
Allowance for doubtful accounts	**31,579**	131,579
	$5,107,512	$5,257,895

Tax losses that can be claimed as a deduction from regular taxable income are as follows:

Years Incurred	Expiry Date	Tax Losses
December 31, 2011	December 31, 2016	$954,056
December 31, 2010	December 31, 2015	1,110,888
December 31, 2009	December 31, 2014	1,110,988
		$3,175,932

Deferred tax assets are recognized only to the extent that sufficient future taxable profits will be available against which the deferred tax assets can be used. PSi and IMI CZ will reassess the unrecognized deferred tax assets to the extent that it has become probable that sufficient future taxable profits would allow the deferred tax assets to be recovered.

As of December 31, 2013 and 2012, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future.

The effective income tax of the Group is as follows:

	2013	2012 (As restated)	2011 (As restated)
Income before income tax	**$13,723,319**	$4,891,736	$5,911,149
Tax on:			
Income from foreign subsidiaries	**4,348,720**	3,820,307	3,431,467
Income subject to 5% gross income tax	**979,448**	831,774	741,540
Income subject to RCIT	**51,629**	35,497	3,939
Others	**28,843**	–	916
Current income tax expense	**5,408,640**	4,687,578	4,177,862
Deferred income tax expense (benefit)	**(881,359)**	(728,268)	476,224
Effective income tax	**$4,527,281**	$3,959,310	$4,654,086

The tax on income from foreign subsidiaries was derived by aggregating the effective income tax for each national jurisdiction.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2013	2012	2011
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**39.98%**	109.42%	134.92%
Income subject to gross income tax	**(25.82%)**	(13.76%)	(28.54%)
Difference in tax jurisdiction	**(10.80%)**	(42.19%)	(41.63%)
Income subject to ITH	**(0.28%)**	(1.65%)	(15.12%)
Interest income subjected to final tax	**(0.09%)**	(0.88%)	(0.90%)
Provision for income tax	**32.99%**	80.94%	78.73%

24. Earnings per Share (EPS)

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

	2013	2012	2011
Net income	**$10,472,995**	$5,584,613	$3,254,864
Less dividends on preferred stock (Note 17)	**871,089**	2,665,497	2,491,742
	$9,601,906	$2,919,116	$763,122
Weighted average number of common shares outstanding	**1,616,403,322**	1,621,760,776	1,526,590,221
Basic and diluted EPS	**$0.006**	$0.002	$0.001

As of December 31, 2013, 2012 and 2011, the Parent Company has no dilutive potential common shares.

25. **Employee Benefits**

Salaries, wages, and employee benefits follow:

	2013	2012 (As restated)	2011 (As restated)
Salaries and wages	**$114,869,711**	$108,920,744	$104,035,402
Pension expense under defined contribution plans	**4,607,873**	2,575,242	2,509,506
Social security costs	**2,727,124**	1,375,183	1,652,411
Net pension expense under defined benefit plans	**1,682,245**	2,199,943	1,886,214
Others	**28,058,563**	9,286,923	8,973,725
	$151,945,516	$124,358,035	$119,057,258

"Others" include expense for leave benefits, training and seminars, employee social and recreation, bonuses, Pag-ibig premium, health premium, employee insurance expenses and other employee benefits.

Salaries, wages, and employee benefits are allocated as follows:

	2013	2012 (As restated)	2011 (As restated)
Cost of goods sold and services (Note 18)	**$120,088,886**	$97,455,209	$87,243,622
Operating expenses (Note 19)	**31,856,630**	26,902,826	31,813,636
	$151,945,516	$124,358,035	$119,057,258

Defined Benefit Plans

The Parent Company, PSi and IMI BG have defined benefit plans covering substantially all of their employees. The latest retirement valuation was made on December 31, 2013.

The plan is administered by local banks as trustees. The Board of Trustees is responsible for the investment direction of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plan's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, and the Treasurer. The Treasurer oversees the entire investment process.

The defined benefit plans of the Parent Company and PSi meet the minimum retirement benefit specified under R.A. No. 7641, *Retirement Pay Law*.

The Group has pension liabilities attributable to the following:

	2013	2012 (As restated)
Parent Company	**$5,111,162**	$630,288
PSi	**1,247,677**	1,428,034
IMI BG	**383,969**	284,703
	$6,742,808	$2,343,025

Changes in net pension liabilities of the Parent Company and PSi's funded plans in 2013 are as follows:

		Net Pension Expense					Remeasurements						
	January 1, 2013 (As restated)	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal	Separation and Benefits Paid	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal	Foreign Currency Exchange Difference	December 31, 2013
Present value of defined benefit obligation	$15,047,577	$1,319,873	$833,273	$202,918	$2,356,064	($1,286,407)	$–	$221,801	$–	$4,173,837	$4,395,638	($1,372,357)	$19,140,515
Fair value of plan assets	(12,989,255)	–	(748,651)	–	(748,651)	–	(55,801)	–	–	–	(55,801)	1,012,031	(12,781,676)
Net pension liabilities	$2,058,322	$1,319,873	$84,622	$202,918	$1,607,413	($1,286,407)	($55,801)	$221,801	$–	$4,173,837	$4,339,837	($360,326)	$6,358,839

Changes in net pension liabilities of the Parent Company and PSi's funded plans in 2012 are as follows:

		Net Pension Expense					Remeasurements						
	January 1, 2012 (As restated)	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal	Separation and Benefits Paid	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal	Foreign Currency Exchange Difference	December 31, 2012 (As restated)
Present value of defined benefit obligation	$15,365,273	$1,325,653	$1,034,807	$646,398	$3,006,858	($2,866,149)	$–	($1,747,660)	$133,650	$149,747	($1,464,263)	$1,005,858	$15,047,577
Fair value of plan assets	(12,185,091)	–	(843,373)	–	(843,373)	995,997	(129,260)	–	–	–	(129,260)	(827,528)	(12,989,255)
Net pension liabilities	$3,180,182	$1,325,653	$191,434	$646,398	$2,163,485	($1,870,152)	($129,260)	($1,747,660)	$133,650	$149,747	($1,593,523)	$178,330	$2,058,322

The maximum economic benefit available is a contribution of expected refunds from the plans and reductions in future contributions.

Changes in the pension liability of IMI BG's unfunded plan in 2013 and 2012 are as follows:

		Pension Expense					
	January 1, 2013	Current Service Cost	Net Interest	Subtotal	Benefits Paid	Foreign Currency Exchange Difference	December 31, 2013
Pension liability	$284,703	$65,764	$9,068	$74,832	$–	$24,434	$383,969

		Pension Expense					
	January 1, 2012	Current Service Cost	Net Interest	Subtotal	Benefits Paid	Foreign Currency Exchange Difference	December 31, 2012
Pension liability	$242,647	$36,458	$–	$36,458	$–	$5,598	$284,703

The distribution of the plan assets as of December 31, 2013 and 2012 follows:

	2013	2012
Government securities	**$6,559,361**	$7,828,734
Trust funds	**2,375,637**	822,352
Corporate bonds	**1,910,082**	1,038,194
Loans	**1,157,758**	1,250,148
Investment properties	**477,081**	450,329
Equities	**262,169**	1,572,826
Cash and cash equivalents	**39,285**	13,397
Others	**13,199**	52,720
Liabilities	**(12,896)**	(39,445)
	$12,781,676	$12,989,255

The plan assets include shares of stock, corporate bonds and deposit instruments of related parties, primarily AC, Ayala Land, Inc. (ALI), Bank of the Philippine Islands (BPI), Manila Water Corporation (MWC) and ALFM Mutual Funds (ALFM), as follows:

2013

	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
AC shares/bonds	**$–**	**$296,154**	**$–**	**$296,154**
BPI shares/bonds	**–**	**–**	**688,415**	**688,415**
	$–	**$296,154**	**$688,415**	**$984,569**
Carrying Value				
AC shares/bonds	**$–**	**$292,826**	**$–**	**$292,826**
BPI shares/bonds	**–**	**–**	**761,311**	**761,311**
	$–	**$292,826**	**$761,311**	**$1,054,137**
Unrealized Gain (Loss)				
AC shares/bonds	**$–**	**$3,328**	**$–**	**$3,328**
BPI shares/bonds	**–**	**–**	**(72,896)**	**(72,896)**
	$–	**$3,328**	**($72,896)**	**($69,568)**

2012

	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
AC shares/bonds	$358,237	$320,287	$–	$678,524
ALI shares/bonds	135,917	73,916	–	209,833
BPI shares/bonds	54,751	–	323,809	378,560
MWC shares/bonds	7,639	–	–	7,639
ALFM shares/bonds	–	–	19,053	19,053
	$556,544	$394,203	$342,862	$1,293,609
Carrying Value				
AC shares/bonds	$341,410	$316,687	$–	$658,097
ALI shares/bonds	102,577	73,082	–	175,659
BPI shares/bonds	39,061	–	323,266	362,327
MWC shares/bonds	7,647	–	–	7,647
ALFM shares/bonds	–	–	18,119	18,119
	$490,695	$389,769	$341,385	$1,221,849
Unrealized Gain (Loss)				
AC shares/bonds	$16,827	$3,600	$–	$20,427
ALI shares/bonds	33,340	834	–	34,174
BPI shares/bonds	15,690	–	543	16,233
MWC shares/bonds	(8)	–	–	(8)
ALFM shares/bonds	–	–	934	934
	$65,849	$4,434	$1,477	$71,760

The plan assets have diverse investments and do not have any concentration risk.

The overall investment policy and strategy of the Group's defined benefit plans are guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The Group expects to contribute $1.30 million to the defined benefit plans in 2014.

The average duration of the net pension liabilities at the end of the balance sheet date is 20.3 to 23.4 years as of December 31, 2013 and 18.0 to 17.0 years as of December 31, 2012.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2013:

Less than one year	$392,384
More than one year to five years	4,156,806
More than five years to ten years	8,142,361
More than ten years to fifteen years	15,560,357
More than fifteen years to twenty years	25,669,601
More than twenty years	112,786,127
	$166,707,636

Principal actuarial assumptions
The principal actuarial assumptions used to determine pension benefits are shown below:

	2013	2012
Discount rate	**3.5% - 5.35%**	3.0% - 5.96%
Turnover rate	**0.62% - 27.94%**	0.62% - 27.94%
Salary increase rate	**5.00% - 6.00%**	5.00%

The sensitivity analysis per entity below has been determined based on reasonably possible changes of each significant assumption on the net pension liabilities as of the end of the balance sheet date, assuming all other assumptions were held constant:

Parent Company

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Pension Liability
Discount rate	+1%	($2,588,120)
	-1%	3,176,164
Turnover rate	+2%	(1,413,062)
	-2%	1,689,994
Salary increase rate	+1%	3,060,944
	-1%	(2,539,743)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Pension Liability
Discount rate	+1%	($192,699)
	-1%	233,053
Turnover rate	+2%	(46,143)
	-2%	52,062
Salary increase rate	+1%	213,220
	-1%	(179,998)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Pension Liability
Discount rate	+1%	($23,280)
	-1%	25,400
Turnover rate	+1%	(47,270)
	-1%	45,150
Salary increase rate	+1%	17,640
	-1%	(17,640)

The mortality rate in 2013 and 2012 is based on the 1994 Group Annuity Mortality Table.

The net pension expense of the Parent Company, PSi and BG under the defined benefit plans is allocated as follows:

	2013	2012 (As restated)	2011 (As restated)
Cost of goods sold and services	**$1,126,038**	$1,110,290	$1,444,529
Operating expenses	**556,207**	1,089,652	441,685
	$1,682,245	$2,199,942	$1,886,214

Defined Contribution Plans
The Parent Company's subsidiaries, excluding PSi and IMI BG, participate in their respective national pension schemes which are considered as defined contribution plans. The pension expense of these subsidiaries is allocated as follows:

	2013	2012	2011
Cost of goods sold and services	**$3,568,458**	$1,954,417	$1,838,103
Operating expenses	**1,039,415**	620,825	671,403
	$4,607,873	$2,575,242	$2,509,506

26. Employee Stock Ownership Plan (ESOWN)

The Group has an ESOWN which is a privilege extended to the Group's eligible managers and staff whereby the Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN. Under the ESOWN, for as long as the Group remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of ten (10) comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once the Parent Company becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of the BOD of the Parent Company at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the ESOWN. However, should the grantee cease to be employed by or connected with the Group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety (90) days from separation subject to the Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. If sixty (60) days after the due date and the account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.

On February 21, 2007, the Parent Company's BOD approved the granting of 45,150,000 shares of the Parent Company under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to the Parent Company's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to the Parent Company's top performers and key personnel subject to the same terms as the shares subscribed in 2007. All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of eight (8) years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one (1) year from subscription date; (b) 30% after two (2) years from subscription date; and (c) 30% after three (3) years from subscription date. The actual grant date of the above two grants was on October 15, 2007.

The fair value, determined based on a private bank's valuation of the Parent Company to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, management has approved a 2-year moratorium on the scheduled payments due in 2008 and 2009 which resulted in an extension of the payment period from eight (8) to ten (10) years. This extension resulted in a net reversal of accretion amounting to $0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.

On December 14, 2009, the Chairman of the Parent Company's BOD approved the terms for granting 30,885,000 shares of the Parent Company under ESOWN at the subscription price of ₱5.54 per share to various employees of the Group. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is ₱9.30, which is the closing price of the Parent Company's stock at the PSE at the date of grant.

Movements in the number of shares outstanding under ESOWN for the years ended December 31, 2013, 2012 and 2011 follow:

	2013		2012		2011	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At January 1	**110,405,814**	**₱6.95**	116,250,309	₱6.95	120,987,477	₱6.95
Forfeitures	**(3,025,002)**	**6.95**	(5,844,495)	6.95	(4,737,168)	6.95
At December 31	**107,380,812**	**₱6.95**	110,405,814	₱6.95	116,250,309	₱6.95

The balance of the subscriptions receivable amounted to $9.59 million, $9.65 million and $10.40 million as of December 31, 2013, 2012 and 2011, respectively (see Note 17).

The share option expense amounted to $0.01 million in 2013, $0.07 million in 2012 and $0.67 million in 2011. The accretion, recognized as increase in "Subscriptions receivable" account and "Additional paid-in capital" account presented in the consolidated statements of changes of equity amounted to $0.80 million in 2013, $0.68 million in 2012 and $0.43 million in 2011 (see Note 17).

27. **Segment Information**

Management monitors operating results per geographical area (with the Philippine operations further subdivided into the Parent Company and PSi) for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, gross profit, operating income, interest income and net income before and after tax.

No operating segments have been aggregated to form a reportable segment.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

The following tables present revenue and profit information regarding the Group's geographical segments per legal entity's location for the years ended December 31, 2013, 2012 and 2011:

December 31, 2013	**Philippines**		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
Revenue:								
Third party	**$188,897,145**	**$43,084,648**	**$276,522,656**	**$235,808,946**	**$372,446**	**$346,022**	**$–**	**$745,031,863**
Intersegment	**261,711**	**–**	**4,649,240**	**–**	**2,441,304**	**808,165**	**(8,160,420)**	**–**
Total revenue	**$189,158,856**	**$43,084,648**	**$281,171,896**	**$235,808,946**	**$2,813,750**	**$1,154,187**	**($8,160,420)**	**$745,031,863**
Segment gross profit (loss)	**$18,992,296**	**($1,205,449)**	**$26,798,039**	**$28,438,871**	**$1,993,317**	**$810,535**	**($7,898,709)**	**$67,928,900**
Segment operating income (loss)	**$79,521**	**($4,930,140)**	**$1,577,199**	**$15,748,376**	**($377,403)**	**$37,671**	**$–**	**$12,135,224**
Segment interest income	**$597,797**	**$1,845**	**$149,569**	**$1,228**	**$–**	**$33**	**($531,895)**	**$218,577**
Segment interest expense	**$1,491,504**	**$426,845**	**$4,388**	**$1,489,099**	**$–**	**$–**	**($531,895)**	**$2,879,941**
Segment profit (loss) before income tax	**$323,200**	**($4,833,528)**	**$4,130,632**	**$14,490,095**	**($378,217)**	**($8,863)**	**$–**	**$13,723,319**
Segment provision for income tax	**(488,473)**	**(51,629)**	**(2,193,264)**	**(1,793,245)**	**–**	**(670)**	**–**	**(4,527,281)**
Segment profit (loss) after income tax	**($165,273)**	**($4,885,157)**	**$1,937,368**	**$12,696,850**	**($378,217)**	**($9,533)**	**$–**	**$9,196,038**

December 31, 2012 (As restated)	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$159,081,890	$45,598,208	$273,994,631	$182,233,202	$457,897	$483,894	$–	$661,849,722
Intersegment	–	–	6,521,490	–	2,695,395	908,796	(10,125,681)	–
Total revenue	$159,081,890	$45,598,208	$280,516,121	$182,233,202	$3,153,292	$1,392,690	($10,125,681)	$661,849,722
Segment gross profit (loss)	$13,906,796	($3,446,022)	$31,892,517	$18,776,688	$2,231,718	$1,038,289	($7,463,683)	$56,936,303
Segment operating income (loss)	($2,629,177)	($9,307,260)	$11,172,370	$8,897,538	($875,279)	$151,546	$2,933	$7,412,671
Segment interest income	$469,490	$2,858	$125,175	$5,312	$–	$57	($335,800)	$267,092
Segment interest expense	$1,197,181	$323,317	$419,371	$1,414,671	$1,945	$788	($335,800)	$3,021,473
Segment profit (loss) before income tax	($2,588,196)	($10,047,323)	$10,792,287	$7,504,568	($877,764)	$133,917	($25,753)	$4,891,736
Segment provision for income tax	(697,756)	(42,271)	(2,677,956)	(540,396)	–	(931)	–	(3,959,310)
Segment profit (loss) after income tax	($3,285,952)	($10,089,594)	$8,114,331	$6,964,172	($877,764)	$132,986	($25,753)	$932,426

December 31, 2011 (As restated)	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$154,151,770	$73,559,713	$280,118,990	$66,239,366	$394,919	$989,150	$–	$575,453,908
Intersegment	–	403,500	3,898,157	–	2,842,333	885,430	(8,029,420)	–
Total revenue	$154,151,770	$73,963,213	$284,017,147	$66,239,366	$3,237,252	$1,874,580	($8,029,420)	$575,453,908
Segment gross profit	$12,048,461	$3,182,382	$25,643,949	$5,425,951	$2,338,546	$1,088,152	($7,946,062)	$41,781,379
Segment operating income (loss)	($14,043,927)	($3,952,151)	$3,902,328	($683,681)	$25,602	$208,146	$–	($14,543,683)
Segment interest income	$185,072	$3,334	$100,007	$27,077	$–	$30	$–	$315,520
Segment interest expense	$624,079	$389,496	$291,989	$1,191,848	$1,775	$811	$–	$2,499,998
Segment profit (loss) before income tax	($8,681,117)	($4,328,231)	$6,666,192	$12,108,406	$22,844	$239,468	($116,413)	$5,911,149
Segment provision for income tax	(1,326,845)	(119,164)	(2,724,363)	(232,867)	(250,000)	(847)	–	(4,654,086)
Segment profit (loss) after income tax	($10,007,962)	($4,447,395)	$3,941,829	$11,875,539	($227,156)	$238,621	($116,413)	$1,257,063

Intersegment revenues, cost of sales, and operating expenses are eliminated on consolidation.

For the year ended December 31, 2013, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $8.16 million and intersegment cost of sales and operating expenses aggregating to $0.26 million and $7.90 million, respectively.

For the year ended December 31, 2012, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $10.13 million and intersegment cost of sales and operating expenses aggregating to $2.66 million and $7.47 million, respectively.

For the year ended December 31, 2011, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $8.03 million and intersegment cost of sales and operating expenses aggregating to $0.08 million and $7.95 million, respectively.

The following table presents segment assets of the Group's geographical segments as of December 31, 2013 and 2012:

Segment assets	**Philippines**		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
December 31,2013	**$267,859,850**	**$19,874,062**	**$231,552,717**	**$154,806,540**	**$1,610,978**	**$907,105**	**($188,382,436)**	**$488,228,816**
December 31,2012 (As restated)	$252,385,442	$19,756,312	$219,501,358	$127,487,552	$1,926,343	$914,487	($168,618,608)	$453,352,886

Segment assets as of December 31, 2013 do not include investments in subsidiaries amounting to $132.55 million and intersegment loans and receivables amounting to $63.17 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and IMI CZ amounting to $45.13 million, $7.48 million, $0.66 million and $0.65 million, respectively, are recognized at consolidated level.

Segment assets as of December 31, 2012 do not include investments in subsidiaries amounting to $129.56 million and intersegment loans and receivables amounting to $46.39 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and IMI CZ amounting to $45.13 million, $7.48 million, $0.66 million and $0.65 million, respectively, are recognized at consolidated level.

The following table presents revenues from external customers and noncurrent assets:

	Revenues from External Customers' Location			**Noncurrent Assets**	
	2013	2012	2011	**2013**	2012
Europe	**$379,465,943**	$331,594,548	$284,710,228	**$27,500,455**	$23,501,418
America	**222,740,713**	203,910,809	139,307,967	**11,063,756**	9,762,554
Japan	**68,075,201**	59,738,507	76,887,221	**14,213**	16,763
Rest of Asia	**74,750,006**	66,605,858	74,548,492	**106,292,551**	115,039,766
	$745,031,863	$661,849,722	$575,453,908	**$144,870,975**	$148,320,501

Revenues are attributed to countries on the basis of the customer's location. Certain customers independent of each other but within the same group account for 13.51% and 11.55% of the Group's total revenue in 2013 and 2012, respectively. In 2011, no revenue of a specific customer reached 10% of the Group's total revenues.

Noncurrent assets, which include property, plant and equipment, goodwill, and intangible assets, are disclosed according to their physical location.

The following table presents revenues per product type:

	2013	2012	2011
Automotive	**$278,269,042**	$207,949,017	$106,497,849
Telecom	**134,748,260**	127,027,324	109,859,417
Industrial	**108,412,410**	111,465,781	104,411,032
Consumer	**104,083,799**	107,307,549	114,272,192
Multiple market	**56,873,912**	55,526,158	85,334,798
Computer peripherals	**37,841,556**	22,085,306	32,627,483
Medical	**24,802,884**	30,488,587	22,451,137
	$745,031,863	$661,849,722	$575,453,908

28. **Lease Commitments**

<u>Operating Lease Commitments - Group as Lessor</u>
Parent Company
On August 1, 2009, the Parent Company subleased the unused portion of its two (2) leased office condominium units from Cyberzone Properties Inc., with the consent of the latter. 102.52 square meters and 32.80 square meters were leased to Stratpoint Technologies Inc. and Xepto Computing Inc., respectively, at the rate of ₱475.00 per square meter in the first month and ₱502.25 per square meter on the subsequent months. The lease contract is for a term of one (1) year, renewable upon mutual agreement of both parties.

On June 8, 2010, an extension of the lease contract was executed by the Parent Company and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for twelve (12) months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to March 15, 2011.

The rent income amounting to nil in 2013 and 2012, and $1,899 in 2011, is recognized under “Miscellaneous income - net” account in the consolidated statements of income.

STEL Group
STEL Group entered into lease contracts on their leasehold building. These non-cancellable lease contracts have remaining lease terms of between one (1) and five (5) years.

STEL Group also entered into a lease contract with Manila Water Asia Pacific Pte Ltd (MWAP), an affiliate, for the lease of office premises. The lease shall be for a period of one (1) year, commencing on June 1, 2013 up to May 31, 2014. Monthly rental rate amounts to $1,040.

The rent income recognized by STEL Group amounted to $1.08 million in 2013, $0.57 million in 2012, and $7.32 thousand in 2011.

The future minimum rent receivable of the Group is as follows:

	2013	2012
Within one year	**$1,234,000**	$1,252,070
More than one year but less than five years	**1,617,000**	1,422,653
	$2,851,000	$2,674,723

<u>Operating Lease Commitments - Group as Lessee</u>
Parent Company
The Parent Company entered into a lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a period of three (3) years, commencing on January 2, 2012 up to December 31, 2014, renewable at the option of the Parent Company upon such terms and conditions and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The Parent Company shall pay monthly rental of ₱81,796 for 2012, ₱92,964 for 2013 and ₱105,778 for 2014. The Parent Company shall advise TLI in writing at least sixty (60) days before the expiration of the term of its desire to renew the lease contract, which TLI may consider upon such terms and conditions as may be agreed between the parties.

On December 20, 2013, an amendment to the lease contract was executed modifying the terms as follows:

- The lease shall be effective from January 2, 2014 up to December 31, 2016; and
- The Parent Company shall pay monthly rental of ₱4,133,853.

The Parent Company also entered into various lease contracts with BPI starting January 1, 2013, for a period of one (1) year. These lease contracts cover the house units for the use of its officers and staff. Monthly rental rate amounts to ₱20,000.

IMI Singapore and STEL Group
IMI Singapore and STEL Group have various lease contracts in respect of office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one (1) to thirty-eight (38) years. Most of the lease contracts of IMI Singapore and STEL Group contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

IMI Japan
On February 15, 2010, IMI Japan entered into a 2-year lease contract with Kabushikigaisha Tokyu Community for the lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of ¥245,490, and monthly maintenance fee of ¥35,070, inclusive of tax. The lease contract provides for the automatic renewal of the lease contract, unless prior notice of termination is given to the lessor. On February 15, 2012, IMI Japan renewed its lease contract for another two (2) years.

IMI USA
On July 17, 2008, IMI USA entered into a 7-year lease contract with Roy G.G. Harris and Patricia S. Harris for the lease of office premises commencing in August 2008 up to November 2014. The lease contract contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payment of $13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a 6-year lease contract with Fremont Ventures, LLC commencing two (2) months from the issuance of building permit or maximum of three (3) months if Fremont caused the delay. The base monthly rental rate is $3,687 on the first six (6) months with an escalation every eleven (11) months as stated in the lease contract. Average monthly rental rate amounts to $9,523.

PSi
PSi has a 15-year lease contract with FTI for its plant facilities, office spaces, and other facilities, with Lot Nos. 92-A and 92-B commencing on August 15, 2004 up to August 14, 2019. The lease contract with FTI provides for a 5% increase in rental per year starting on the second year and annually thereafter until the end of the lease term.

In 2012, PSi pre-terminated the lease contract of Lot 92-B and transferred its legacy manufacturing operations and offices to Calamba, Laguna. Accordingly, as of December 31, 2012, the balance of the rent expense computed on a straight-line basis over the amount computed based on the operating lease contract for this lot included under "Accrued rent" account in the consolidated statement of financial position amounting to $0.44 million was reversed and recorded as part of "Facilities cost and others - Outsourced activities" account.

Moreover, PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The lease contract commenced in April 2011 and expired in March 2013. In 2012, PSi accepted the Letter of Offer for the renewal of the lease until March 2018.

In 2012, the lease contract for the second facility was executed between CRI and PSi for office and warehouse use. The lease contract commenced on October 13, 2012 and will expire on October 12, 2015.

The lease contract with CRI provides for increase in rental at varying rates over the term of the leases and a penalty interest rate of 3.00% per month using simple interest.

These lease contracts of the Group include clauses to enable upward revision of the rental charges on agreed dates.

The aggregate rent expense of the Group, included in "Facilities costs and others - Outsourced activities" account under "Cost of goods sold and services" and "Operating expenses" accounts in the consolidated statements of income, recognized on these operating lease commitments amounted to $3.47 million in 2013, $1.14 million in 2012 and $1.00 million in 2011 (see Note 20). Deposits made under these operating lease commitments are intended to be applied against the remaining lease payments.

Future minimum rent payable under these non-cancellable operating leases of the Group as of December 31, 2013 and 2012 follows:

	2013	2012
Within one year	**$4,074,629**	$3,111,844
After one year but not more than five years	**7,761,489**	6,818,109
More than five years	**2,580,123**	4,006,181
	$14,416,241	$13,936,134

Finance Lease Commitments - Group as Lessee
Parent Company
On June 30, 2009, the Parent Company entered into a lease contract with International Business Machines Corporation (IBM) for the lease of servers for a 3-year period starting on the same date. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides for monthly rental payment of $17,141.

On March 31, 2010, the Parent Company entered into another lease contract with IBM for the lease of additional server for a 1-year period starting on May 1, 2010. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides rental payment of $1,013,729 each in the first and last months of the lease. At the end of the lease term, the Parent Company exercised its bargain option to purchase the servers at a nominal amount of ₱45.45.

IMI BG
IMI BG has various finance lease contracts with Interlease AD and UniCredit Leasing AD related to its machinery and production equipment with terms of three (3) to five (5) years and final repayment dates between 2012 and 2018. These leases are subject to interest rates of 3-month EURIBOR plus 2.00% to 4.00% per annum.

IMI CZ
IMI CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of five (5) to ten (10) years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment is subject to interest of 12.26% per annum.

Future minimum lease payments of the Group are as follows:

	Minimum Lease Payments		**Present Value of Payments**	
	2013	2012	**2013**	2012
Within one year (Note 13)	**$1,018,901**	$777,907	**$907,761**	$674,071
After one year but not more than five years	**3,157,187**	705,857	**2,977,968**	704,866
	$4,176,088	$1,483,764	**$3,885,729**	$1,378,937

Additional finance lease commitment of the Group amounted to $3.03 million and $0.78 million as of December 31, 2013 and 2012, respectively (see Note 33).

29. 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.

Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2013, 2012 and 2011, the Group has not recorded any impairment on loans and receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an affiliate

As of December 31, 2013 and 2012, the Group maintains current and savings accounts, and other short-term investments with BPI as follows:

	2013	2012
Cash in bank	**$772,267**	$749,838
Short-term investments	**–**	1,318,027
	$772,267	$2,067,865

Total interest income earned from investments with BPI amounted to $2,639 in 2013, $22,652 in 2012 and $10,402 in 2011.

b. Outstanding balances of the Group's related party transactions with its affiliates follow:

	Receivables		Payables	
	2013	2012	**2013**	2012
BPI	**$109,854**	$417,487	**$18,267**	$–
Narra VC	**91,792**	91,792	**–**	–
TLI	**16,807**	8,229	**–**	3,425
Innove Communication Inc. (ICI)	**–**	–	**17,742**	1,994
Globe Telecom, Inc. (GTI)	**–**	–	**1,090**	871
Ayala Group Legal (AG Legal)	**–**	–	**4,505**	–
	$218,453	$517,508	**$41,604**	$6,290

i. Receivables from BPI are nontrade in nature and pertain to retirement and separation pay advanced by the Parent Company but reimbursable from the trust fund with BPI. These are noninterest-bearing and are due quarterly.

ii. PSi's outstanding receivables from Narra VC are nontrade in nature and represent payments made by PSi to settle the Pre-Completion Liabilities and which will be later reimbursed from the New Investors.

iii. Receivables from TLI are nontrade in nature and pertain to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services. These are reimbursable with a 30-day term.

iv. Payables to BPI are nontrade in nature and pertain to outstanding housing and automobile financing loans. The outstanding housing and automobile financing loans arise from timing differences of the remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages. The loan reductions are remitted on a monthly basis.

v. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.

vi. Payables to GTI pertain to billings for Blackberry cellphone charges, software and WiFi connections. These are due and demandable.

vii. Payables to AG Legal are nontrade in nature and pertain to legal services provided to the Parent Company and PSi. These are noninterest-bearing and are due within 30 days.

viii. Payables to TLI are nontrade in nature and pertain to the lease contract between the Parent Company and TLI (see Note 28).

c. Outstanding balances of related party transactions within the Group follow:

	Receivables		Payables	
	2013	2012	**2013**	2012
STEL	**$24,204,080**	$21,592,138	**$8,390,188**	$1,518,066
IMI EU/MX Subsidiaries	**14,705,805**	11,060,830	**–**	–
PSi	**11,319,929**	7,289,665	**415,317**	415,317
IMI Singapore	**1,010,247**	1,016,936	**–**	–
IMI Japan	**979,526**	979,125	**712,569**	717,056
IMI USA	**250,405**	257,652	**289,146**	125,679
IMI ROHQ	**253,323**	–	**1,212,240**	436,367
	$52,723,315	$42,196,346	**$11,019,460**	$3,212,485

i. Receivables from STEL, IMI EU/MX Subsidiaries, PSi, IMI Singapore, IMI Japan and IMI USA are nontrade in nature and pertain to operating cash advances made by the Parent Company.

Claims from subsidiaries that have been billed are presented as "Nontrade receivables," while those still for billing are recognized as "Advances to related parties" in the financial statements of the Parent Company.

Advances to STEL, IMI Singapore, IMI Japan and IMI USA are noninterest-bearing and are due on demand.

Advances to PSi, IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.24% to 3.24% in 2013 and 2.31% to 2.81% in 2012.

ii. Receivables from IMI ROHQ are nontrade in nature and represent the pension expense for IMI ROHQ's employees to be funded by the Parent Company upon availment. These receivables are due on demand.

iii. Payables to STEL pertain to various expenses of the Parent Company advanced by IMI Singapore and its subsidiaries such as travel expenses of the Parent Company's personnel when going to STEL for business purposes. These advances are noninterest-bearing and are payable on demand.

iv. Payables to PSi represent payments to settle certain liabilities that had arisen prior to the entry of the New Investors and which have been identified as the Pre-Completion Liabilities. Pursuant to the Agreement, the Old Investors and the New Investors shall reimburse PSi for these payments to the extent of two-thirds (2/3) and one-third (1/3) of the amounts, respectively, for the first $3.00 million of the Pre-Completion Liabilities, with the Old Investors absorbing any amount in excess, but only to the extent of the value of the shares that will be eventually sold to the New Investors under the put and call options provision.

v. Payables to IMI Japan and IMI USA are trade in nature and pertain to the services rendered by IMI Japan and IMI USA. These receivables are with a 30-day term.

vi. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company and PSi which serves as a supervisory, communications and coordinating center for its affiliates.

d. Revenue/income and expenses from the Group's affiliates follow:

	Revenue/Income			Expenses		
	2013	2012	2011	**2013**	2012	2011
MWAP	**$9,971**	$8,885	$–	**$–**	$–	$–
TLI	**7,713**	–	–	**26,328**	26,531	–
BPI	**2,639**	58,198	252,370	**–**	–	–
AG Legal	**–**	–	–	**82,818**	72,351	110,786
ICI	**–**	–	–	**88,266**	144,905	203,951
GTI	**–**	–	–	**70,438**	68,355	88,248
	$20,323	$67,083	$252,370	**$267,850**	$312,142	$402,985

Revenue/income from its affiliates pertain to the following transactions:

i. Rent income earned by STEL from lease of its office premises (see Note 28).
ii. In 2013, the Parent Company and TLI entered into a service agreement for the Parent Company to provide TLI administrative services such as professional, clerical, financial and accounting services. The administrative services shall be for a period of three (3) years, commencing on January 2, 2013 up to December 31, 2015, renewable upon mutual agreement by both parties. The fixed monthly service fee is ₱30,000, inclusive of all taxes.
iii. Interest income earned from investments and gain on foreign currency forwards with BPI.

Expenses incurred from related party transactions include:

i. Rent expense from the lease contract with TLI (see Note 28).
ii. Building rental, leased lines, internet connections and ATM connections with ICI.
iii. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.
iv. Purchases of Blackberry software and billings for cellphone charges and WiFi connections with GTI.

e. Revenue and expenses eliminated at the Group level follow:

	Revenue			Expenses		
	2013	2012	2011	**2013**	2012	2011
IMI ROHQ	**$4,649,240**	$3,859,491	$3,130,303	**$–**	$55,625	$50,702
IMI USA	**2,441,304**	2,695,395	128,047	**–**	798,982	–
IMI Japan	**808,166**	908,796	–	**–**	–	–
STEL	**–**	2,665,499	4,887,483	**261,711**	–	–
IMI EU/MX Subsidiaries	**–**	**–**	–	**326,379**	267,119	–
PSi	**–**	**–**	–	**205,516**	68,681	–
	$7,898,710	$10,129,181	$8,145,833	**$793,606**	$1,190,407	$50,702

Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs, billings for management salaries of key management personnel under IMI ROHQ.

Expenses incurred from related party transactions include:

i. Allocation of pension expense covering IMI ROHQ's employees.
ii. Professional fees from IMI USA and IMI Japan.
iii. Interest expense of PSi, IMI MX and IMI CZ from loans granted by the Parent Company.

Compensation of Key Management Personnel of the Group

Key management personnel of the Group include all management committee members. Compensation of key management personnel by benefit type follows:

	2013	2012
Short-term employee benefits	**$7,294,687**	$6,264,578
Post-employment benefits	**378,920**	258,904
Share-based payments	**5,262**	24,793
	$7,678,869	$6,548,275

30. **Fair Values of Financial Instruments**

Below are the fair values of financial assets and financial liabilities that are either carried at fair value or where the carrying amounts do not approximate fair values as of December 31, 2013 and 2012:

	Carrying Amounts		**Fair Values**	
	2013	2012	**2013**	2012
Financial assets:				
AFS financial assets	**$1,867,094**	$1,608,404	**$1,867,094**	$1,608,404
Derivative assets	–	2,857,010	**–**	2,857,010
	$1,867,094	$4,465,414	**$1,867,094**	$4,465,414
Financial liabilities:				
Derivative liabilities	**$40,606**	$–	**$40,606**	$–
Long-term debt	**61,699,753**	62,851,135	**64,228,205**	68,606,380
Noncurrent portion of obligation under finance lease	**2,977,968**	704,866	**2,973,854**	660,662
	$64,718,327	$63,556,001	**$67,242,665**	$69,267,042

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

AFS financial assets - These pertain to investments in club shares and preferred equity shares and convertible notes. Fair value is based on quoted prices.

Derivative instruments - The fair value of freestanding currency forwards is based on a counterparty valuation. The put and call options were valued using a binomial model. This valuation technique considers the probability of PSi's share price, which is valued based on discounted cash flows, to move up or down depending on the volatility, risk-free rate and exercise price.

Long-term debt - The fair value of long-term debt that is re-priced on a semi-annual basis is estimated by 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. The discount rates used in 2013 and 2012 ranged from 0.25% to 2.46% and 2.10% to 3.90%, respectively.

Noncurrent portion of obligation under finance lease - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 2.29% to 12.30% and 2.00% to 12.26% as of December 31, 2013 and 2012, respectively.

Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values
Below are the financial assets and financial liabilities where the carrying amounts approximate fair values as of December 31, 2013 and 2012 due to the short-term nature of the instruments:

	2013	2012
Financial assets:		
Cash and cash equivalents	**$49,042,599**	$56,196,382
Loans and receivables:		
Trade	**171,964,271**	144,995,990
Nontrade	**2,715,904**	2,126,131
Receivable from employees	**524,918**	539,159
Due from related parties	**218,453**	517,508
Others	**3,041,196**	2,702,067
Miscellaneous deposits	**2,525,697**	1,696,536
	$230,033,038	$208,773,773
Financial liabilities:		
Accounts payable and accrued expenses:		
Trade payables	**$120,669,723**	$101,772,745
Accrued expenses *	**25,237,080**	17,285,296
Accrued payroll	**7,347,471**	8,859,315
Nontrade payables	**4,116,382**	1,797,645
Current portion of long-term debt	**2,903,408**	2,649,600
Current portion of obligation under finance lease	**907,761**	674,071
Dividends payable	**858,539**	2,648,852
Employee-related payables *	**175,211**	168,749
Accrued interest payable	**471,700**	1,105,384
Due to related parties	**41,604**	6,290
Others	**501,186**	2,394,680
Trust receipts and loans payable	**45,653,865**	44,206,600
	$208,883,930	$183,569,227

**Excluding statutory payables*

Fair Value Hierarchy
The following tables provide the fair value hierarchy of the Group's assets and liabilities:

2013

	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value:				
AFS financial assets	**$516,725**	**$1,350,369**	**$–**	**$1,867,094**
Liabilities measured at fair value:				
Derivative liabilities	**$–**	**$40,606**	**$–**	**$40,606**
Liabilities for which fair values are disclosed:				
Long-term debt	**$–**	**$–**	**$64,228,205**	**$64,228,205**
Noncurrent portion of obligation under finance lease	**–**	**–**	**2,973,854**	**2,973,854**
	$–	**$–**	**$67,202,059**	**$67,202,059**

2012

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
AFS financial assets	$608,404	$1,000,000	$–	$1,608,404
Derivative assets - Call option	–	–	2,857,010	2,857,010
	$608,404	$1,000,000	$2,857,010	$4,465,414

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following are the estimated changes in the fair values of the call and put options assuming the cost of equity will change by 5% as of December 31, 2012:

	Increase (Decrease) in Net Income
Cost of equity is 5% higher	
Call option	($173,734)
Put option	–
Cost of equity is 5% lower	
Call option	194,490
Put option	–

31. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, composed of trust receipts and loans payable, long-term debt and other financial liabilities, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash and cash equivalents, loans and receivables and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Group also enters into currency forwards to manage the currency risk arising from its operations and 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 its long-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) as of December 31, 2013 and 2012. There is no other impact on the Group's equity other than those already affecting income.

	Effect on Net Income before Tax	
Increase/Decrease in Basis Points	**2013**	2012
+100	**($556,286)**	($583,341)
-100	**556,286**	583,341

The following table shows the information about the Group's debt as of December 31, 2013 and 2012 that are exposed to interest rate risk presented by maturity profile:

	2013	2012
Within one year	**$8,730,107**	$11,710,072
One to five years	**46,898,500**	46,624,000
	$55,628,607	$58,334,072

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's exposure to liquidity risk relates primarily to its short and long-term obligations. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

2013

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets -					
Cash and cash equivalents	$44,985,373	$4,057,226	$–	$–	$49,042,599
Financial liabilities:					
Derivative liabilities	–	40,606	–	–	40,606
Accounts payable and accrued expenses:					
Trade payables	–	120,669,723	–	–	120,669,723
Accrued expenses *	–	25,237,080	–	–	25,237,080
Accrued payroll	–	7,347,471	–	–	7,347,471
Nontrade payables	–	4,116,382	–	–	4,116,382
Current portion of obligation under finance lease	–	–	907,761	–	907,761
Dividends payable	–	–	858,539	–	858,539
Employee-related payables *	–	175,211	–	–	175,211
Accrued interest payable		–	471,700	–	471,700
Due to related parties	–	41,604	–	–	41,604
Others	–	501,186	–	–	501,186
Trust receipt and loans payable	–	–	45,653,865	–	45,653,865
Current portion of long-term debt	–	–	2,903,408	–	2,903,408
Noncurrent portion of long-term debt	–	–	–	61,699,753	61,699,753
Noncurrent portion of obligation under finance lease	–	–	–	2,977,968	2,977,968
Other noncurrent liabilities	–	–	–	183,555	183,555
	–	158,129,263	50,795,273	64,861,276	273,785,812
	$44,985,373	($154,072,037)	($50,795,273)	($64,861,276)	($224,743,213)

**Excluding statutory payables*

2012

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets -					
Cash and cash equivalents	$48,431,567	$7,764,815	$–	$–	$56,196,382
Financial liabilities:					
Accounts payable and accrued expenses:					
Trade payables	–	101,772,745	–	–	101,772,745
Accrued expenses *	–	17,285,296	–	–	17,285,296
Accrued payroll	–	8,859,315	–	–	8,859,315
Nontrade payables	–	1,797,645	–	–	1,797,645
Current portion of obligation under finance lease	–	–	674,071	–	674,071
Dividends payable	–	–	2,648,852	–	2,648,852
Employee-related payables *	–	168,749	–	–	168,749
Accrued interest payable	–	1,105,384	–	–	1,105,384
Due to related parties	–	6,290	–	–	6,290
Others	–	2,394,680	–	–	2,394,680
Trust receipt and loans payable	–	–	44,206,600	–	44,206,600
Current portion of long-term debt	–	–	2,649,600	–	2,649,600
Noncurrent portion of long-term debt	–	–	–	62,851,135	62,851,135
Noncurrent portion of obligation under finance lease	–	–	–	704,866	704,866
Other noncurrent liabilities	–	–	–	86,609	86,609
	–	133,390,104	50,179,123	63,642,610	$247,211,837
	$48,431,567	($125,625,289)	($50,179,123)	($63,642,610)	($191,015,455)

**Excluding statutory payables*

Credit lines
The Group has credit lines with different financing institutions as at December 31, 2013 and 2012, as follows:

2013

Financial Institutions	**Credit Limit**	**Available Credit Line**
Local:		
USD	**30,000,000**	**1,000,000**
PHP	**860,000,000**	**860,000,000**
Foreign:		
USD	**22,295,000**	**15,790,000**
Singapore Dollar (SGD)	**20,000,000**	**16,500,000**
EUR	**12,839,988**	**11,409,501**

2012

Financial Institutions	Credit Limit	Available Credit Line
Local:		
USD	30,000,000	13,000,000
PHP	1,060,000,000	1,060,000,000
Foreign:		
USD	39,475,000	31,009,680
SGD	25,000,000	23,773,017
EUR	11,000,000	3,678,796
CZK	4,000,000	4,000,000

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 major credit risk exposure relates primarily to its holdings of cash and cash equivalents and short-term investments and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The 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. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's maximum exposure to credit risk as of December 31, 2013 and 2012 is the carrying amounts of the financial assets presented in Note 30. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 35% and 36% of trade receivables relating to three (3) major customers as of December 31, 2013 and 2012.

As of December 31, 2013 and 2012, the aging analysis of loans and receivables, and miscellaneous deposits follows:

2013

		Neither Past Due nor	**Past Due but not Impaired**					**Specifically**
	Total	**Impaired**	**<30 Days**	**30-60 Days**	**60-90 Days**	**90-120 Days**	**>120 Days**	**Impaired**
Trade	**$174,135,627**	**$141,879,336**	**$19,157,279**	**$1,883,611**	**$1,988,280**	**$1,805,172**	**$5,250,593**	**$2,171,356**
Nontrade	**2,838,394**	**1,314,190**	**542,082**	**161,610**	**164,475**	**55,177**	**478,370**	**122,490**
Receivable from insurance	**1,178,785**	**–**	**–**	**–**	**–**	**–**	**–**	**1,178,785**
Receivable from employees	**542,944**	**489,415**	**25,119**	**1,031**	**158**	**2,045**	**7,150**	**18,026**
Due from related parties	**218,453**	**218,453**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**3,041,196**	**3,034,334**	**–**	**–**	**–**	**–**	**6,862**	**–**
	$181,955,399	**$146,935,728**	**$19,724,480**	**$2,046,252**	**$2,152,913**	**$1,862,394**	**$5,742,975**	**$3,490,657**
Miscellaneous deposits	**$2,525,697**	**$2,525,697**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

2012

	Total	Neither Past Due Nor Impaired	Past Due but not Impaired					Specifically Impaired
			<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	
Trade	$147,455,163	$121,003,761	$17,351,627	$3,598,589	$1,440,648	$545,744	$1,055,621	$2,459,173
Nontrade	2,268,477	701,392	512,565	571,920	231,564	3,884	104,806	142,346
Receivable from insurance	1,178,785	–	–	–	–	–	–	1,178,785
Receivable from employees	539,159	451,011	5,031	6,447	222	1,874	74,574	–
Due from related parties	517,508	425,716	–	–	–	–	91,792	–
Others	2,702,067	1,176,054	992,375	177,361	119,900	155,531	80,846	–
	$154,661,159	$123,757,934	$18,861,598	$4,354,317	$1,792,334	$707,033	$1,407,639	$3,780,304
Miscellaneous deposits	$1,696,536	$1,696,536	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2013 and 2012:

2013

	Neither Past Due nor Impaired				**Past Due or Individually Impaired**	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**		**Total**
Cash and cash equivalents	**$49,042,599**	**$–**	**$–**	**$–**	**$–**	**$49,042,599**
Loans and receivables:						
Trade	**10,521,911**	**131,357,425**	**–**	**–**	**32,256,291**	**174,135,627**
Nontrade	**1,314,190**	**–**	**–**	**–**	**1,524,204**	**2,838,394**
Receivable from insurance	**–**	**–**	**–**	**–**	**1,178,785**	**1,178,785**
Receivable from employees	**489,415**	**–**	**–**	**–**	**53,529**	**542,944**
Due from related parties	**218,453**	**–**	**–**	**–**	**–**	**218,453**
Others	**3,034,334**	**–**	**–**	**–**	**6,862**	**3,041,196**
AFS financial assets	**1,867,094**	**–**	**–**	**–**	**–**	**1,867,094**
Miscellaneous deposits	**2,525,697**	**–**	**–**	**–**	**–**	**2,525,697**
	$69,013,693	**$131,357,425**	**$–**	**$–**	**$35,019,671**	**$235,390,789**

2012

	Neither Past Due nor Impaired				Past Due or Individually Impaired	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		Total
Cash and cash equivalents	$56,196,382	$–	$–	$–	$–	$56,196,382
Loans and receivables:						
Trade	6,992,886	112,250,969	1,759,906	–	26,451,402	147,455,163
Nontrade	701,392	–	–	–	1,567,085	2,268,477
Receivable from insurance	–	–	–	–	1,178,785	1,178,785
Receivable from employees	451,011	–	–	–	88,148	539,159
Due from related parties	425,716	–	–	–	91,792	517,508
Others	1,176,054	–	–	–	1,526,013	2,702,067
AFS financial assets	1,608,404	–	–	–	–	1,608,404
Miscellaneous deposits	1,696,536	–	–	–	–	1,696,536
	$69,248,381	$112,250,969	$1,759,906	$–	$30,903,225	$214,162,481

The Group classifies credit quality as follows:

Minimal Risk - Credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - Credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - Credit could be extended under a confirmed and irrevocable LC and subject to semi-annual review for possible upgrade.

High Risk - Transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk
The Group's foreign exchange risk results primarily from movements of the USD against other currencies. As a result of significant operating expenses in PHP, the Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2013 and 2012, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than the Group's functional currency. Approximately 45% and 43% of the Group's sales for the years ended December 31, 2013 and 2012, respectively, and 37% and 35% of costs for the years ended December 31, 2013 and 2012, respectively, are denominated in currencies other than the Group's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their USD equivalent follows:

Philippine Peso (₱)

	2013		2012	
	In USD	**In PHP**	In USD	In PHP
Cash and cash equivalents	**$1,301,522**	**₱57,768,395**	$2,524,544	₱103,632,511
Loans and receivables	**1,261,035**	**55,971,373**	1,267,619	52,035,744
Miscellaneous deposits	**1,308,741**	**58,088,831**	1,097,589	45,056,007
Accounts payable and accrued expenses	**(35,908,621)**	**(1,593,813,544)**	(30,727,258)	(1,261,353,697)
Pension liabilities	**(6,358,839)**	**(282,300,647)**	(2,058,321)	(84,494,098)
Other current liabilities	**(2,177,477)**	**(96,647,896)**	(2,332,655)	(95,755,486)
Other noncurrent liabilities	**(34,750)**	**(1,542,386)**	(311,785)	(12,798,786)
Net foreign currency-denominated liabilities	**($40,608,389)**	**(₱1,802,475,874)**	($30,540,267)	(₱1,253,677,805)

Singapore Dollar (SGD)

	2013		2012	
	In USD	**In SGD**	In USD	In SGD
Cash and cash equivalents	**$1,202,086**	**SGD1,521,608**	$828,978	SGD1,013,177
Loans and receivables	**42,278**	**53,516**	32,856	40,156
Accounts payable and accrued expenses	**–**	**–**	(1,933,997)	(2,363,731)
Other current liabilities	**(2,062,805)**	**(2,611,112)**	(1,106,393)	(1,352,234)
Loans payable	**–**	**–**	(1,395,372)	(1,705,424)
Net foreign currency-denominated liabilities	**($818,441)**	**(SGD2,035,988)**	($3,573,928)	(SGD5,368,056)

Euro (€)

	2013		2012	
	In USD	**In EUR**	In USD	In EUR
Cash and cash equivalents	**$3,372,710**	**€2,444,524**	$2,429,922	€1,835,566
Loans and receivables	**33,656,796**	**24,394,284**	41,286,658	31,187,991
Accounts payable and accrued expenses	**(15,267,300)**	**(11,065,666)**	(13,740,962)	(10,379,939)
Other current liabilities	**–**	**–**	(31,193)	(23,563)
Loans payable	**(900,196)**	**(652,458)**	(16,319,610)	(12,327,853)
Short-term debt	**(13,445,515)**	**(9,745,245)**	–	–
Net foreign currency-denominated assets	**$7,416,495**	**€5,375,439**	$13,624,815	€10,292,202

Japanese Yen (JPY or ¥)

	2013		2012	
	In USD	**In JPY**	In USD	In JPY
Cash and cash equivalents	**$110,783**	**¥11,600,269**	$241,456	¥20,777,535
Loans and receivables	**2,142,135**	**224,306,411**	1,661,467	142,970,938
Miscellaneous deposits	**23,388**	**2,449,004**	1,889,293	162,575,616
Accounts payable and accrued expenses	**(6,780,059)**	**(709,951,049)**	(4,186,848)	(360,282,581)
Net foreign currency-denominated liabilities	**($4,503,753)**	**(¥471,595,365)**	($394,632)	(¥33,958,492)

Renminbi (RMB)

	2013		2012	
	In USD	**In RMB**	In USD	In RMB
Cash and cash equivalents	**$8,791,172**	**RMB53,670,160**	$14,713,080	RMB91,750,882
Loans and receivables	**65,967,402**	**402,731,404**	55,410,425	345,539,841
Accounts payable and accrued expenses	**(45,116,122)**	**(275,434,206)**	(38,457,523)	(239,821,418)
Other current liabilities	**–**	**–**	–	–
Net foreign currency-denominated assets	**$29,642,452**	**RMB127,967,358**	$31,665,982	RMB106,469,305

Hong Kong Dollar (HKD or HK$)

	2013		2012	
	In USD	**In HKD**	In USD	In HKD
Cash and cash equivalents	**$209,933**	**HK$1,627,894**	$60,245	HK$466,954
Loans and receivables	**1,157,866**	**8,978,496**	119,223	924,084
Accounts payable and accrued expenses	**(358,999)**	**(2,783,806)**	(785,628)	(6,089,334)
Net foreign currency-denominated assets (liabilities)	**$1,008,800**	**HK$7,822,584**	($606,160)	(HK$4,698,296)

British Pound (GBP or £)

	2013		2012	
	In USD	**In GBP**	In USD	In GBP
Loans and receivables	**$1,024**	**£621**	$1,000	£621
Accounts payable and accrued expenses	**(5,272)**	**(3,197)**	(14,507)	(9,009)
Net foreign currency-denominated liabilities	**($4,248)**	**(£2,576)**	($13,507)	($8,388)

Australian Dollar (AUD)

	2013		2012	
	In USD	**In AUD**	In USD	In AUD
Cash and cash equivalents	**$3**	**AUD3**	$3	AUD3
Accounts payable and accrued expenses	**(54,619)**	**(61,239)**	(504,114)	(486,621)
Net foreign currency-denominated liabilities	**($54,616)**	**(AUD61,236)**	($504,111)	($486,618)

Thai Baht (THB)

	2013		2012	
	In USD	**In THB**	In USD	In THB
Loans and receivables	**$1,047**	**THB34,398**	$1,123	THB34,398

Swiss Franc (CHF)

	2013		2012	
	In USD	**In CHF**	In USD	In CHF
Cash and cash equivalents	**$1,411**	**CHF1,253**	$13,442	CHF12,274
Loans and receivables	**23**	**20**	–	–
Accounts payable and accrued expenses	**(58,208)**	**(51,690)**	(2,645)	(2,415)
Net foreign currency-denominated assets (liabilities)	**($56,774)**	**(CHF50,417)**	$10,797	CHF9,859

Danish Krone (DKK)

	2013		2012	
	In USD	**In DKK**	In USD	In DKK
Accounts payable and accrued expenses	**($2,789)**	**(DKK15,079)**	$–	DKK–

<u>Sensitivity Analysis</u>
The following tables demonstrate sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2013 and 2012. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

There is no other impact on the Group's equity other than those already affecting income. The increase in USD rate as against other currencies demonstrates weaker functional currency while the decrease represents stronger USD value.

Currency	Increase/Decrease in USD Rate	Effect on Net Income before Tax 2013	2012
PHP	+1%	**$257,733**	$176,040
	-1%	**(257,733)**	(176,040)
SGD	+1%	**5,839**	18,536
	-1%	**(5,839)**	(18,536)
EUR	+1%	**($100,879)**	($166,513)
	-1%	**100,879**	166,513
JPY	+1%	**27,143**	3,132
	-1%	**(27,143)**	(3,132)
RMB	+1%	**(243,729)**	(280,508)
	-1%	**243,729**	280,508)
HKD	+1%	**(10,052)**	6,205
	-1%	**10,052**	(6,205)
GBP	+1%	**52**	102
	-1%	**(52)**	(102)
AUD	+1%	**637**	6,408
	-1%	**(637)**	(6,408)
THB	+1%	**(6)**	(14)
	-1%	**6**	14
CHF	+1%	**705**	(140)
	-1%	**(705)**	140
DKK	+1%	**38**	–
	-1%	**(38)**	–

Derivatives
In 2013 and 2012, the Parent Company entered into various short-term currency forwards with an aggregate notional amount of $37.00 million and $13.00 million, respectively. As of December 31, 2013 and 2012, the outstanding forward contracts have a net negative fair value of $0.04 million and nil, respectively. The changes in fair value of currency forwards recognized in 2013, 2012 and 2011 amounted to ($0.48 million), $1.54 million and $0.86 million, respectively. Changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses) - net" account.

As discussed in Note 2, the acquisition of PSi gave rise to a long equity call option and written equity put option for the Parent Company.

As of December 31, 2013 and 2012, the fair value of the call option is nil and $2.86 million, respectively, while the put option has a zero value in both years. Net fair value gain on the options amounted to nil, $0.12 million and $5.36 million in 2013, 2012, and 2011, respectively.

Fair value changes on derivatives
The net movements in fair value of the Group's derivative instruments as of December 31, 2013 and 2012 follow:

	2013	2012
Derivative assets:		
At January 1	**$2,857,010**	$2,798,912
Exercise of call option	**(2,857,010)**	–
Changes in fair value of:		
Call option	**–**	121,185
Currency forwards	**104,427**	1,603,179
Fair value of settled currency forwards	**(104,427)**	(1,666,266)
At December 31	**$–**	$2,857,010
Derivative liabilities:		
At January 1	**$–**	$34,562
Fair value of currency forwards	**583,489**	(62,723)
Fair value of settled currency forwards	**(542,883)**	28,161
At December 31	**$40,606**	$–

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

No changes were made in the objectives, policies and processes during the years ended December 31, 2013 and 2012.

The Group is not subject to externally imposed capital requirements.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	2013	2012
Trust receipts and loans payable	**$45,653,865**	$44,206,600
Long-term debt	**46,898,500**	46,624,000
Total debt	**92,552,365**	90,830,600
Less cash and cash equivalents	**49,042,599**	(56,196,382)
Net debt	**$43,509,766**	$34,634,218
Equity attributable to equity holders of the Parent Company	**$192,649,772**	$193,817,291
Debt to equity ratio	**48%**	47%
Net debt to equity ratio	**23%**	18%

32. **Contingencies**

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. 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 lawsuits, claims and assessments.

33. **Notes to Consolidated Statements of Cash Flows**

The Group's noncash investing activities include capitalization by the Group of machinery and facilities equipment under finance lease amounting to $3.03 million in 2013, $0.78 million in 2012 and $1.94 million in 2011.

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